

ONTARIO BUDGET



Enterprise¹
Canada

THE 2023 ONTARIO BUDGET: WHAT YOU NEED TO KNOW

THE BUDGET BY THE NUMBERS

DEFICIT \$2.2 Billion	DEBT-TO-GDP RATIO 37.8%
TOTAL DEBT \$435 Billion	TOTAL REVENUE \$200.4 Billion
TOTAL SPENDING \$202.6 Billion	

For ‘Uncertain Times’

Finance Minister Peter Bethlenfalvy didn’t mince words earlier this week when he described the 2023 Ontario budget as one for ‘uncertain times’. Bethlenfalvy described the litany of challenges facing his government while also emphasizing the planning that the government was putting into the document, leaning heavily on words like “prudence” and “contingencies”.

Bethlenfalvy, a former Bay Street executive, has no doubt watched skyrocketing interest rates and failing banks with some alarm. He has been cautious not to use the ‘R’ word when talking about the province’s economic outlook. The nearest he’s come to making news in the last three months was a mid-February announcement that Ontario’s budget deficit had been cut in half through the first three quarters of Fiscal Year 22-23.

The temptation for every government is to release the bad news in the first budget of a new mandate. Get the unpopular things out of the way in Year One and set yourself up for three years of trying to build support back. If that was the plan for the first six months of the second term of the Ford government, they’re right on schedule. Firestorms around Greenbelt development, private healthcare delivery and changes to municipal powers have dominated the government’s agenda so far this term, but PC poll numbers have proven incredibly resilient.

We’ll see how they hold up to Peter Bethlenfalvy’s ‘uncertain times.’

RESERVED

The budget isn’t balanced...yet. However, a quick review of the budget’s underlying documents reveal that it very easily could be. Most Finance Ministers would jump at the chance to announce a balanced budget. The fact that Peter Bethlenfalvy didn’t is an interesting choice, but it’s in line with how he positioned the budget going in. It’s good politics to manage people’s expectations, but he’s running a risk by trying to focus Ontarians on challenges he sees on the horizon instead of challenges that they’re facing right now.

Spending only went up very slightly in this budget, but government revenues went up by a lot. Ontario is now sitting on top of significant cash reserves – predicted to be \$7 Billion over the next three years. Surely, Bethlenfalvy knows that he’s going to be accused of shortchanging key Ontario ministries like healthcare or education. Maybe the Tories thought they would be accused of that regardless and decided it was better to have the cash on hand.

Expect this to be where the Opposition makes the most noise. The NDP was most successful in the last election campaign when it finally found a narrative around the healthcare system. The only good days that the Trudeau Liberals have seemed to have had in 2023 were related to the work around the Canada Health Transfer.

Bethlenfalvy’s strategy is reminiscent of Stephen Harper’s “fiscal firepower” approach that followed the 2008-09 recession. If a recession does rear its head, the Ontario PCs will appear forward thinking and have the room to handle it without debt financing. If it doesn’t, he faces a compelling opposition narrative that he’s starving public services.

GROWTH

The Ontario PCs are clearly trying to pivot to an economic message in the spring that emphasizes growth, job creation and innovation. Economic concerns, including the cost of living, financial security and housing affordability consistently rank alongside healthcare as the most pressing concerns in the minds of voters.

As interest rates batter the real estate market which accounted for a sizable part of Ontario's economic growth over the last decade, and the Americans ramp up their commitment to the energy transition with the Inflation Reduction Act (IRA), Queen's Park is clearly feeling the economic pressure to keep up. The budget has measures to deal with that, including tax incentives for new capital investments. A \$6-million-dollar investment in the Junior Exploration Program continues the government's push into the mining sector and its desire to make strides on Ring of Fire development.

In addition to those investments, the province is also announcing \$224 million in capital upgrades to training centres across the province. The province is also increasing the small business tax limit phase out range up to \$50 million, a part of an announced review of Ontario's tax system.

Ontario has announced over \$16 billion in new investments in the electric vehicle sector. Much of it over the last year, including a huge investment by Volkswagen in St. Thomas that comes with a yet-to-be-known price tag.

Other items of note include a new temporary increase in the GAINS (Guaranteed Annual Income System) tax rebate for seniors, and measures to index the program to inflation. As well, the government is making new investments in the Ontario Immigration Nominee Program to the tune of \$25 million over three years.

It all comes back to the Finance Minister's 'uncertain times.' Almost 14% of Ontario's economy is directly tied to real estate and it looks to be the bigger loser as credit markets tighten up. A more diversified Ontario economy, more focused on labour market concerns and increased productivity is clearly viewed as a winner by the PCs, and that's why it gets so much airtime in the budget.

SEVERE WEATHER WARNING

At the core of the Ontario budget is a simple premise. That Ontario will eventually be overtaken by the economic pressures that have, in recent months, hit the United Kingdom and the United States. Even as the inflation rate recedes for another month, and the Bank of Canada seems to have halted its tightening policy for the time being, the province is preparing for storm clouds on the horizon.

If they materialize, this budget may go down as an integral part of the government's response to whatever kind of recession washes up on the shores of Lake Ontario.

If they don't, Ontario is sitting on a mountain of cash reserves and new revenue that the government will be under unbearable pressure to spend on major services like healthcare and education.

Peter Bethlenfalvy is betting that in the wake of the collapse of banks in the United States and Europe; with the seemingly unstoppable force of the labour market running into the immovable object that is monetary policy, something is going to have to give.

He is also betting that when it does, Ontario will be ready for it.