

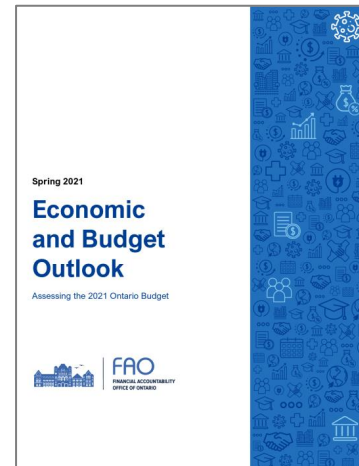
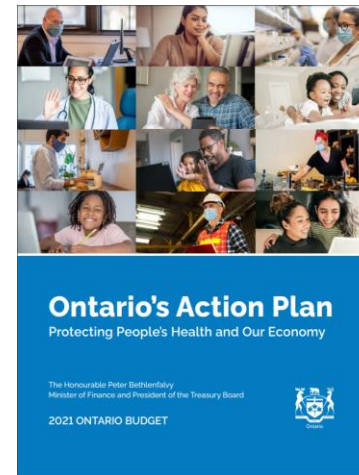
Economic and Budget Outlook

Briefing Deck



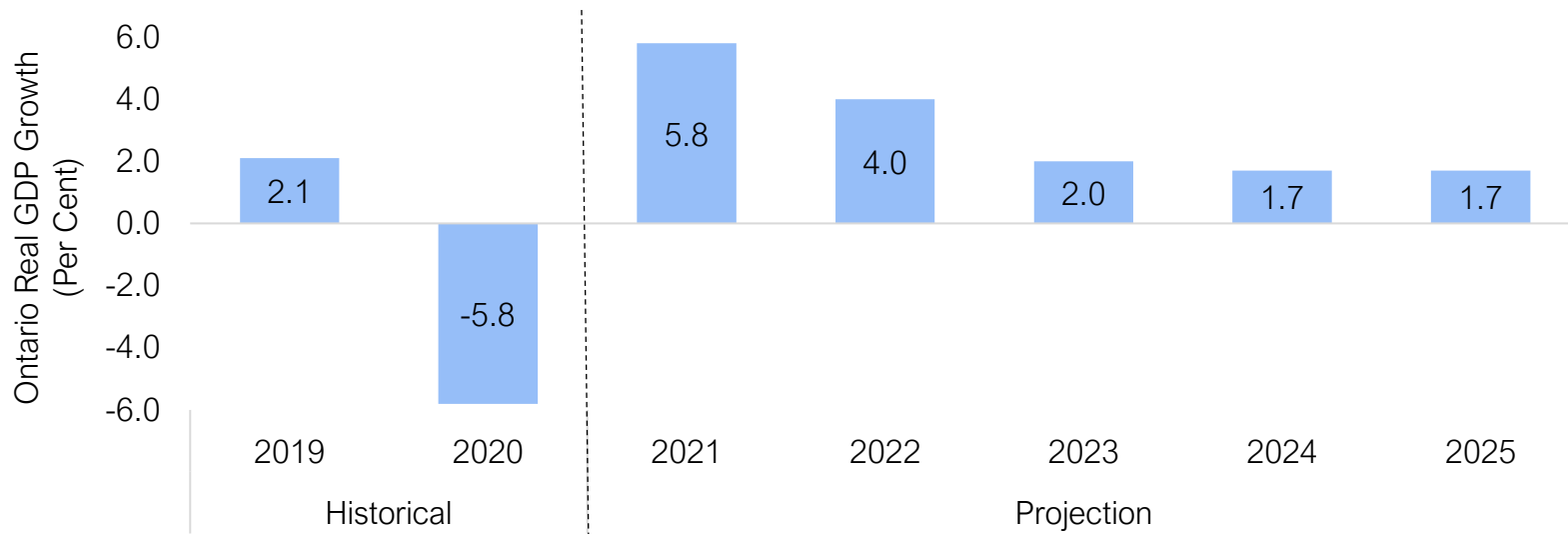
Overview

- The Ontario government released its budget on March 24, 2021, providing its medium-term fiscal plan and recovery plan.
- The FAO's Spring 2021 Economic and Budget Outlook (EBO) provides an independent assessment of Ontario's economic performance and budget outlook.



Ontario economy expected to rebound strongly in 2021 and 2022

- Following the severe decline in economic activity at the onset of the COVID-19 pandemic, Ontario's growth has been generally resilient despite recurring restrictions.
- Strong economic growth over the next two years will be driven by continued vaccination progress, improving global demand and ongoing monetary and fiscal policy support.

