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# 2016 ONTARIO FALL UPDATE

## TD Economics



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### **ONTARIO STILL SETS SIGHTS ON ZERO DEFICIT DESPITE WEAKER ECONOMIC OUTLOOK, ACCOUNTING CHANGE**

- A downgrade to the province's GDP forecast and a deficit-boosting change in accounting practices are not expected to derail the province from achieving its long-standing balanced budget commitment by fiscal 2017-18.
- In last year's budget, the government announced a plan to reduce the deficits from \$5.7 billion in fiscal 2015-16 to \$4.3 billion and zero, respectively, in fiscal 2016-17 and 2017-18.
- Today's Update refreshes the budget numbers to build in a number of developments that have taken place since Budget 2016:
  - The release of in the 2015-16 Ontario Public Accounts, which revealed that revenues last year came in some \$2 billion higher than projected in Budget 2016. That stronger showing reflected the benefit to coffers of a stronger economy and housing market.
  - The government has reasonably assumed that last year's robust growth clip won't extend through the forecast period, especially as housing activity cools. Indeed, relative to Budget 2016 expectations, it has lowered its outlook for economic growth in each of 2016-2018 by a significant 0.4 percentage points per year.
  - Despite this downgrade, the stronger starting point is expected to preserve a \$2.5-\$3 billion outperformance in revenues this year and next relative to what was built into Budget 2016. The government has not adjusted its assumptions on revenue yield (i.e., revenue-to-GDP ratio) over the forecast horizon.
  - The only tax change of note announced today was some assistance for home buyers. Ontario is doubling the rebate on the land transfer tax first time buyers to \$4,000, but this will be offset by a higher burden on high-end homes (i.e., over \$2 million). Thus, the net impact on the Treasury will be modest.
  - Relative to the spring budget, program spending has been revised upward by an even higher \$3.5-\$4 billion annually this year and over the next few years. Ahead of the budget, the government legislated a change in the accounting treatment for jointly sponsored pension plans, which has resulted in an upward lift to spending of \$2.2 billion in fiscal 2016-17, rising to \$3.7 billion in fiscal 2018-19. Likewise, the level of net debt has recorded a one-time increase of roughly \$10 billion compared to Budget 2015.
- A few scattered new spending initiatives are poised to add close to \$1 billion annually, including increased electricity

support for consumers, infrastructure agreements with municipalities and health spending.

- These changes have left a fiscal gap of \$1-\$1.5 billion per year. Part of this gap will be filled by a downward adjustment to the interest rate outlook, which will in turn yield \$0.4-0.8 billion this year and over the next few years. The government has also scaled back the reserve cushion by \$600 million this year and \$300-\$400 million over the next few years to ensure that the budget remains within the fiscal box.
- Due to the accounting change, the government's net debt-to-GDP ratio is now tracking slightly above 40% in 2016-17. Looking forward, a slight downward drift is expected from this year's peak level. Long-term borrowing requirements (which are on a cash basis and not affected by the change in accounting) are expected to run at \$23.8 billion in fiscal 2016-17, about \$2.6 billion lower than targeted in Budget 2016.

GOVERNMENT OF ONTARIO FISCAL POSITION						
[ C\$ billions of dollars, unless otherwise noted ]						
	Actual			2016 Fall Update Plan		
Fiscal Year	13-14	14-15	15-16	16-17	17-18	18-19
<b>Revenues</b>	<b>115.9</b>	<b>118.5</b>	<b>128.4</b>	<b>132.7</b>	<b>140.1</b>	<b>144.9</b>
% change	2.2	2.3	8.3	3.4	5.6	3.4
% of GDP	16.7	16.3	16.8	16.8	17.1	16.9
<b>Expenditures</b>	<b>126.4</b>	<b>128.9</b>	<b>133.4</b>	<b>136.6</b>	<b>139.4</b>	<b>144.1</b>
% change	3.1	2.0	3.5	2.4	2.0	3.4
% of GDP	18.2	17.7	17.7	17.3	17.0	16.8
Programs	<b>115.8</b>	<b>118.2</b>	<b>122.4</b>	<b>125.3</b>	<b>127.7</b>	<b>131.7</b>
% change	3.2	2.1	2.2	2.3	1.9	3.1
% of GDP	16.7	16.2	16.2	15.9	15.5	15.4
Debt charges	<b>10.6</b>	<b>10.6</b>	<b>11.0</b>	<b>11.4</b>	<b>11.7</b>	<b>12.4</b>
% of net debt (t-1)	4.2	4.0	3.9	3.7	3.7	3.8
% of rev.	9.1	9.0	8.5	8.6	8.4	8.6
<b>Reserve</b>	<b>0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.4</b>	<b>0.7</b>	<b>0.8</b>
<b>Balance</b>	<b>-10.5</b>	<b>-10.3</b>	<b>-5.0</b>	<b>-4.3</b>	<b>0.0</b>	<b>0.0</b>
% of GDP	-1.5	-1.4	-0.7	-0.6	0.0	0.0
<b>Net Debt*</b>	<b>267.2</b>	<b>284.6</b>	<b>305.2</b>	<b>317.9</b>	<b>326.6</b>	<b>336.4</b>
% of GDP	38.4	39.1	40.0	40.3	39.8	39.3
Note : Numbers may not add due to rounding. Source: Ontario Ministry of Finance. As at November 2016.						

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