

HIGHLIGHTS FROM THE 2024 ONTARIO BUDGET

MARCH 2024



INTRODUCTION

On Tuesday, March 26, 2024, Finance Minister Peter Bethlenfalvy tabled the Government of Ontario's 2024 fiscal year budget, titled *Building a Better Ontario*. The budget focused on two major themes: **1) Building Ontario** aimed at rebuilding Ontario's economy and infrastructure spending and **2) Working for You** aimed at working for workers, keeping costs down, and improving services. The minister provided an economic update on the province's fiscal situation.

The minister noted that ongoing geopolitical tensions, slower economic growth, inflation, and higher interest rates have contributed to a higher deficit projection. In **2023-2024**, the provincial government is projecting a deficit of \$3 billion. Over the medium term, the government is projecting deficits of **\$9.8 billion** in the **2024-2025 fiscal year**, and **\$4.6 billion** in the **2025-2026 fiscal year**. In the **2026-2027 fiscal year**, the government estimates a surplus of \$0.5 billion. The budget notes that the pace of economic growth remains uncertain and macroeconomic risks can impact projections.

ECONOMIC OUTLOOK

The budget papers noted that ongoing macroeconomic risks have impacted the Ontario economy in 2024. High interest rates, inflation, and ongoing supply chain disruptions continue to impact the provincial economy. Real gross domestic product (GDP) is projected to slow from 1.2 percent in 2023 (higher than projected in the 2023 budget) to 0.3 percent in 2024. In 2025, real GDP is projected to rise to 1.9 percent, and remain stable at 2.2 percent in 2026 and 2027. Nominal GDP growth for 2023 was 4.1 percent, higher than the 2.8 percent projected in the 2023 budget.

Economic uncertainty continues to impact Ontario and puts further constraints on the labour market. The unemployment rate modestly increased to 5.7 percent in 2023. The province experienced employment growth in 2023, and added 183,200 net new jobs, a 2.4 percent increase. Employment is projected to increase by 0.8 percent in 2024, down from a 2.4 percent increase in 2023. Additionally, this slower growth in employment, along with population and labour force growth, is expected to raise the unemployment rate to 6.7 percent in 2024.

Table 1: Ontario's Economic Outlook

	2022	2023	2024p	2025p	2026p	2027p
Real GDP Growth	3.9	1.2e	0.3	1.9	2.2	2.2
Nominal GDP Growth	9.2	4.1e	2.7	3.9	4.3	4.1
Employment Growth	4.6	2.4	0.8	1.7	1.4	1.4
CPI Inflation	6.8	3.8	2.6	2.0	2.0	2.0
Table footnotes:						
e = estimate.						
p = Ontario Ministry of Finance planning projection based on external sources as of January 25, 2024.						
Sources: Statistics Canada and Ontario Ministry of Finance.						

The current global economic outlook for the 2024 fiscal year has improved in advanced economies, most notably the United States, despite significant monetary policy tightening by key central banks over the past two years to address elevated price inflation. The International Monetary Fund projects that global real GDP growth will be 3.1 percent in 2024, up from the 2.9 percent forecast in October 2023. Furthermore, global real GDP growth for 2025 is projected to be 3.2 percent, unchanged from the October forecast.

FISCAL OUTLOOK

Economic uncertainty and inflationary costs have weighed on household and government finances. Ontario has been resilient in 2023. The province is expected to see slower, but continued, growth in 2024, compared to the projection in the 2023 budget.

The 2024 budget projects revenues in the 2023-2024 fiscal year at \$204.3 billion—slightly lower than forecast in the 2023 budget. Declines in tax revenues have been partially offset by gains in net income from government business enterprises and other non-tax revenue. Program expenses are projected to be around \$194.5 billion, \$3.8 billion higher than the 2023 budget forecast. The province expects to incur \$12.8 billion in interest costs in

2023-2024, lower than previously forecasted. The decline in interest cost is partly due to lower than projected borrowing costs.

