

# 2023 ONTARIO BUDGET ANALYSIS

## - Global Risk Institute

MARCH 2023



### INTRODUCTION

On Thursday, March 23, 2023, Finance Minister Peter Bethlenfalvy tabled the Government of Ontario's Budget for the 2023 fiscal year, titled Building a Strong Ontario. The 2023 Budget highlights the provincial government's spending plan is estimated to cost \$204.7 billion, the largest in Ontario's history. The province is projecting a deficit of \$1.3 billion in 2023-24 and by 2024-25, the government is expecting to balance the budget, which has been a long-standing commitment.

This year's budget was focused on infrastructure and economic resilience with the two themes titled "Building Ontario" and "Working for you": Building Ontario has emphasized investment in critical infrastructure projects and job creation. "Working for you" has emphasized commitments to ensuring support for families, workers, students, and seniors.

### ECONOMIC OUTLOOK

The budget had noted ongoing macroeconomic challenges and uncertainty, such as geopolitical instability, high interest rates, and inflation. This has been reflected in the modest real Gross Domestic Product (GDP) forecast of 0.3% in 2023, which had been revised down from the 3.1% forecast of the last budget.

Despite the economic uncertainty, Ontario's unemployment rate is at near historic lows with an average of 5.6% throughout 2022. This is even with Ontario's current population now exceeding the 15 million milestone with net migration to the province reaching over 275,000 people in 2021-22, the highest ever recorded. The pace of Ontario's employment recovery has exceeded both that of Canada overall and the United States, leaving the province facing future challenges from this tight labour market.

### Summary of Ontario's Economic Outlook

(Per Cent)

	2021	2022	2023p	2024p	2025p	2026p
Real GDP Growth	5.2	3.7e	0.2	1.3	2.5	2.4
Nominal GDP Growth	10.3	9.4e	2.8	3.6	4.6	4.5
Employment Growth	5.2	4.6	0.5	1.0	1.7	1.7
CPI Inflation	3.5	6.8	3.6	2.1	2.0	2.0

e = estimate.

p = Ontario Ministry of Finance planning projection based on external sources as of January 30, 2023.

Sources: Statistics Canada and Ontario Ministry of Finance.

## FISCAL OUTLOOK

Due to higher taxation revenue than estimated in the 2022 budget, the provincial government is now projected to post a surplus in 2024-25, three years earlier than predicted in last year's budget. This increased revenue has also allowed the government latitude to increase projected program expenses by \$4.0 billion.

Ontario's net debt to GDP ratio is projected to be 37.8% in 2022-23. This is the lowest net debt to GDP ratio since 2011-12. The budget forecasts the ratio will remain the same in the 2023-24 fiscal year and dip to 36.9% by 2025-26, resulting in net debt is forecast to be \$407 billion in the coming year and increasing to \$430 billion by 2025-26. The budget also included an updated strategy and targets to reduce the province's debt burden in an effort to improve its credit rating and lower the cost of borrowing.

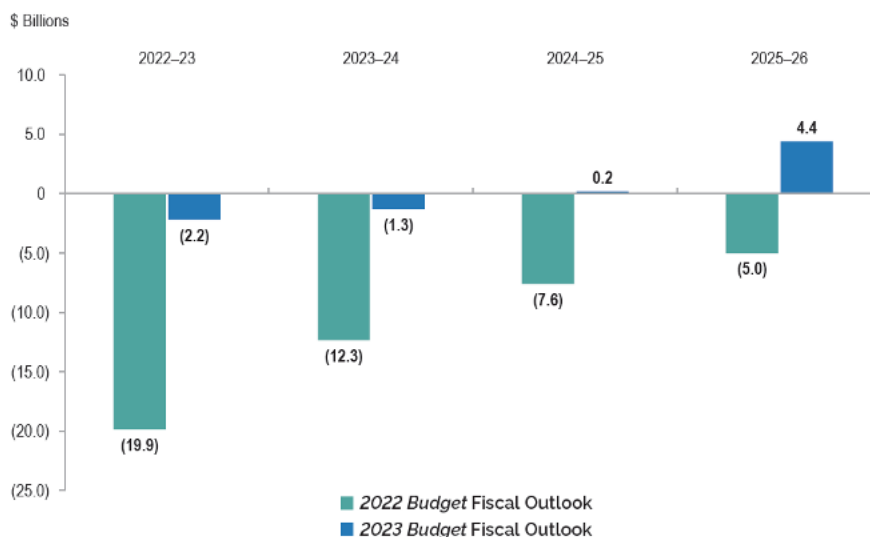
The government has made a commitment in the budget papers to review the province's tax system. It aims to make Ontario a more attractive place for businesses to invest as well as modernizing the administration system.