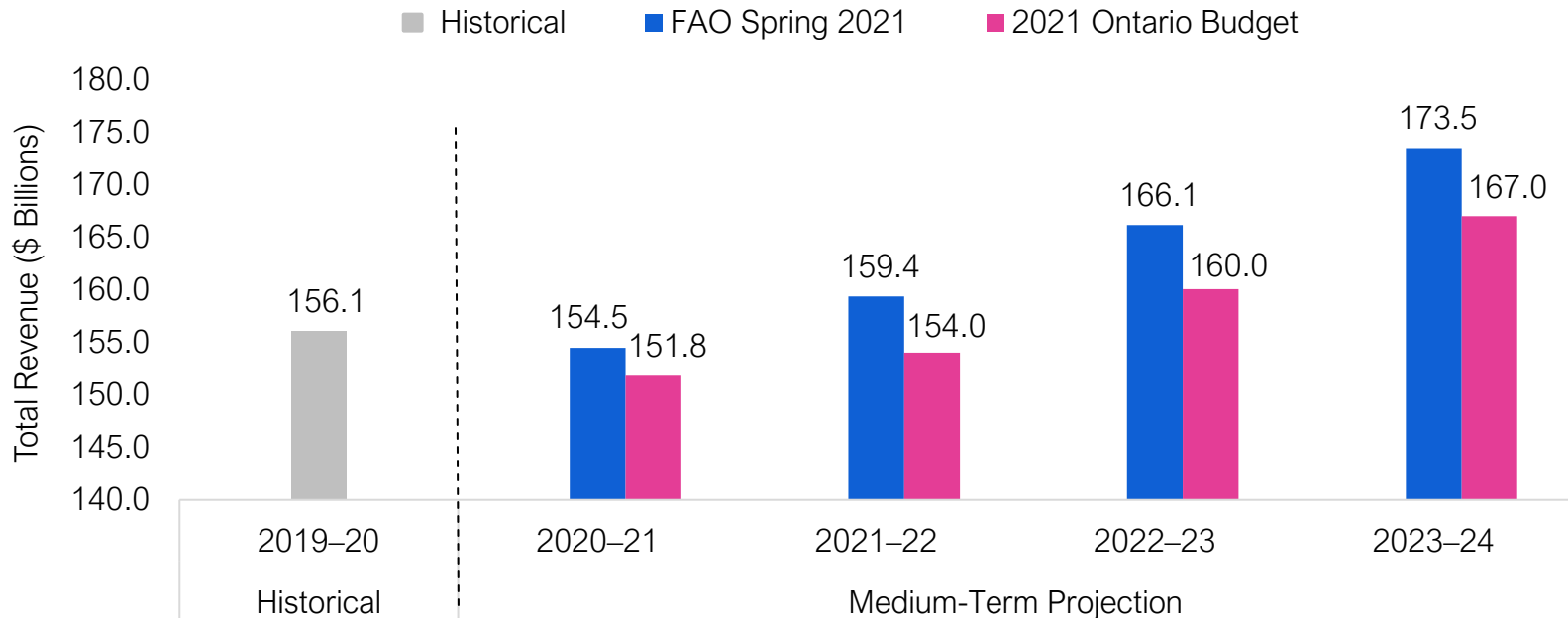


Source: Ontario Economic Accounts and FAO.



Revenues rebound in 2021–22

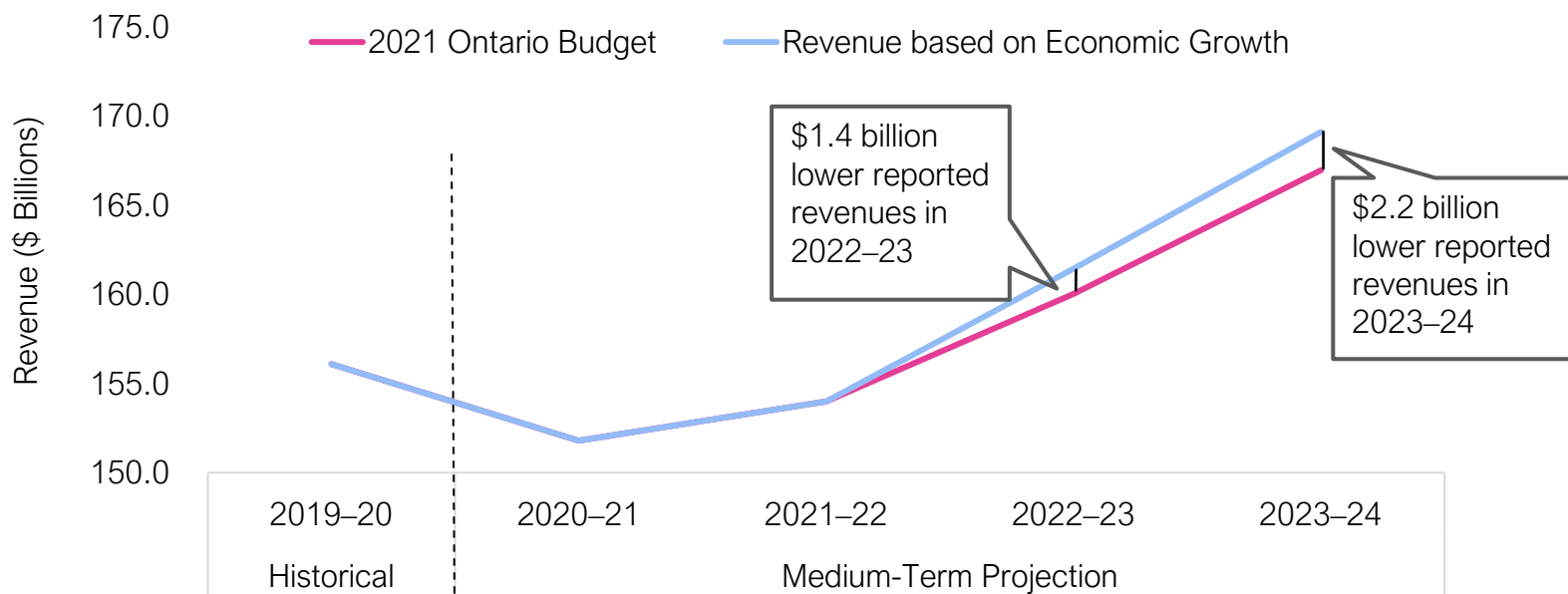
- Total revenues are expected to decline by \$1.6 billion in 2020–21 to \$154.5 billion. In 2021–22, total revenue is expected to rebound by \$4.9 billion as the recovery in economic activity strengthens.
- The FAO projects significantly higher revenues than the Ontario budget largely because of the FAO’s forecast for stronger economic growth.