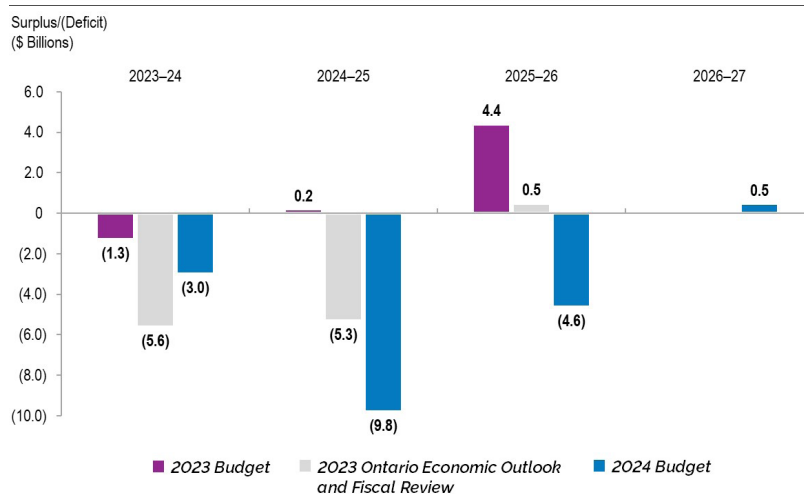
The Ontario net debt-to-GDP ratio in 2023-2024 is projected at 38 percent, a 0.2 percent increase primarily due to forecast deficits and investments in infrastructure.

In budget 2023, the government announced it would make changes to the Ontario tax system to encourage investment and make the province attractive to do business. The government will continue to focus on updating the tax system to support greater productivity, innovation, and research, promote fairness, enable greater simplicity and transparency. Furthermore, they will focus on modernizing the administration of the tax system.

The government has announced a review of the property assessment and taxation system to focus on fairness, affordability, business competitiveness, and modern administrative tools. The government will also conduct a targeted review of taxes and fees on beer, wine, and other alcoholic beverages to promote a more competitive marketplace for Ontario-based producers and consumers.

Table 2: Comparative Fiscal Outlooks

Current Fiscal Outlook Compared to the 2023 Budget and 2023 Ontario Economic Outlook and Fiscal Review



Source: Ontario Ministry of Finance.

ECONOMIC OUTLOOK RISKS

The budget has noted ongoing macroeconomic trends and developments that could pose a risk to the provincial outlook and have an impact on Ontario. Geopolitical developments pose a risk to the provincial and national economic outlook. Conflicts in Europe and the Middle East continue to disrupt commodity markets and pose risks to supply chains. Additionally, rising trade tensions affect international trade in goods and services, including Ontario's key trading relationships in North America.

Inflation has eased globally, but measures of core inflation, which adjust for volatile components, remain elevated. The province noted that the inflation outlook is a key source of uncertainty for Ontario and Canada with wide-ranging implications. Central banks have indicated that should inflation persist at high levels, interest rates could stay higher for longer, and further interest rate hikes remain a possibility.

The U.S. economy has shown economic resilience despite significant monetary policy tightening by the Federal Reserve. Strength in the U.S. economy presents an upside risk for the Ontario economy, notably for growth in exports. The U.S. economy is vulnerable and exposed to the impact of past interest

rate hikes on aggregate demand. Additionally, the risk of fiscal consolidation exists, as ongoing sizeable fiscal deficits have raised federal government debt in the United States to very high levels.

BUDGET HIGHLIGHTS - BUILDING ONTARIO

Rebuilding Ontario's Economy

To attract more investment, the province is allocating an additional \$100 million to the Invest Ontario Fund. The Government of Ontario is also developing a grant program to support the marine sector and boost the province's shipbuilding industry. The province allocated \$1 billion to "critical legacy infrastructure improvements" in the Ring of Fire region, which include all-season roads, broadband connectivity, and community support.

To further support critical minerals development in the province and the creation of Ontario-made intellectual property, the government plans on investing \$15 million to enhance the Critical Minerals Innovation Fund. This additional funding of \$5 million per year in 2024-2025, 2025-2026 and 2026-2027 will help develop the mining sector to undertake research, development, and commercialization of innovative technologies.

Table 3: Scenarios and External Economic Risks

	Change in Real GDP Growth First Year	Change in Real GDP Growth Second Year
Canadian Dollar Appreciates by Five Cents US	(0.1) to (0.7)	(0.2) to (0.8)
Crude Oil Prices Increase by \$10 US per Barrel	(0.1) to (0.3)	(0.1) to (0.3)
U.S. Real GDP Growth Increases by One Percentage Point	+0.2 to +0.6	+0.3 to +0.7
Canadian Interest Rates Decrease by One Percentage Point	+0.1 to +0.5	+0.2 to +0.6
Table 2.7 footnotes:		
Source: Ontario Ministry of Finance.		

