

Ontario Economic and Budget Outlook

Spring 2020

Assessing the Impact of the COVID-19 Pandemic

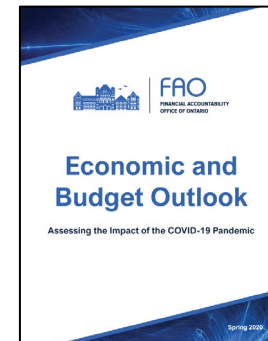
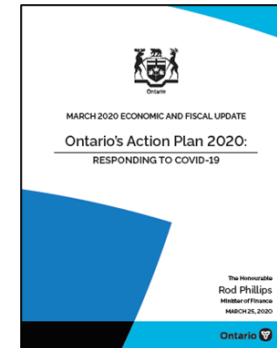


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Overview

- Ontario released an Economic and Fiscal Update on March 25th.
- The FAO's Economic and Budget Outlook (EBO) provides an independent and updated assessment of Ontario's economic performance and budget outlook.

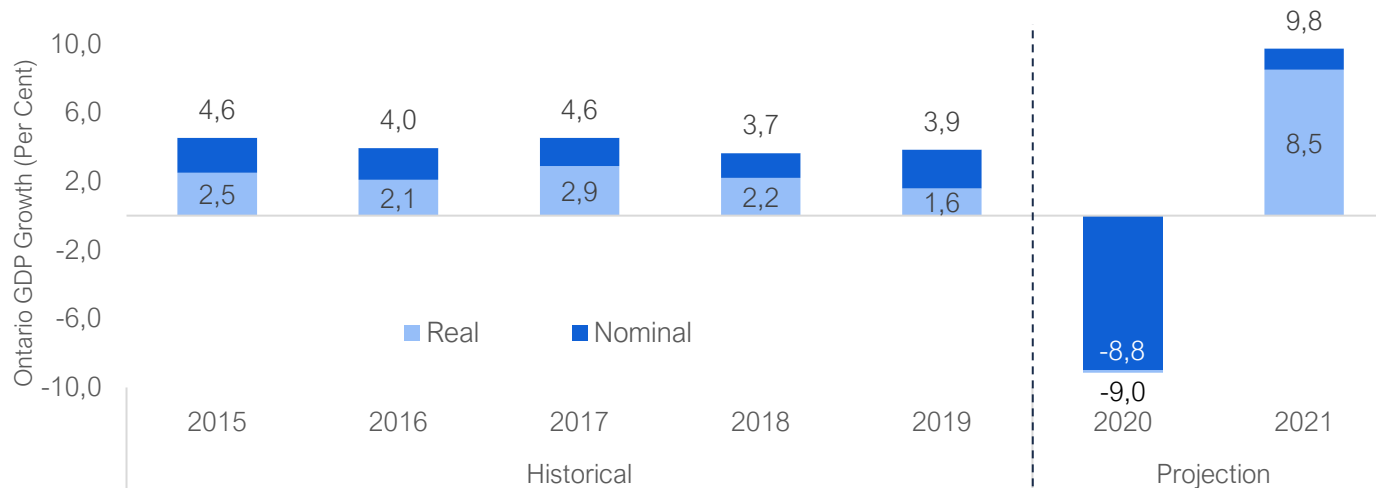


COVID-19 pandemic will have severe impact on economy and Ontario's finances

- Ontario's economic and fiscal outlook will depend on the success of the current measures to contain the pandemic and the pace at which the economy can be re-opened through 2020 and into 2021.
- The FAO's outlook assumes that the current shutdown is largely sustained through the middle of the year, with a selective and gradual reopening of activities beginning in the summer, reflecting the government's framework for reopening Ontario.

