



# Laurentian Bank Securities ECONOMIC RESEARCH AND STRATEGY

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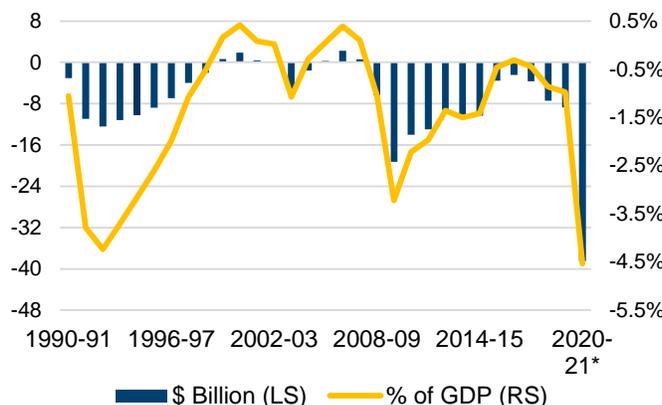
10 February 2021

## Ontario Third Quarter Finances –The deficit remains unchanged despite economic volatility

A lot happened in Ontario between [Budget 2020](#) in November and today's [Third Quarter Finances](#). In January, the spread of COVID-19 intensified to a point where the government imposed a province-wide stay-at-home order. From October 2020 to January 2021, 189K part-time employees were laid off and hours worked were reduced as non-essential stores opening hours were cut. Nonetheless, since the province experienced a stronger-than-expected reopening in 2020Q3, the Ontario Ministry of Finance revised the 2020 real GDP contraction forecast, from -6.5% in Budget 2020 to -5.9%. Also, the re-imposition of economic restrictions so far has had a larger impact on mobility than economic activity itself. Looking ahead, the mid-November positive developments on the vaccine front and a shrinking infection curve over the past few weeks reinforce the government's 4.5% GDP rebound projected in 2021, broadly in line with [our forecasts](#).

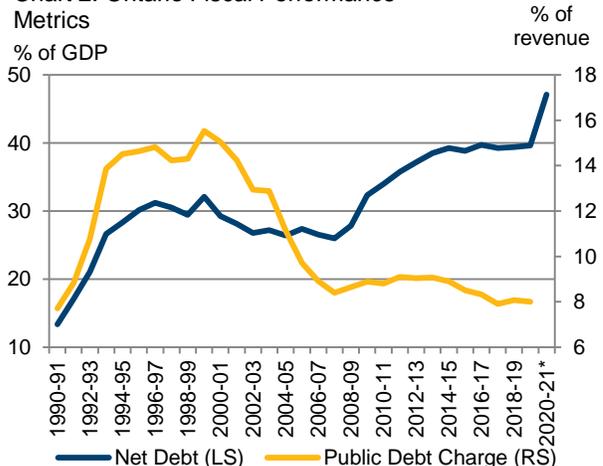
Stronger-than-expected economic growth in 2020H2 led to a net \$1.5B increase in taxation revenue, offset by a \$1.6B downward revision to other non-tax revenue, mainly from hospitals and school boards. Federal transfers increased by \$385M as funds from the *Workforce Development Agreements* were made available. Altogether, total revenues are estimated at \$151.7B in FY 2020-21, a net \$612M upward revision from Budget 2020. On the spending side, the government allocates its remaining Health and Support contingency funds to partly finance \$4.2B in health care and financial support expenditures. In fact, as of December 31<sup>st</sup> 2020, the full \$13.3B extraordinary contingencies built up over FY 2020-21 had been allocated and therefore should be spent by year-end (March 31<sup>st</sup> 2021), reducing the odds of major spending lapses in the public accounts. The government reduces its reserve from \$2.0B to \$0.5B to accommodate \$2.6B in net additional spending, leaving its deficit forecast unchanged at \$38.5B (4.5% of GDP). While the deficit for FY 2020-21 remains at a record high both in dollar terms and as a percentage of the economy (chart 1), the government will likely lay out a plan to balance in the upcoming 2021 Budget in March. Finally, net debt-to-GDP should hit a record high 47.1% this year but the debt-service-ratio, another key measure of fiscal performance, remains low relative to historical standards at 8% of revenue.

Chart 1: Ontario Budgetary Balance



Source: Ontario Government and LBS Economic Research and Strategy.

Chart 2: Ontario Fiscal Performance



Source: Ontario Government and LBS Economic Research and Strategy.

Ontario continues to integrate an element of fiscal prudence in its fiscal framework with a \$1.9B top-up to its standard contingency funds in case new COVID-19 variants or major delays in the vaccination process disrupts the gradual reopening of the economy that will start in February.



The borrowing program for FY 2020-21 is deemed completed, slightly revised up from \$52.3B in Budget 2020 to \$55.2B in the Third Quarter Finances. This reflects a \$1.4B increase in infrastructure spending and \$1.5B in pre-funding activity ahead of FY 2021-22. We forecast pre-funding activity to continue until March 31<sup>st</sup> 2021 and total \$5.5B, all in domestic currency. Pre-funding activity will therefore reduce long-term borrowing expectations for FY 2021-22, estimated last November at \$58.6B.

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