Building Infrastructure, Highways and Transit

Housing

Following the announcements in both the federal and provincial 2023 fall economic updates, the budget papers noted housing as a major economic challenge and that increasing the housing supply remains critical to rebuilding Ontario. The provincial government is investing an additional \$1.8 billion over three years to support municipal housing-enabling infrastructure projects through the newly established \$1 billion Municipal Housing Infrastructure Program and the enhanced \$825 million Housing-Enabling Water Systems Fund.

Transportation

The budget plan highlights an allocation of \$27.4 billion over 10 years for expansion and rehabilitation projects across the province, notably for highways and major roads to increase connectivity. The budget papers note that the government is planning to allocate \$67.5 billion over 10 years to enhance public transit, focusing on expanding Toronto's subway lines, increasing the GO train network's capacity, and restoring Northlander passenger rail service between Toronto and Northern Ontario.

Community Infrastructure

The budget allocates around \$50 billion in hospital infrastructure over the next 10 years. This investment includes almost \$36 billion in hospital capital grants to support over 50 hospital projects, which will add more than 3,000 beds over 10 years. An additional \$6.1 billion investment is planned for the postsecondary education sector, including more than \$2.2 billion in capital grants to assist colleges, universities, and indigenous institutes in modernizing their facilities through technology upgrades, critical repairs, and improvements in energy efficiency.

Pensions

The Building Ontario Fund was announced in the *Fall Economic Statement 2023* to support critical infrastructure projects. Opportunities are being created for pension funds to invest in Ontario. The fund is considering opportunities to support significant projects in postsecondary student housing, long-term care, energy generation and municipal infrastructure.

BUDGET HIGHLIGHTS - WORKING FOR YOU

Working for Workers

Skills Development and Training

To better address labour shortages and improve skills training, the province has allocated \$100 million in the 2024-2025 fiscal year to the Skills Development Fund Training Stream and continues to implement the \$224 million Skills Development Fund Capital Stream to further support workers and the the labour force.

The province's skilled trades pipeline will receive an additional \$16.5 million annually over the next three years. This investment is aimed at supporting programs to attract more young people into the skilled trades and encouraging employer participation in the program.

Insurance

A monthly stream of income in retirement, at a predictable cost for employers, is provided by target benefit pension plans. If offered by a union or association in an industry, such as the skilled trades, these plans allow members to move from employer to employer while still enjoying membership in the same pension plan, thus making the skilled trades more attractive. Following sector consultations on a Target Benefit Framework, the government will initiate a consultation on proposed regulations in the summer of 2024, and will follow with proposed legislative amendments. The timeline for the framework to come into effect is January 1, 2025, which will help the sustainability of these workplace pension plans, and potentially allow more employers to offer them, benefiting workers in their retirement.

Keeping Costs Down

Gas Tax and Fuel Tax

The province aims at keeping costs down for people and business by extending the temporary cut to the gasoline tax rate by 5.7 cents per litre and the fuel (diesel) tax rate by 5.3 cents per litre until December 31, 2024. It is estimated that this tax cut will reduce household costs by \$320 on average over two and a half years.

Education

The government has extended the tuition freeze for Ontario students in publicly assisted colleges and universities for three more years.

Auto Insurance

The budget papers noted that the government will fulfill previous commitments and initiate reform of the automobile insurance industry. The reforms are aimed at providing consumers with more options, improved access to benefits, and to create a more modern system. Additionally, the changes will allow drivers to lower their premiums and access certain benefits through workplace benefit plans.

Seniors

The budget papers indicate an expansion of the Ontario Guaranteed Annual Income System Program (GAINS). The province will provide financial support and assistance to about 100,000 additional low-income seniors. The GAINS benefit system will be adjusted for inflation. The government will invest an additional \$2 billion in the home and community care sector to better support the expansion of services and increase compensation for frontline workers.

Increasing Housing Supply and Affordability

To support the ongoing federal and provincial initiatives to increase the housing supply in Ontario, the budget proposes a new policy framework to outline best practices for implementing a Vacant Home Tax and encourages municipalities to set a higher vacant home tax rate for foreign-owned vacant homes.