Source: 2021 Ontario Budget and FAO.

Government projects lower revenues than economic growth in the budget suggests

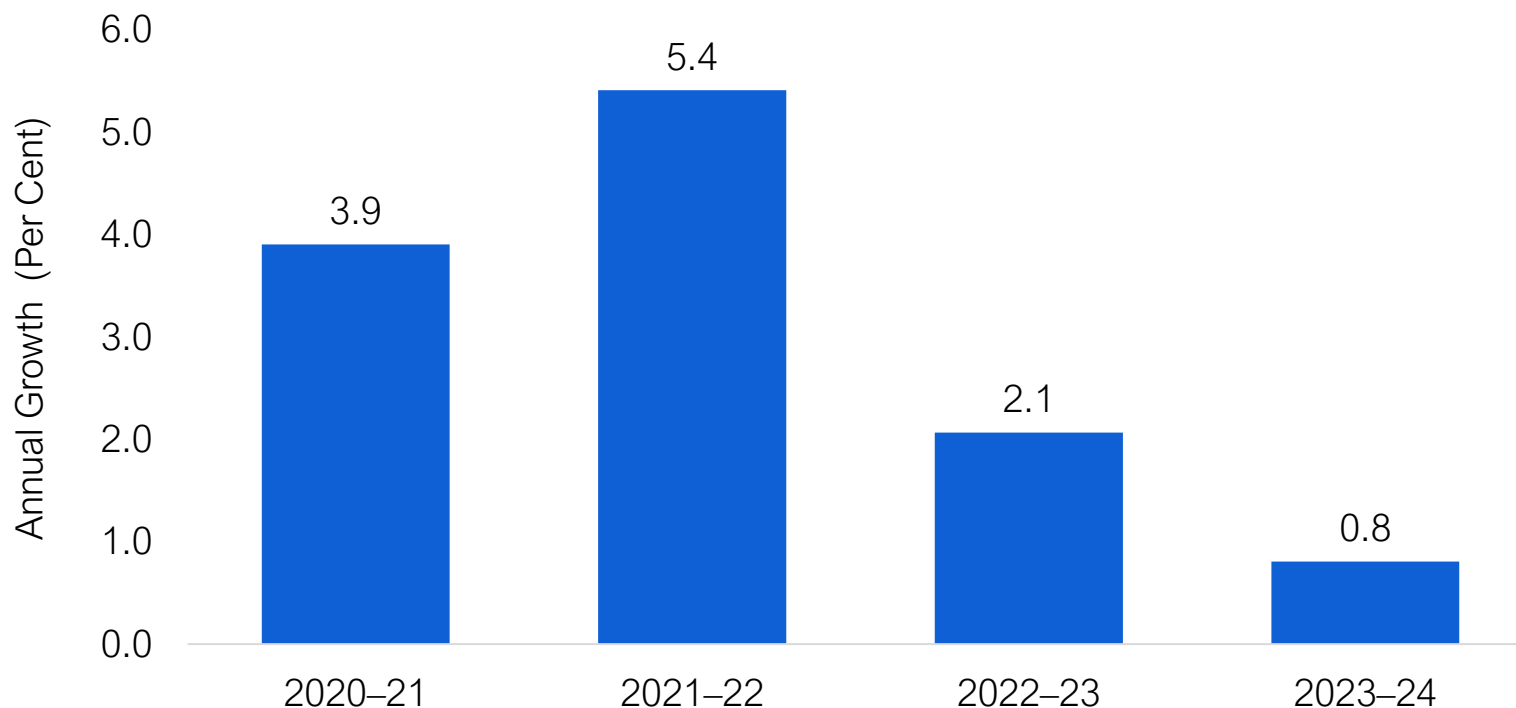
- The FAO estimates the budget's revenue projection would be higher by about \$1.4 billion in 2022–23 and \$2.2 billion in 2023–24, based on usual relationships between tax revenue and economic drivers.
- Although not announced in the budget, these revenue shortfalls might be explained by potential planned tax cuts.



Source: 2021 Ontario Budget and FAO.