Pandemic pushes Ontario economy into sharp recession

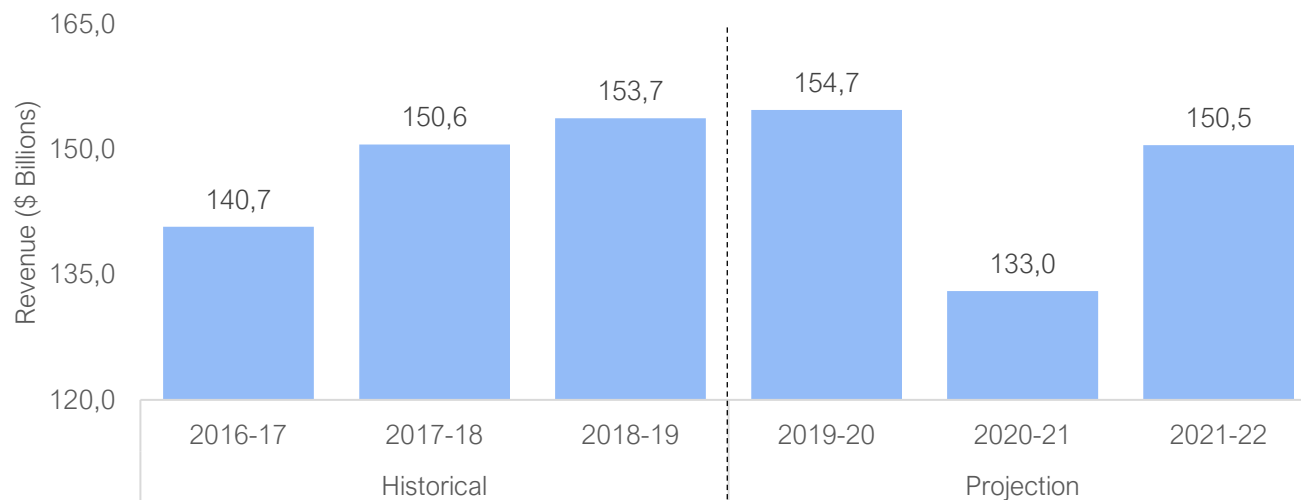
- Real GDP is projected to decline by a record 9.0 per cent in 2020, the result of government-directed shutdowns in response to the pandemic.
- As the containment measures are eased, the economy will recover, with real GDP projected to partially rebound by 8.5 per cent in 2021.



Source: Statistics Canada, Ontario Economic Accounts and FAO.

Revenues to drop substantially in 2020-21

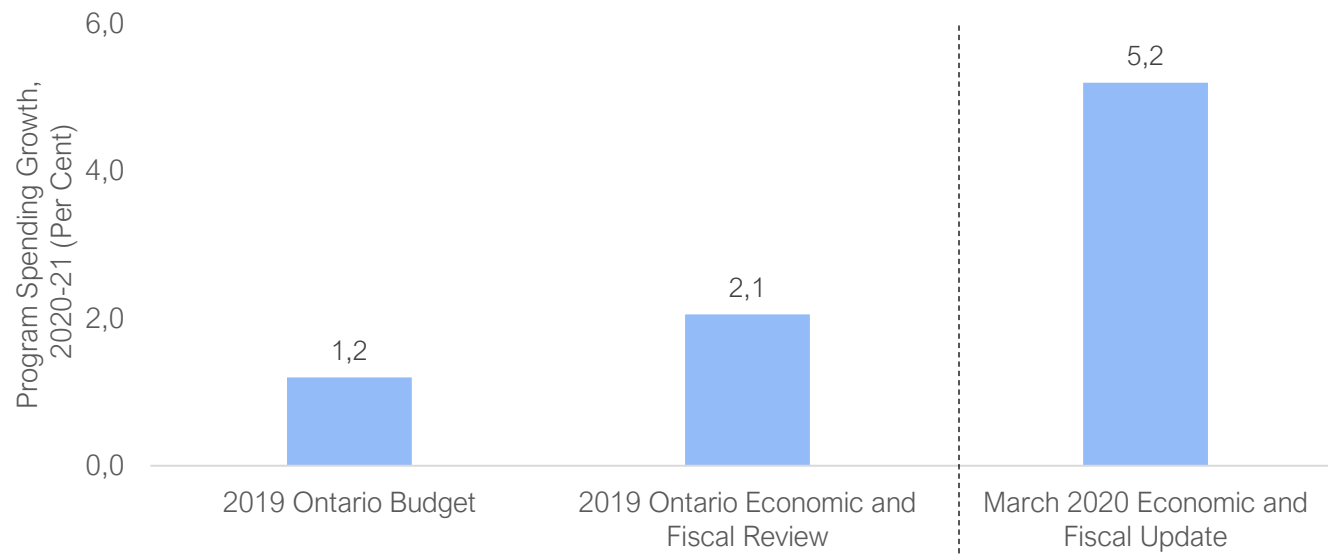
- The sharp contraction in economic activity will result in a \$21.7 billion drop in revenues this year.
- As the economy recovers, revenues are expected to rebound in 2021-22, but remain below 2019-20 level.



