

Ontario's Economic and Fiscal Situation:

An Update on the Work of the Financial Accountability Office

Presentation to TABE

March 21, 2019

fAO

Financial
Accountability
Office of Ontario

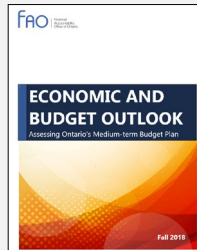
The Role of the FAO

- The FAO was established in 2015, modelled on the federal Parliamentary Budget Office.
- An independent, non-partisan office that supports the Legislative Assembly by providing MPPs with balanced, timely and accurate economic and financial analysis.
- The FAO's formal mandate is to provide an independent assessment of the Province's finances, trends in the provincial economy and estimates of the financial costs or benefits of specific bills or proposals.

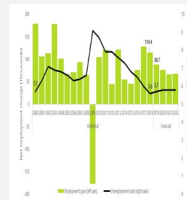
The FAO's Work

- The FAO's work covers three broad areas:
 - Ontario's economic performance.
 - Province's fiscal position.
 - Financial analysis of specific government policies.
- To support its work, the FAO has legislated access to internal government information, including Cabinet records, with some limited exceptions.
- The FAO presents its analysis through publicly available reports and commentaries.

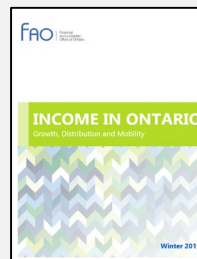
Ontario's Economy