Spending growth slows after 2021–22

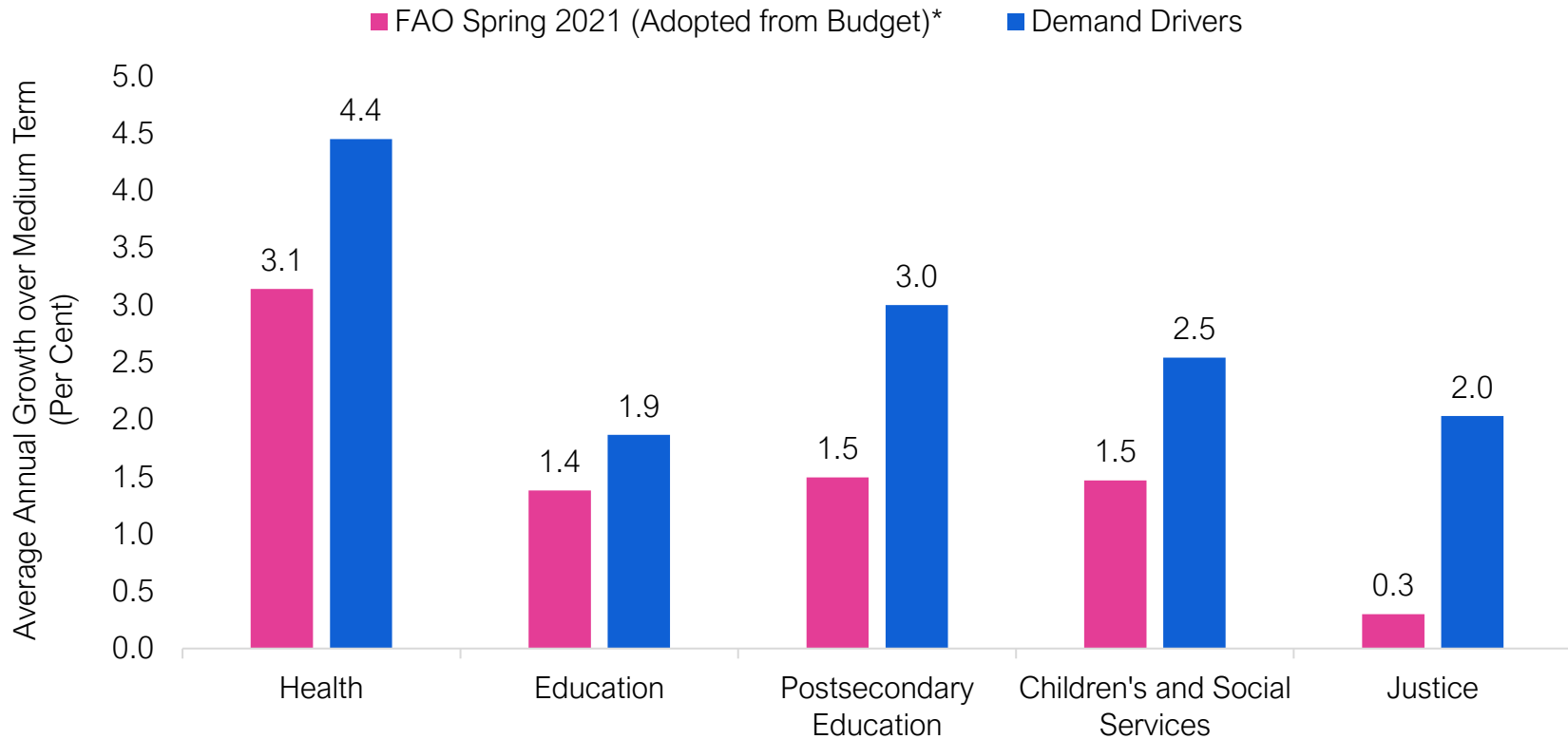
- Base program spending growth (excluding pandemic-related temporary expenses) increases significantly in 2021–22 and slows sharply afterwards.
- By 2023–24, the government plans to grow base program spending by just 0.8 per cent.



Source: 2021 Ontario Budget and FAO.



Base program expense growth in key sectors will not keep pace with demand drivers



*FAO Spring 2021 program spending projection is adopted from the *2021 Ontario Budget*.

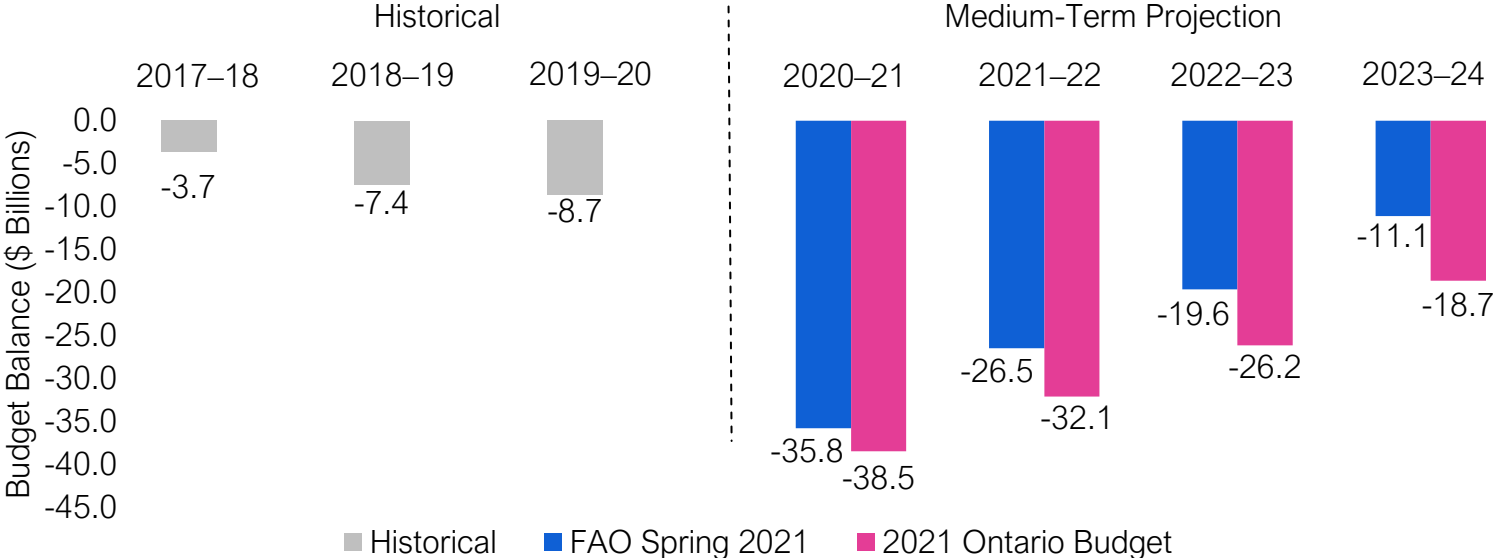
Note: The average annual growth rates over the medium term in different sectors refer to base program spending and do not include any COVID-19 related spending.