Source: Ontario Public Accounts and FAO.

Program spending to increase faster than previously planned

- The government's March Update increased program spending by 5.2 per cent in 2020-21, more than double the pace previously planned.



Source: 2019 Ontario Budget, 2019 Ontario Economic and Fiscal Review, and Ontario March 2020 Economic and Fiscal Update.

COVID-19 measures push up program spending in 2020-21

2020-21

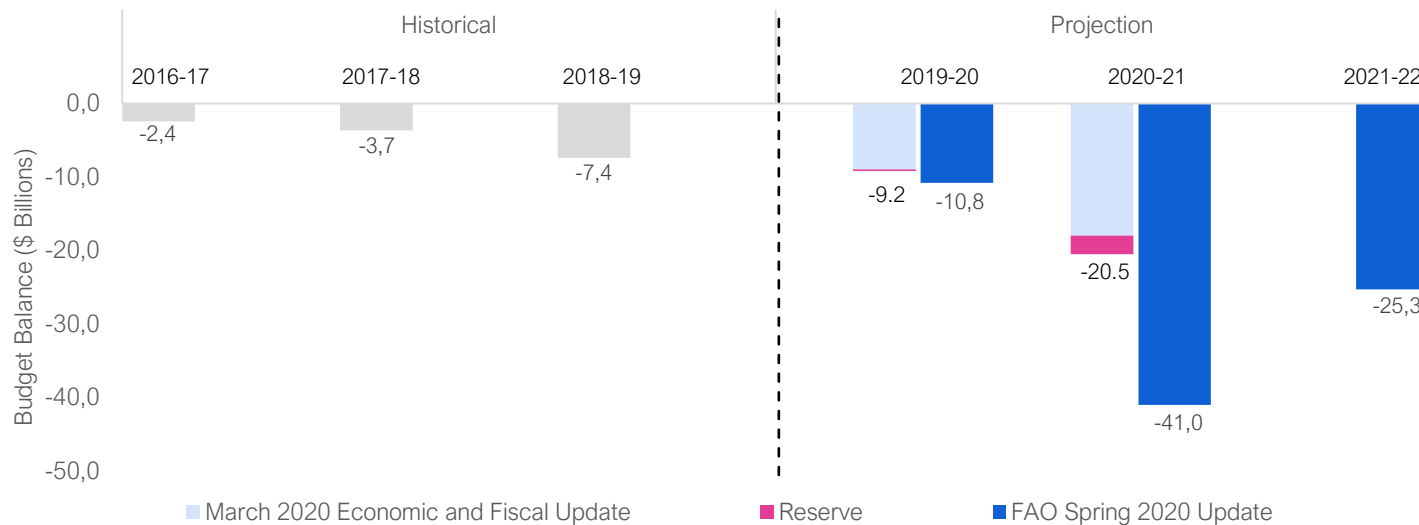
- \$8 billion increase in program spending this year:
 - \$4.1 billion in COVID-19 measures
 - \$1.2 billion in contingency funds
 - \$2.7 billion of other spending

2021-22

- FAO projects 0.8 per cent increase in program spending next year, based on sector-specific cost drivers.
- Adjusts for one-time increases related to COVID-19 measures in 2020-21.

FAO projects \$41 billion budget deficit in 2020-21

- The FAO's \$41.0 billion deficit projection is double the deficit projected by the government in the March 2020 Update.
- The deficit is expected to decline to \$25.3 billion in 2020-21, but remain more than twice the 2019-20 deficit.