Economic and Budget Outlook, Fall 2018



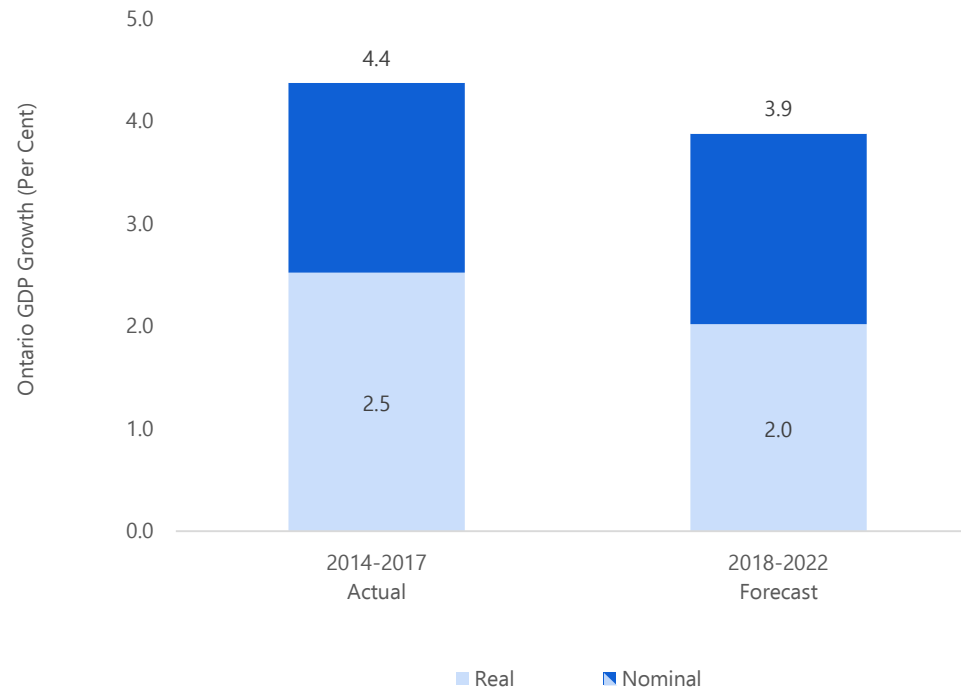
Ontario's Labour Market Performance



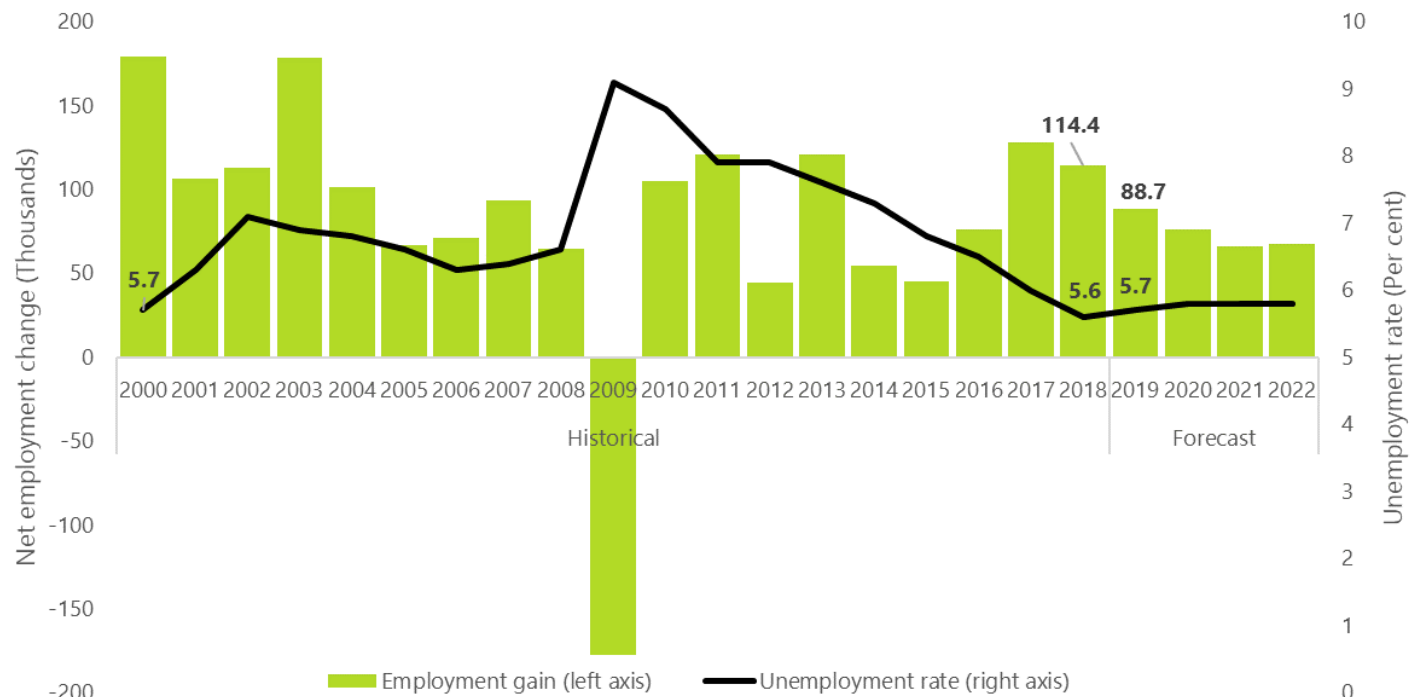
Income in Ontario

Economic and Budget Outlook Fall 2018

Economic growth in Ontario to moderate over the outlook



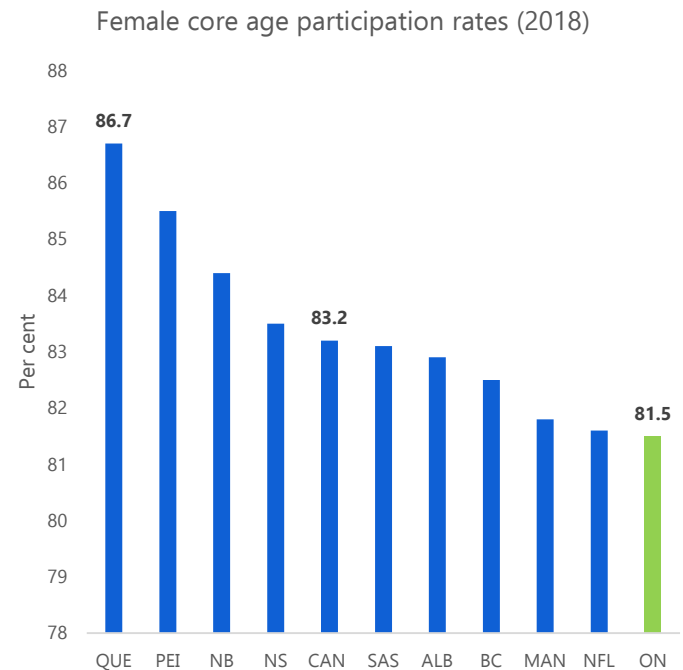
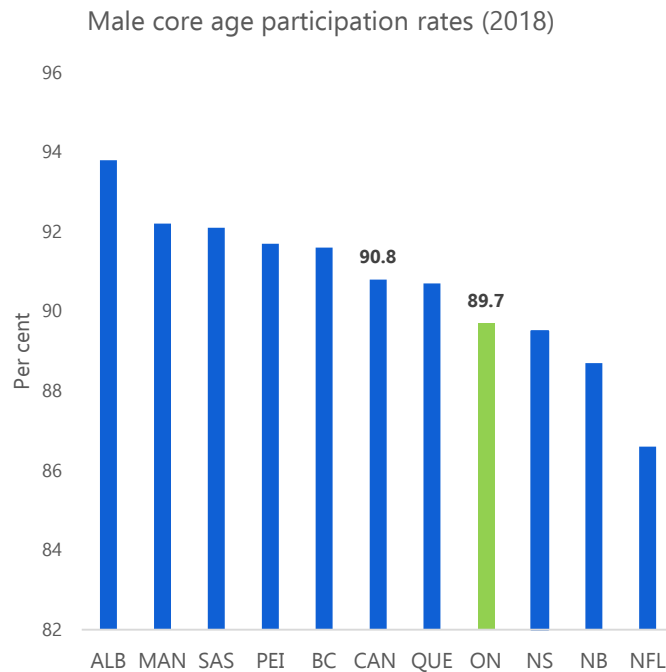
Ontario's strong labour market performance to continue



Source: Statistics Canada and FAO.

But challenges remain in the labour market ...

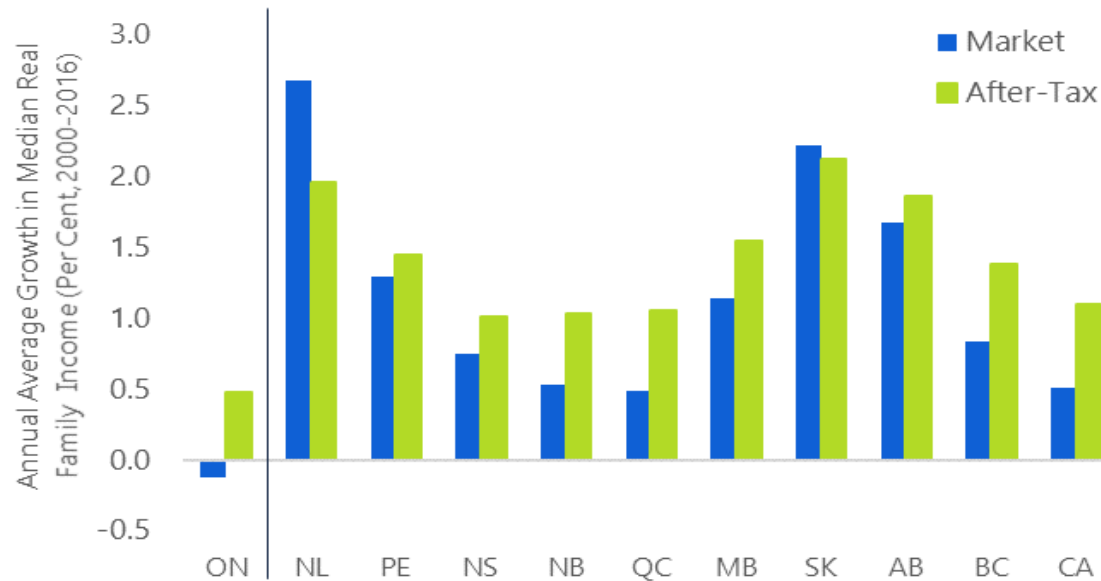
Labour force participation rates for Ontario adults among the lowest



Source: Statistics Canada.

