

May 2, 2018

The FAO's Spring 2018
Economic and Budget Outlook

Media Statement

Good morning.

My name is David Wake and I am serving as Ontario's Temporary Financial Accountability Officer.

Let me begin by noting that Peter Weltman has been appointed as Ontario's new Financial Accountability Officer, commencing May 7th. I look forward to working with Mr. Weltman, as a fellow officer of the Ontario Legislative Assembly, and supporting him as he takes on this important new role.

Today, the Financial Accountability Office released its bi-annual 'Economic and Budget Outlook' providing a forecast for the economy and an assessment of Ontario's fiscal outlook. The report incorporates the latest economic data, as well as updated fiscal information from the 2018 Ontario Budget.

Last week, the Office of the Auditor General released its review of the government's Pre-Election Report.

The Auditor General's review concluded that the Pre-Election report is not a reasonable presentation of the Province's finances because it significantly understates the actual level of government expenditures.

After adjusting for these understatements, the Auditor General estimates that the budget deficit would average approximately \$12 billion each year over the next three years.

Today's FAO report takes a different analytical approach than the Auditor General but arrives at the same forecast for budget deficits of approximately \$12 billion per year, over the next three years.

While the FAO's deficit projections are consistent with those of the Auditor General, the FAO's report also provides several other important insights.

I will ask David West, the FAO's Chief Economist, to expand on some of the report's key results.

Thank you, Commissioner Wake.

I'd like to focus on three key conclusions from our analysis.

First, the FAO projects that Ontario's budget deficit will increase sharply to almost \$12 billion this fiscal year, up from about \$4 billion in 2017. The increase in this year's deficit reflects higher spending from the 2018 Budget combined with only a weak gain in revenue.

But importantly, based on the FAO's analysis, the Ontario budget was already in deficit prior to the introduction of the 2018 Budget.

Specifically, before the introduction of the budget, Ontario was facing a deficit of about \$8 billion this fiscal year, largely due to slower revenue growth. The significant spending initiatives included in the budget increased this existing deficit by an additional \$4 billion.

A second key insight from our report relates to the reasonableness of the government's fiscal recovery plan, which proposes to eliminate the deficit by 2024.

The government's plan provides few policy specifics, but assumes a dramatic cut in annual spending growth - from about 4 per cent per year to just 2 per cent, beginning in 2021.

Severely restraining the growth in spending, below population growth and inflation, could lead to a balanced budget by 2025. However, the government's plan implies that the Province would have to find about \$15 billion in spending reductions by 2025, equivalent to about eight per cent of program spending. Restraining spending to this extent will be challenging.

Finally, the 2018 Budget postpones deficit recovery, leading to the accumulation of significant additional debt, just as demographic pressures on the budget will intensify.

By 2020, Ontario's net debt will increase by nearly \$70 billion, reaching almost \$400 billion. This additional debt will raise the Province's debt-to-GDP ratio to 42 per cent in 2020, up from about 39 per cent last year.

The 2018 Budget did not acknowledge the government's previous target of reducing the province's debt-to-GDP ratio to 35 per cent by 2023. But, even with the significant spending restraint assumed in the government's plan, the Province will miss this prudent debt-to-GDP target by a wide margin.

The government's fiscal plan shifts the burden of eliminating Ontario's deficits from current taxpayers to younger Ontarians. The additional debt will also leave the Province with less flexibility to respond to future crises, including recessions.

Alternate fiscal plans to address Ontario's deficit and debt burden would also involve difficult trade-offs. Raising revenue leaves less money for households to spend and businesses to invest, and would contribute to the moderating pace of economic growth.

However, achieving continued spending restraint may be more difficult in the coming years. The government has been limiting the growth of spending since 2010, and many public services are currently facing budget pressures.

Thank you.

We are happy to take questions.

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