December 11, 2017

The FAO's Fall 2017 Economic and Fiscal Outlook

Media Statement

Good morning.

My name is David Wake and I am serving as Ontario's Financial Accountability Officer on a temporary basis.

Today, the Financial Accountability Office released an updated Economic and Fiscal Outlook report providing a forecast for Ontario's economy and an assessment of the Province's fiscal position over the next four years.

Our report incorporates recent economic data as well as updated fiscal information from the Province's *2017 Economic Outlook and Fiscal Review.*

Importantly, the FAO's fiscal projections also reflect the Auditor General's recommended accounting treatment for both the government's Fair Hydro Plan as well as the net pension assets of jointly-sponsored pension plans.

In contrast, the government has chosen not to adopt the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets. This decision has contributed to a significant and growing gap between the fiscal outcomes projected by the FAO and the Province.

The disagreement between the Auditor General and the government has increased uncertainty and reduced the transparency and reliability of the Province's fiscal plan for both MPPs and the public.

I will ask David West, the FAO's Chief Economist, to provide an overview of some of the key results from the FAO's Economic and Fiscal Outlook report.

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Thank you Commissioner Wake.

Let me begin with the FAO's economic outlook – which provides the foundation for our fiscal projections.

The FAO forecasts continued, steady economic growth for the province. In 2017, Ontario will post its fourth consecutive year of solid economic gains. Over the next four years, economic growth is expected to moderate slightly, as household spending and residential investment ease.

Strong economic growth is expected to boost revenues this fiscal year. However, despite the revenue gains, the FAO is projecting an Ontario budget deficit of $4.0 billion in 2017-18, the result of the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets.

Over the next four years, the FAO is projecting a steady deterioration in the budget deficit due to the loss of time-limited revenues, more moderate growth in tax revenues and the growing fiscal impact of the Fair Hydro Plan. In the absence of any change in fiscal policy, the FAO is projecting an Ontario budget deficit of $9.8 billion by fiscal year 2021.

This is a significant deterioration in the FAO's deficit projection since our spring report and is largely the result of the introduction of the Fair Hydro Plan, which will add $3.2 billion to the budget deficit by 2021.

In comparison, under the government's accounting presentation, which does not reflect the full impact of the Fair Hydro Plan, the FAO projects a small budget surplus this fiscal year. However, even under the government's accounting basis, the FAO projects a return to budget deficits next year due to the loss of temporary revenues and a more moderate pace of tax revenue growth. On this basis, the FAO projects a deficit of almost $4 billion by fiscal year 2021.

The FAO's outlook for significant and rising budget deficits leads to higher debt and a rising debt burden for Ontario.

Over the next four years, assuming no change to current fiscal policies, the FAO expects that Ontario's net debt will increase by more than $75 billion to over $400 billion, increasing the Province's net debt-to-GDP ratio to over 41 per cent by 2021.

Current and future Ontario governments are facing difficult policy choices.

As we have concluded in past reports, additional measures to raise revenue or lower spending will be required if the Province wants to achieve and maintain a balanced budget and also lower Ontario's debt burden.

However, raising tax rates could impact economic growth while program spending restraint could place greater stress on the current system of public services. Future policy choices need to be both pragmatic and sensitive to these challenges.

Thank you.

We are happy to take questions.

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