Source: *2021 Ontario Budget* and FAO.



FAO projects smaller deficits over the medium term compared to the government

- The FAO projects that Ontario’s deficit would decline from a record \$35.8 billion in 2020–21 to \$11.1 billion by 2023–24, much smaller than the government’s outlook.
- This difference results from the FAO’s higher revenue projection combined with a lower interest on debt forecast.

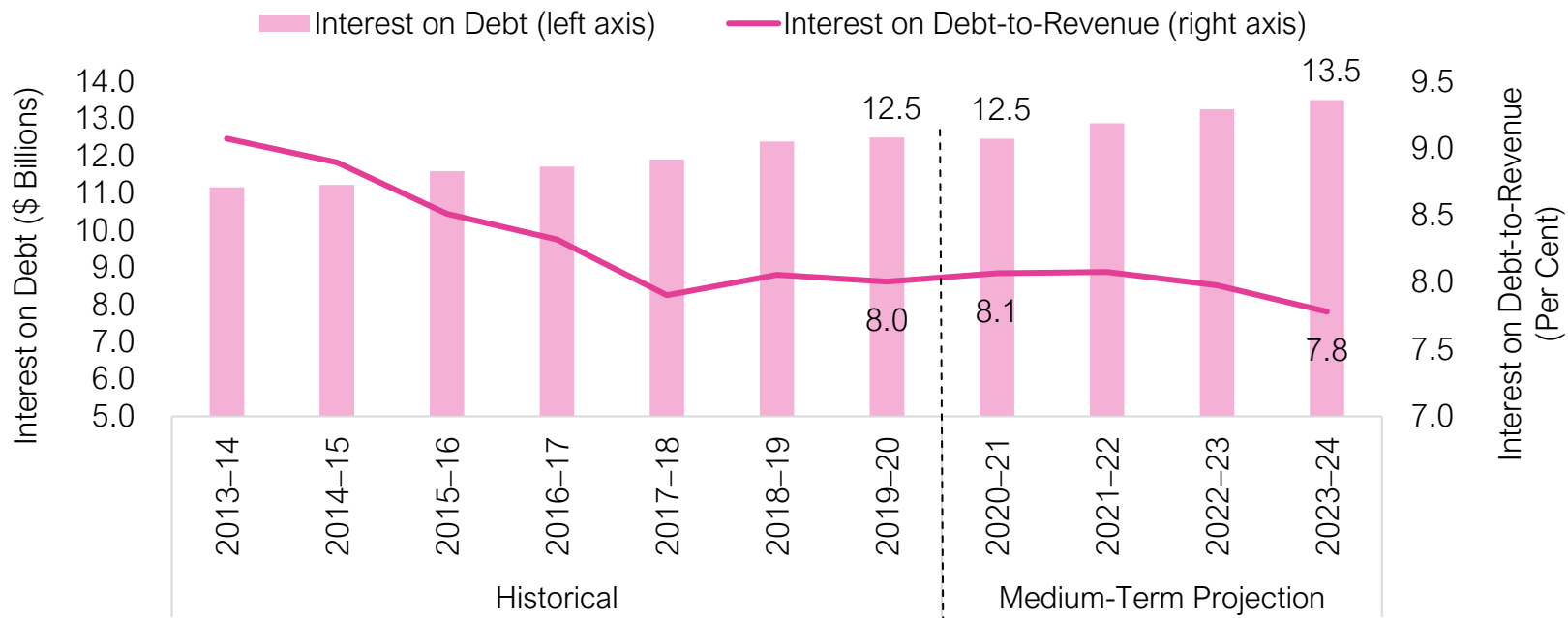


Note: The FAO’s Budget Balance is presented without reserve.
 Source: 2021 Ontario Budget and FAO.



Although net debt rises rapidly, interest costs only increase modestly

- Net debt-to-GDP ratio rises to 47.6 per cent in 2023–24, eight percentage points higher than the pre-pandemic ratio of 39.6 per cent in 2019–20.
- However, low borrowing rates expected to limit the rise in interest on debt payments. By 2023–24, interest on debt as a share of revenues declines to 7.8 per cent.



Source: Statistics Canada, Ontario Public Accounts and FAO.