Household Income Growth in Ontario

Income growth for Ontario's median family slowest among provinces

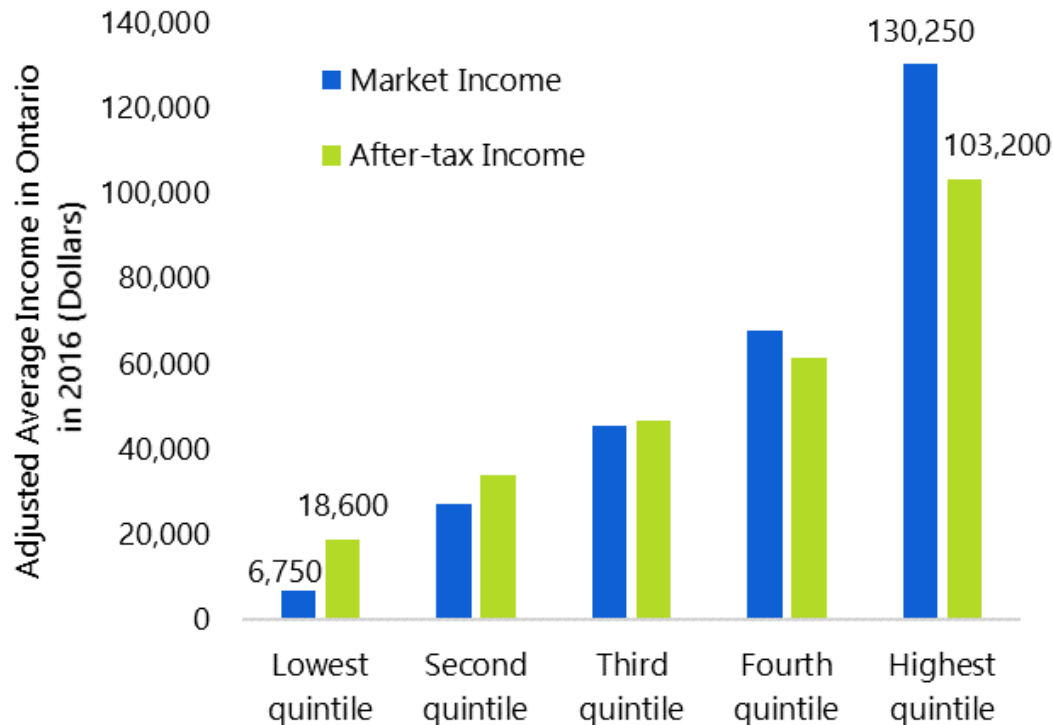


Source: Statistics Canada Canadian Income Survey and FAO.

Note: This includes the income of multi-person families, as well as the income of unattached individuals living alone.

Household income unevenly distributed

The tax and transfer system raises the average income of the lowest quintile and lowers the average income of the highest quintile

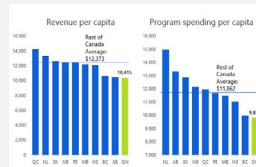


Source: Statistics Canada Canadian Income Survey and FAO.

