
2011 ONTARIO FISCAL UPDATE

TD Economics



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ONTARIO GETTING READY FOR FISCAL RENOVATION

Highlights

- Ontario's 2011-12 deficit has been revised down to \$16.0 billion, compared to the \$16.3 billion envisioned in the Budget.
- Real GDP growth for 2011 is now forecast at 1.8%, down from 2.4% in the Budget. Downward revisions are affecting GDP over the following two years as well. As a result, lower revenues are now expected.
- Spending is mostly on the budgeted track, apart from a new \$60 million program for improvements to seniors' homes. Important changes to the spending plan are expected with next year's budget, which will likely implement some recommendations from the Drummond Commission.
- Ontario's debt-to-GDP ratio remains very high at 37%.

Today, Ontario Finance Minister Dwight Duncan presented his mid-year update to the province's 2011 Budget. The deficit for this fiscal year is somewhat below what was expected, but global economic and financial uncertainty forced the province to reduce its economic growth assumptions for the next few years. However, Ontario's government remains committed to eliminating its deficit by 2017-18.

Deficit elimination timeline: commitment remains

The Ontario government's target date for eliminating its deficit was set for 2017-18 in the March Budget. Updated numbers released today now show a deficit of \$16.0 billion for this fiscal year, compared to \$16.3 billion envisioned in the Budget. This modest yet tangible improvement mainly comes from a \$0.5 billion drawdown from the Government's reserve. In fact, the revenue intake for the current year is on course to be \$225 million lower than expected, while spending will fall short by only \$32 million. The Minister is maintaining intact his deficit forecast for the two following years.

In the Throne Speech it presented the day before the fiscal update, the government expressed its commitment to balancing the books by 2017-18. The fiscal update is less specific on this – it mentions being “on the path to balance” set by the 2010 Budget. More details than this would have been surprising given that the forecast window for Ontario's Fall Statement is usually limited to three years including the current one. This update is more about the change in economic conditions since last spring's Budget than it is about detailed fiscal planning.

Ontario's net debt for 2011-12 is now \$238.4 billion compared to the \$241.5 billion stated in the Budget. Despite this improvement, Ontario's debt-to-GDP ratio remains very high at 37%. The ratio will rise to within decimal points of 40% in the following two years, and is poised to move even higher after that.

Economic Assumptions

In line with other provincial governments, federal institutions and the private sector, Minister Duncan is significantly downgrading his forecast for the next three years. This extra degree of prudence is not a surprise at all. It reflects the increased economic and financial uncertainty and volatility which has

dominated the news since the last Budget. This came mainly as a result of the eurozone financial crisis, which reached a boiling point in August and has shown very little sign of abating since then.

Real GDP growth for calendar year 2011 is now forecast at 1.8%, down from 2.4% in the Budget. The profile is shifted down for the following two years as well (see table). This slower growth will translate into more modest job creation, but this will happen one year later. Employment growth will essentially turn out as planned this year (1.8% compared to 1.7% in the Budget), but will fall short of the mark from 2012 to 2014. As to nominal GDP, which is a better approximation of Ontario's tax base and thus the government's revenue prospects, it is now forecast to grow by 4.0% this year, down from 4.6% in the Budget.

Revenue and spending details

The slower economic growth has had a significant impact on the Ontario government's revenues. A \$225 million shortfall for 2011-12 is the direct result of lower personal income tax, as \$721 million less than planned was collected from taxpayers. Further down the road, lower GDP forecasts have resulted in reductions in forecast revenue for 2012-13 and 2013-14 as well.

Overall spending is slightly lower (\$264 million) in 2011-12 than initially budgeted, reflecting the fact that interest rates were lower than expected. The province paid \$193 million less than planned in interest on its debt. Part of the windfall was allocated to a new \$60 million tax credit to help seniors make upgrades to their homes so they can

ONTARIO ECONOMIC PLANNING ASSUMPTIONS				
Annual percent change				
	Calendar Year			
	2011	2012	2013	2014
Real GDP Growth	Forecast			
Fall Update	1.8	1.8	2.5	2.6
March Budget	2.4	2.7	2.7	2.6
Nominal GDP Growth	Forecast			
Fall Update	4.0	3.7	4.4	4.5
March Budget	4.6	5.1	4.8	4.6
Employment growth	Forecast			
Fall Update	1.8	1.1	1.4	1.5
March Budget	1.7	1.8	1.8	1.7

Source: Ontario Ministry of Finance

stay longer in them.

Generally speaking, Ontario mid-year updates do not contain any detail by ministry. However, the Government made it very clear that spending on health care and education would remain largely untouched in upcoming years. The Commission on the Reform of Ontario's Public Services (or "Drummond Commission") will release its report in early 2012. Apparently, it will recommend that annual spending growth be limited to 1%. The Commission will have a significant impact on next year's budget planning exercise. Its mandate includes the dual purpose of eliminating the deficit and ensuring fiscal sustainability in order to maintain the quality level of key government services. Given this, we expect Budget 2012 to present a vastly different spending picture than what the present fiscal update shows. Already, the Government has indicated in its Throne Speech that it wants to reduce the size of the Ontario Public Service by 2% between 2012 and 2014. It has also stated five principles it wants to follow as it goes through this process, one of which being its refusal to perform across-the-board spending reductions.

Bottom line

In summary, the 2011-12 deficit now stands at \$16.0 billion, compared to \$16.3 billion envisioned in the Budget. However, most of the improvement is the result of the Government's use of its reserve. Ontario's minority government is entering what many expect to be a very demanding fiscal planning cycle. It clearly intends to balance its books by 2017-18 as originally planned, but the way to get there in an orderly way is still being defined. A lot of hard work remains to be done. Ontario is looking at a period of spending restraint that will be far more demanding than the one it went through in the late 1990s, but within a much tougher economic context.

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GOVERNMENT OF ONTARIO FISCAL POSITION				
[C\$ millions of dollars, unless otherwise noted]				
	Act.	Projection		
Fiscal Year	10-11	11-12	12-13	13-14
Revenues	106,658	108,275	111,300	116,300
% change	11.3	1.5	2.8	4.5
% of GDP	17.4	16.9	16.8	16.9
Expenditures	120,669	124,068	125,500	128,700
% change	4.9	2.8	1.2	2.4
% of GDP	19.7	19.3	19.0	18.7
Programs	111,189	113,971	114,900	117,000
% change	4.6	2.5	0.8	1.8
% of GDP	18.2	17.8	17.4	17.0
Debt charges	9,480	10,097	10,600	11,700
% of rev.	9.0	9.3	9.5	10.1
Reserve	0	200	1,000	1,000
Balance	-14,011	-15,994	-15,200	-13,300
% of GDP	-2.3	-2.5	-2.3	-1.9
Net Debt*	214,511	238,368	261,800	281,800
% of GDP	35.1	37.2	39.6	39.8

Source: Ontario Ministry of Finance



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