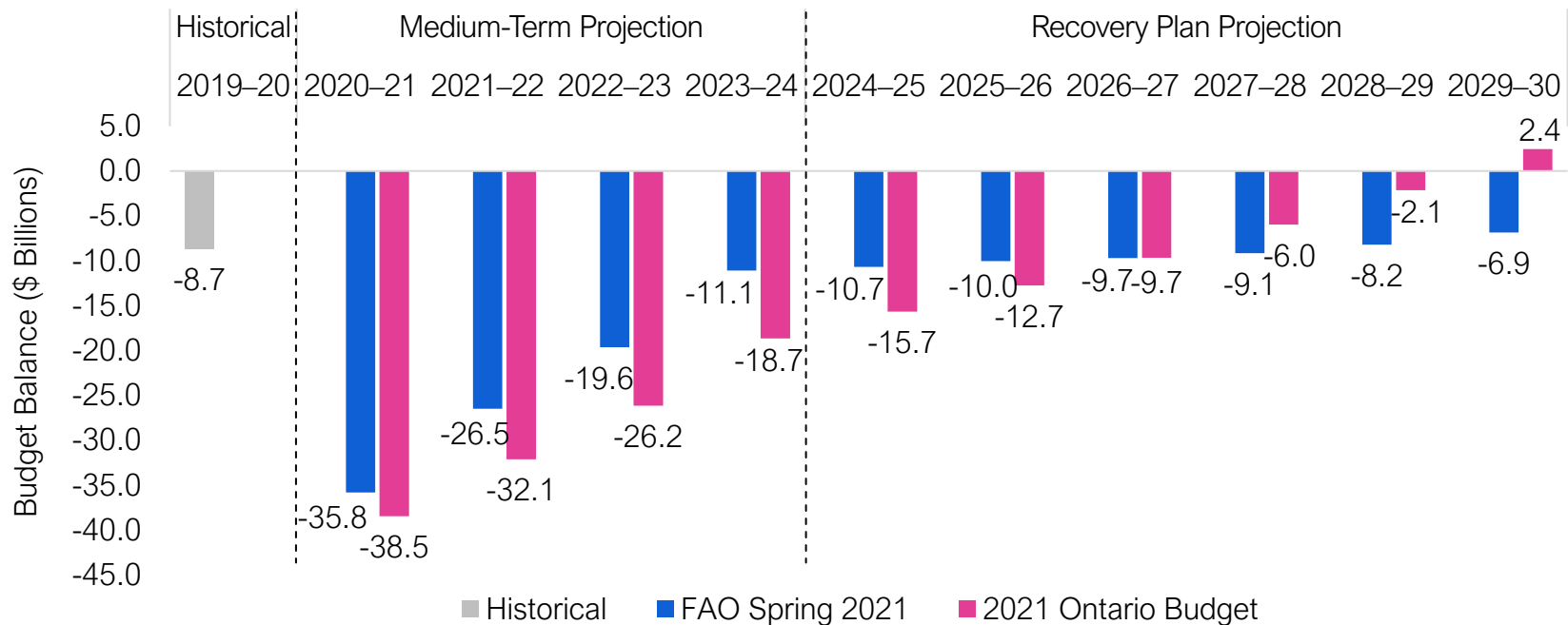
Recovery Plan Projection

2024–25 to 2029–30



The government is not expected to balance the budget by 2029–30

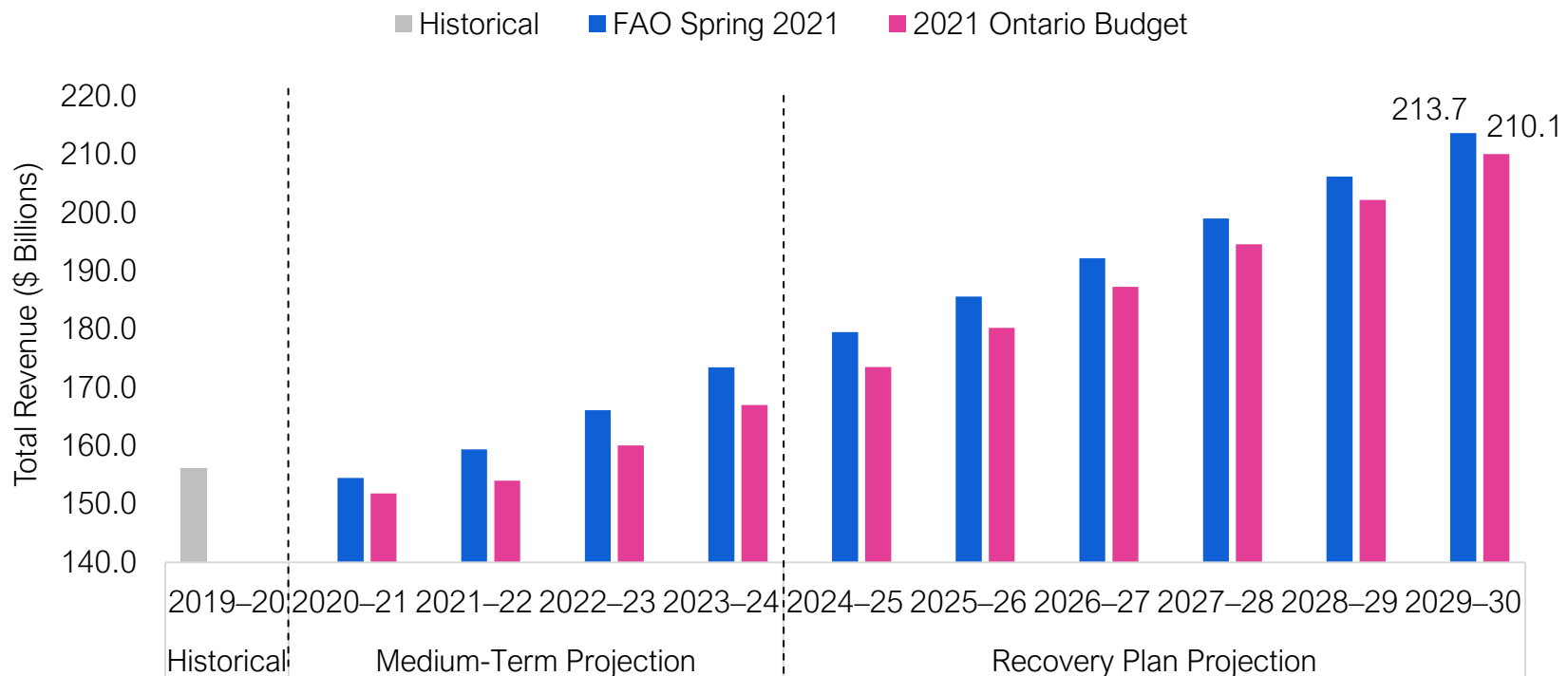
- According to the FAO's projection, Ontario is expected to record large ongoing budget deficits over the recovery period, with a deficit of \$6.9 billion in 2029–30.
- In contrast, the government's projection calls for a budget surplus of \$2.4 billion in 2029–30.