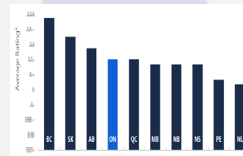
Ontario's Fiscal Position



Economic and Budget Outlook, Fall 2018



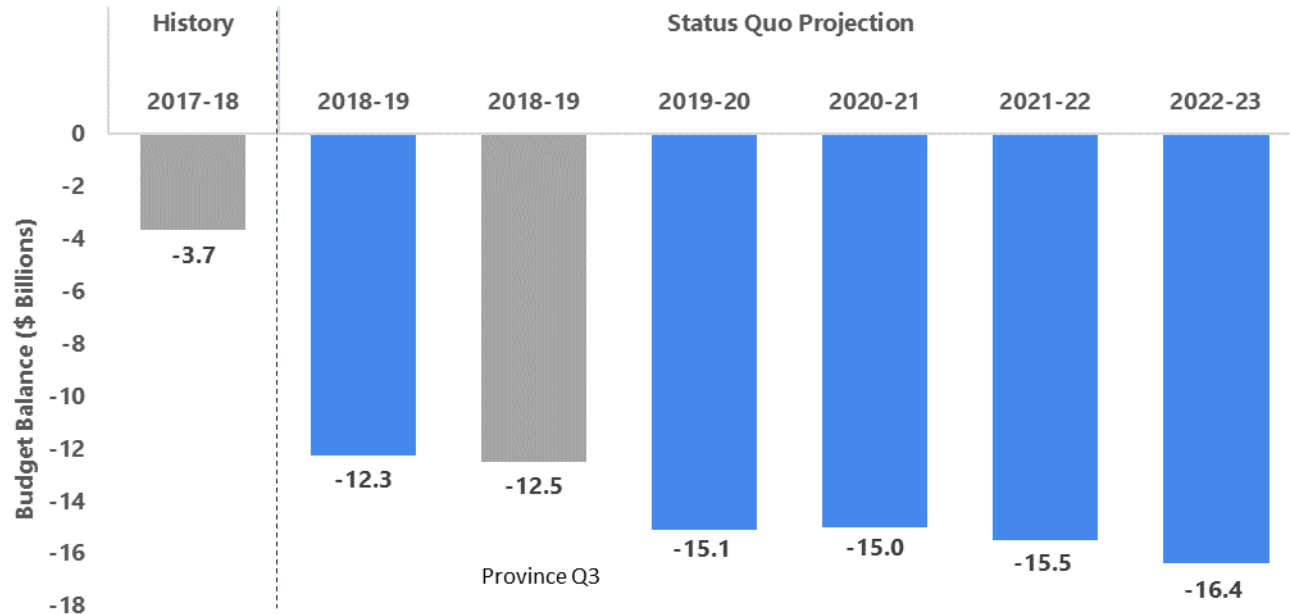
Comparing Ontario's fiscal position with other provinces



Update on Ontario's Credit Rating

Economic and Budget Outlook Fall 2018

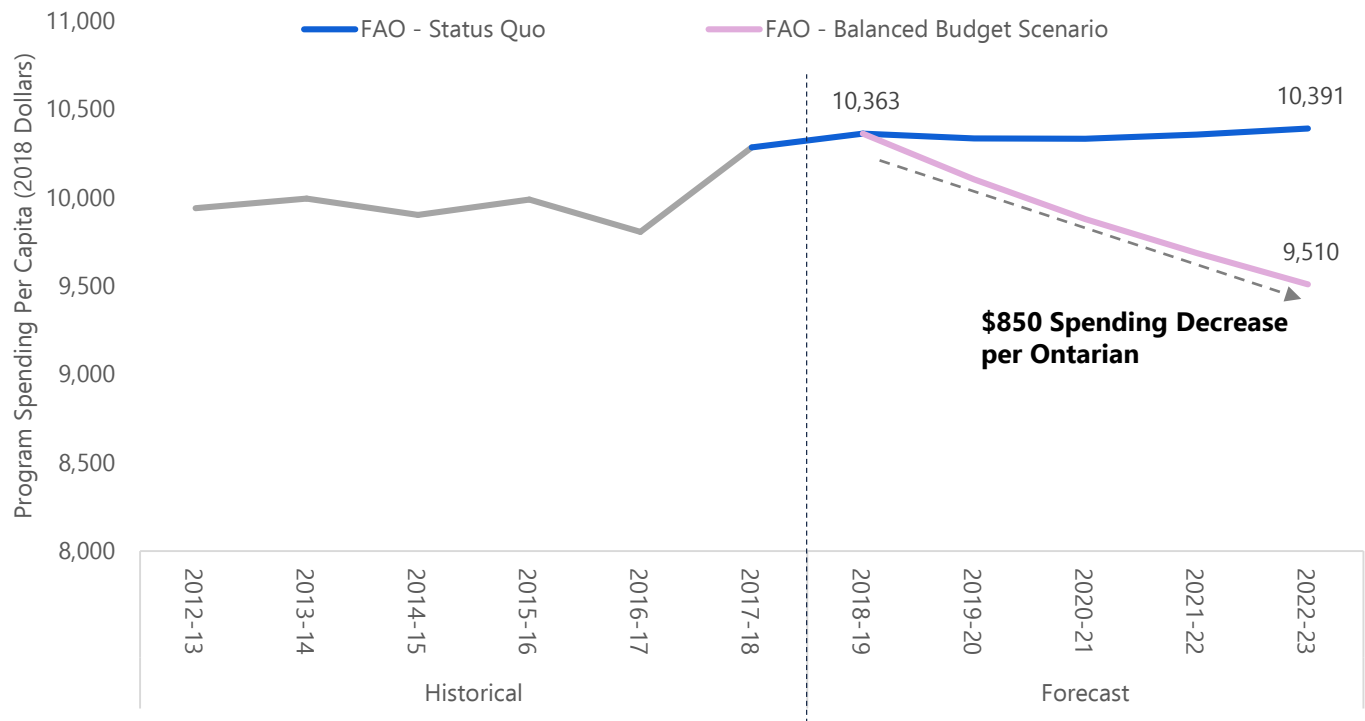
FAO projects deterioration in budget deficit without government policy action



Note: Deficit projection excludes the Reserve.