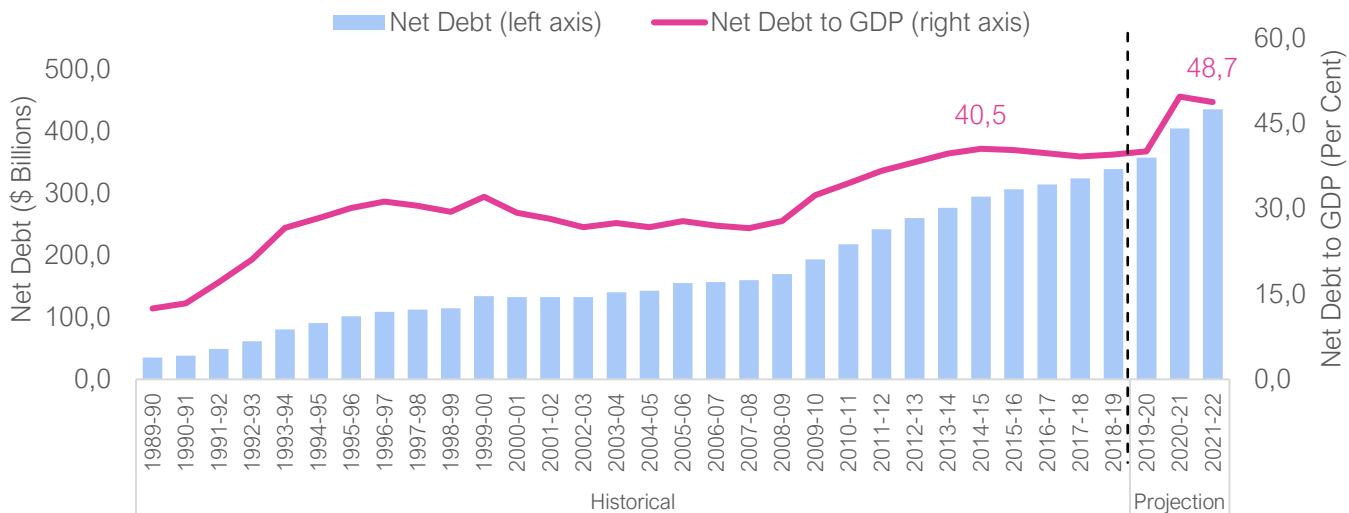


Note: The FAO's budget balance is presented before reserve. The government's budget balance projection, from the March Update, is presented including the reserve.

Source: Ontario Public Accounts, Ontario March 2020 Economic and Fiscal Update and FAO.

Ontario's debt burden will increase to record high

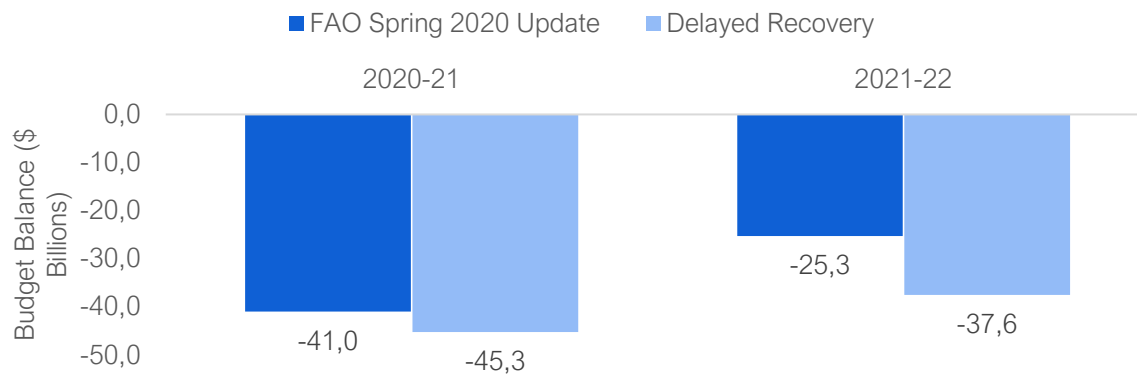
- Budget deficits over the next two years will lead to an \$78 billion increase in provincial debt.
- The net debt-to-GDP ratio will jump to a record high in 2020-21, before receding slightly to 48.7 per cent in 2021-22.



Source: Statistics Canada, Ontario Economic Accounts, Ontario Public Accounts, Ontario March 2020 Economic and Fiscal Update and FAO.

Ontario's fiscal position would deteriorate if economic recovery is delayed

- If the pandemic containment measures need to be lifted more gradually, Ontario's economy would experience a sharper contraction in 2020 and a much more muted recovery in 2021.
- If Ontario's economic recovery is delayed, budget deficits and provincial debt would be much higher.



Source: FAO.

Thank you



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**FINANCIAL ACCOUNTABILITY
OFFICE OF ONTARIO**

2 Bloor Street West, Suite 900, Toronto, Ontario, M4W 3E2

416.644.0702

info@fao-on.org

fao-on.org