Note: The FAO's Budget Balance is presented without reserve.
Source: Ontario Public Accounts and FAO.

FAO projects higher revenues than budget during recovery

- In 2029–30, the FAO’s revenue forecast is \$3.6 billion above the budget’s outlook, reflecting the FAO’s significantly stronger revenue growth in the medium term.

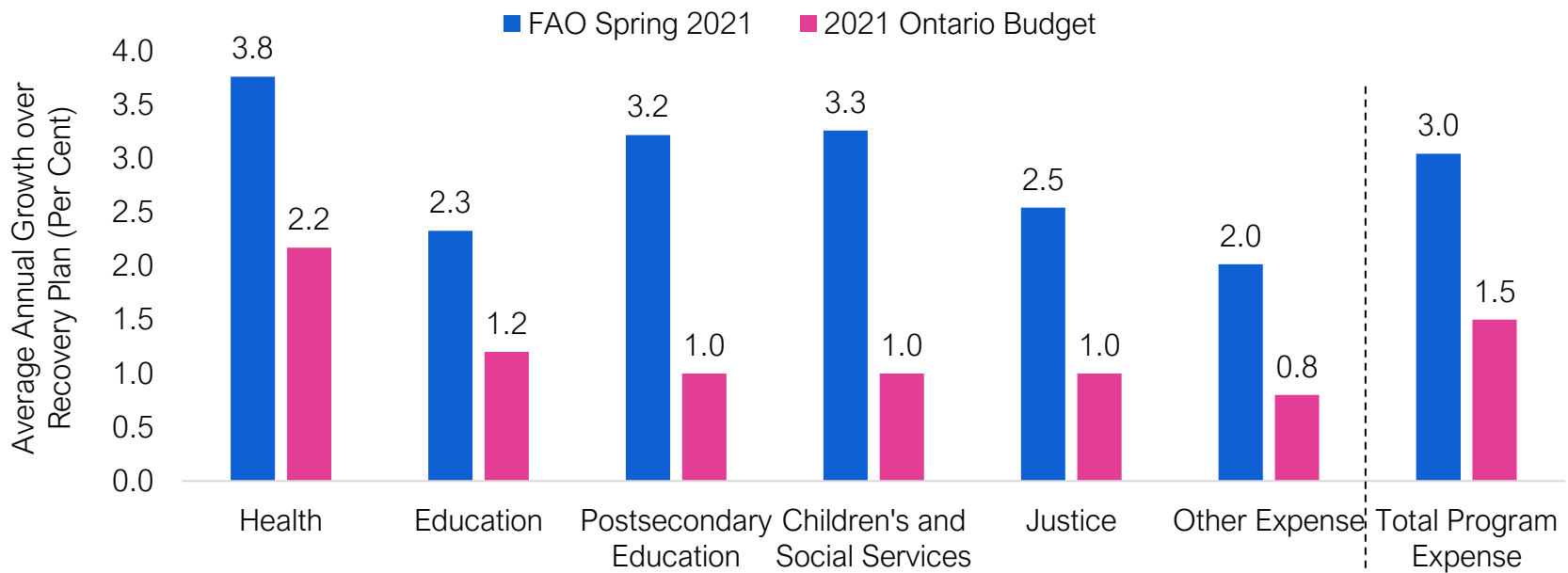


Source: Ontario Public Accounts, 2021 Ontario Budget and FAO.