Better Services

Health Care

In the 2024-2025 fiscal year, the government plans on investing an additional \$965 million in health funding. This includes a 4 percent increase in base hospital funding. The government plans on investing in the health care workforce by investing \$743 million over three years to help address immediate health care staffing needs and prepare for the future. Additionally, the province aims to establish a new medical school at York University.

Education and Child Care

The government will invest \$23 billion to expand, renew, and build schools and child care spaces, including \$16 billion in capital grants over 10 years.

Financial Services

The budget papers noted changes aimed at improving and modernizing the financial services industry and protecting consumers. In the *2023 Federal Fall Economic Update*, there were changes announced to the *Canadian Payments Act*, which would allow provincially regulated credit unions to access the Bank of Canada's *Standing Term Liquidity Facility* and its *Emergency Lending Assistance*. Ontario credit unions will be able to benefit from this support. The budget papers noted that the provincial government plans on collaborating with the Federal Government as changes are made and implemented.

The provincial government noted in the budget papers that it supports the ongoing work of the Ontario Securities Commission (OSC) to modernize the dispute resolution framework available to Ontario investors, and supports the modernization of the capital markets framework that protects those investors. The OSC is working to develop rules governing the distribution of disgorged funds to harmed investors. Additionally, the recently enhanced protections for whistleblowers are intended to encourage individuals to come forward to report misconduct. The modernization and changes are all supported by the Ontario Government and are aimed at increasing investor confidence in Ontario capital markets.

Borrowing and Debt Management - Sustainable Finance

In January 2024, the Ontario Government introduced the Ontario Sustainable Bond Framework, which replaced the Green Bond Framework developed by the province in 2014. This new framework enables the province to issue green bonds, social bonds, or sustainability bonds (collectively referred to as "sustainable bonds"), which can provide environmental and social benefits to the province.

Ontario is leveraging its nuclear sector to create the next generation of reliable and safe clean energy. This strategic move aligns with the objectives of the new Sustainable Bond Framework, which is positioned to enhance Ontario's competitive edge in nuclear energy and enhance its capacity to bring international investment to the province.

The projects developed under this framework include clean transportation, green buildings, climate change initiatives, energy efficiency projects, and forestry and agriculture initiatives, all aimed at promoting sustainability across Ontario.

As the core component of the sustainable borrowing program in Ontario, the green bonds issued by the province have steadily increased annually

from 2014-2015. In 2024, a total of 15 issuances amounting to \$18 billion have been issued. Ontario is now the largest and most frequent issuer of Canadian dollar green bonds in Canada.

More recently, Ontario issued a new \$1.5 billion green bond under the Ontario Sustainable Bond Framework. This bond will primarily inject funds into transit expansion, subway extension, and electric vehicle chargers. Ontario plans to maintain its leadership role in issuing Canadian dollar green bonds to facilitate the development of sustainable infrastructure and intends to issue multiple green bonds each fiscal year, including in 2024-2025.

Select Legislative Updates

The government has requested that the Financial Services Regulatory Authority of Ontario (FSRA) review the Professional Services Guidelines and the Attendant Care Hourly Rate Guideline. This request is a commitment to ensure that those injured in auto accidents continue to receive care and that health care providers are compensated for their services.

The government established a “test and learn” environment in 2022 allowing FSRA to support the development of innovative and more affordable auto insurance products. The budget noted that the government plans to continue to work with FSRA to identify further opportunities for innovation, competition and cost reductions, and plans to expand the number of products FSRA can pilot.

The Non-Resident Speculation Tax (NRST), aimed at deterring foreign investors from speculating on the province’s housing market, is being strengthened with legislative amendments to support compliance and improve fairness. Information sharing will be essential between the provincial, federal and municipal governments. The change to this tax is to ensure Ontario homebuyers and families have priority in the housing market.

CONCLUSION

The *2024 Budget* reflects the provincial government’s continued focus on rebuilding Ontario’s economy and infrastructure, with an acknowledgement of the affordability challenges facing Ontarians. The government has also continued its commitment to invest in clean energy and technology and has continued the allocation of resources to the health care sector. The deficit and spending have continued to rise and a balanced budget is likely only possible in the 2026-2027 fiscal year. The government has noted that ongoing macroeconomic risks, such as inflation, geopolitical tensions, supply chain disruptions, and possible interest rate hikes, could impact the economic outlook for the province.

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