## BUDGET HIGHLIGHTS - INFRASTRUCTURE

### Manufacturing and mining for the green economy

The budget outlines a multi-pronged approach to incentivize investment in the province to position itself for the future economy. It specifically highlights extracting critical minerals located in northern Ontario's Ring of Fire area. The government is investing an additional \$3 million per year for the next two years in mining and mineral exploration into the Ontario Junior Exploration program, a program aimed at financing early-stage exploration projects. The investment in this program totals \$13 million in 2023-2024 and \$13 million in 2024-2025. Additionally, amendments have been proposed to the Building More Mines Act, 2023 in an effort to ensure a modern and competitive regime for mineral exploration and development and give more clarity in regulatory obligations. Infrastructure to make the Ring of fire area accessible, such as all-weather roads, broadband internet connectivity and community development, of close to \$1 billion is committed.

Current Fiscal Outlook Compared to 2022 Budget



Source: Ontario Ministry of Finance.

The government highlighted its recent successes in attracting clean steel and clean energy production. This is to become the backbone for clean manufacturing in the province. The budget introduces a new manufacturing investment tax credit scheme which proposes a 10% refundable corporate income tax credit for capital investments in buildings, machinery, and equipment used in manufacturing or processing. The credit will be available to Canadian-controlled private corporations that make qualifying investments and have an operating business in Ontario. A qualifying corporation could receive up to \$2 million in taxation relief. This is part of a strategy to help create what the government calls an Ontario electric vehicle (EV) supply chain and leverage past budget investments in automobile manufacturing innovation.

## **Transportation**

The provincial government allocated \$27.9 billion to support the planning and/or construction of highway expansion and rehabilitation projects across the province to help unblock the network. The following highways were mentioned: Highway 413, Bradford Bypass, The QEW Garden City Skyway Bridge Twinning project, Highway 401, Highway 3, and Highways 11 and 17.

The provincial government allocated \$139.5 million for public transit projects over the next ten years. The majority of the funds have been allocated to expanding new subway lines in Toronto and increasing the capacity of the regional GO train commuter network.

## **Housing**

The budget emphasized the provincial government's work on housing, specifically the passage of Bill 23. The law includes a broad range of measures to speed up new housing and meet

the province's goal of building 1.5 million homes over the next decade.

## **Community infrastructure**

The province is planning on spending \$81 billion on health sector programs in 2023-24. This would be an increase of \$6.1 billion from the 2022-23 fiscal year. In addition to capital grants for hospital and long-term care facility developments, this includes earmarking \$452 million over the next three years to expand mental health services, \$200 million to support and grow the health care workforce with a further \$80 million will be invested over three years to expand nursing education in universities and colleges, and \$72 million to address a backlog of surgeries across the province.

The budget projects \$15 billion in capital grants over 10 years to support students by expanding and renewing schools and childcare spaces. Additionally, the government is investing nearly \$4 billion to ensure every community across the province has access to high-speed internet by the end of 2025.

## **BUDGET HIGHLIGHTS - ECONOMIC RESILIENCE**

### **Small Businesses**

The government plans to introduce new tax credits and expand the relief eligibility for small businesses. Small Businesses will receive a tax deduction from \$15 million to \$50 million in taxable capital. It is estimated to provide 5,500 small businesses with relief of \$265 million over the next four years.

### **Seniors**

More Seniors are likely to be eligible for financial support through proposed expanded eligibility of Guaranteed Annual Income System payments. The changes will allow 100,000 more seniors to

become eligible for the program due to a higher private income threshold. This program is proposed to start in July 2024. The benefit is planned to be adjusted to increase with inflation.

### Financial services

A number of consumer protection measures were highlighted. These include proposed amendments to the Insurance Act to support the Financial Services Regulatory Authority of Ontario (FSRA) in ending the use of deferred sales charges in the sale of segregated funds, and new licensing classes for mortgage brokers and agents will be introduced in Ontario on April 1st with enhanced education and experience requirements that focus on mortgage products funded by private lenders. The budget papers also note FSRA's development of rules that define unfair or deceptive acts or practices to make the oversight of insurance more transparent.

This ensures consumers are treated fairly, while enabling insurers to innovate products and offer rebates or incentives.

### CLOSING THOUGHTS

The 2023-2024 Budget reflects the provincial government's focus on infrastructure and economic resilience. Growing risks around rising interest rates, housing shortages, tight employment markets, inflation, and geopolitical tensions have been mentioned and are being monitored.

The Global Risk Institute would like to thank the Ontario Government for the renewed funding in this budget. GRI is fully committed to ensuring that both the government and the financial sector are equipped to effectively manage emerging risks, enabling Ontario to retain its position of leadership within the financial industry.

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