Budget recovery plan relies on significantly limiting program spending growth

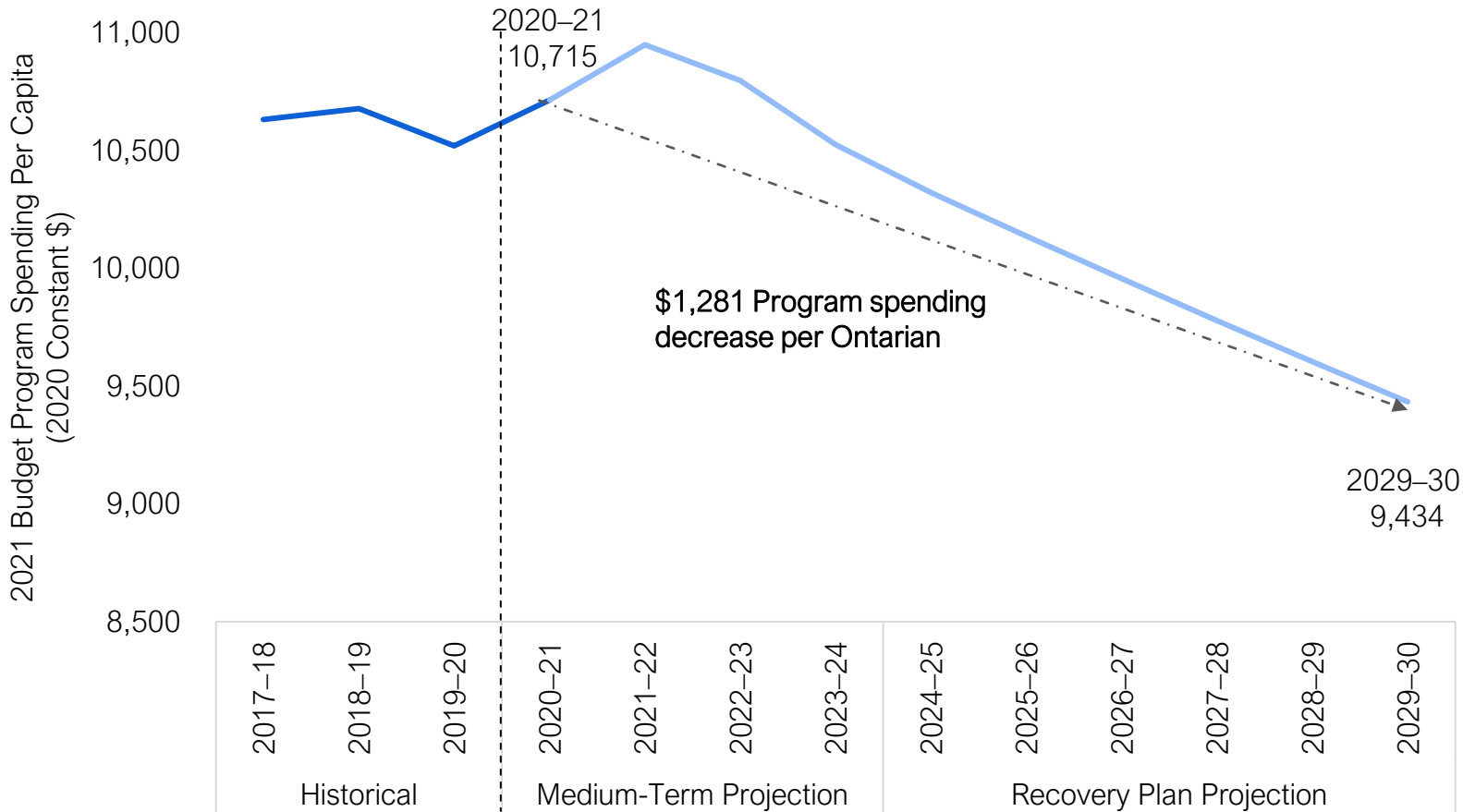
- The FAO projects that program spending will grow by an average of 3.0 per cent annually - twice the pace of the government's planned spending growth of 1.5 per cent over the recovery plan period.
- The government's recovery plan relies on prolonged spending restraint that would require significant and permanent cost savings of \$17.8 billion by 2029–30.



Source: 2021 Ontario Budget and FAO.



Planned program spending per Ontarian decreases \$1,281 by 2029–30



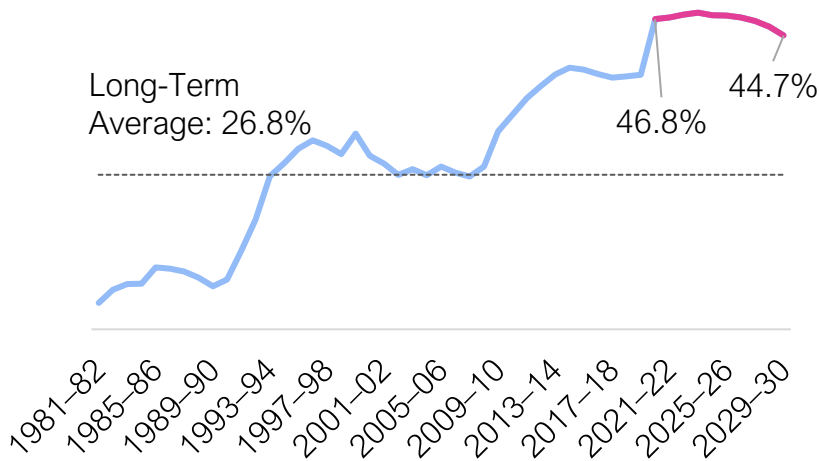
Source: Ontario Public Accounts, Statistics Canada and FAO.



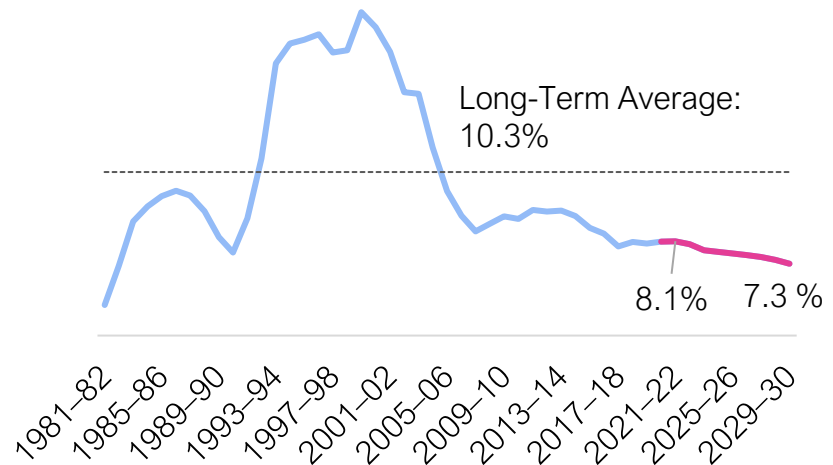
Ontario's debt indicators to improve modestly over the recovery plan

- Given the expected pace of economic and revenue growth, the net debt-to-GDP ratio and interest on debt-to-revenue will decline modestly.
- However, higher-than-expected interest rates and changes in fiscal policy could delay the improvements in fiscal indicators.

Net debt to GDP ratio



Interest on debt to revenue



----- Long-term Average (1981-82 to 2019-20) — Historical (1981-82 to 2019-20) — Projection (2020-21 to 2029-30)

Note: The FAO's Budget Balance is presented without reserve.
Source: Ontario Public Accounts, 2021 Ontario Budget and FAO.

Thank you!



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