Source: Ontario Public Accounts, 2018 Ontario Economic Outlook and Fiscal Review, 2018 Third Quarter Finances and. FAO.

Balancing the budget without raising taxes would require spending \$850 less per Ontarian

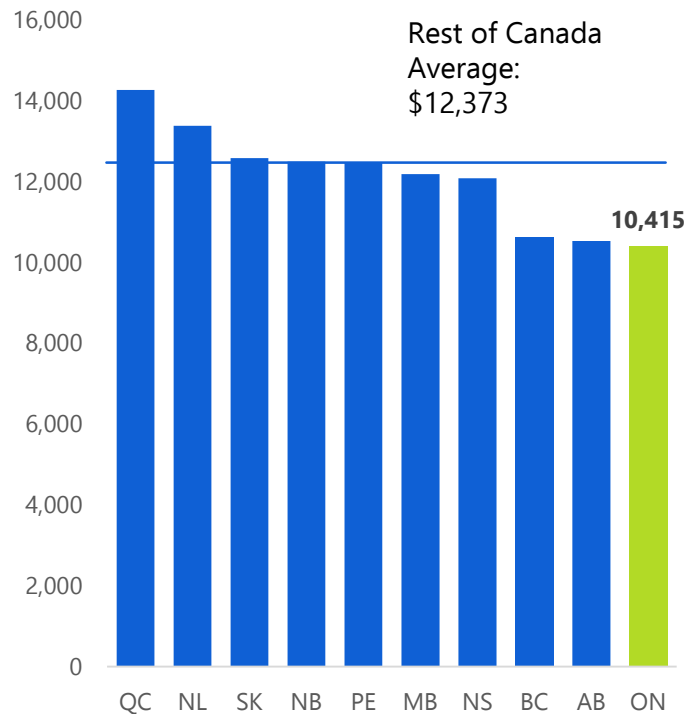


Source: Ontario Public Accounts, 2018 Ontario Economic Outlook and Fiscal Review and FAO.

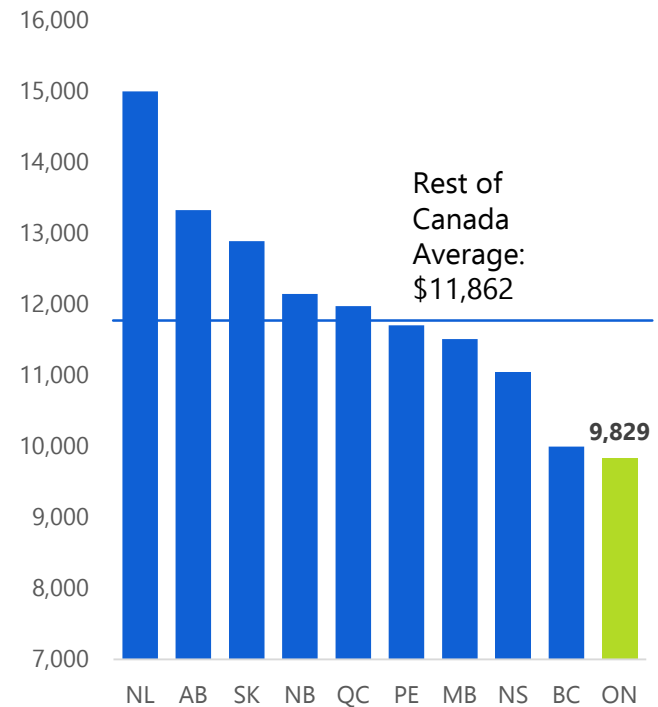
An Inter-Provincial Fiscal Comparison

Ontario's revenues and program spending lowest among provinces

▶ Revenue per capita



▶ Program spending per capita

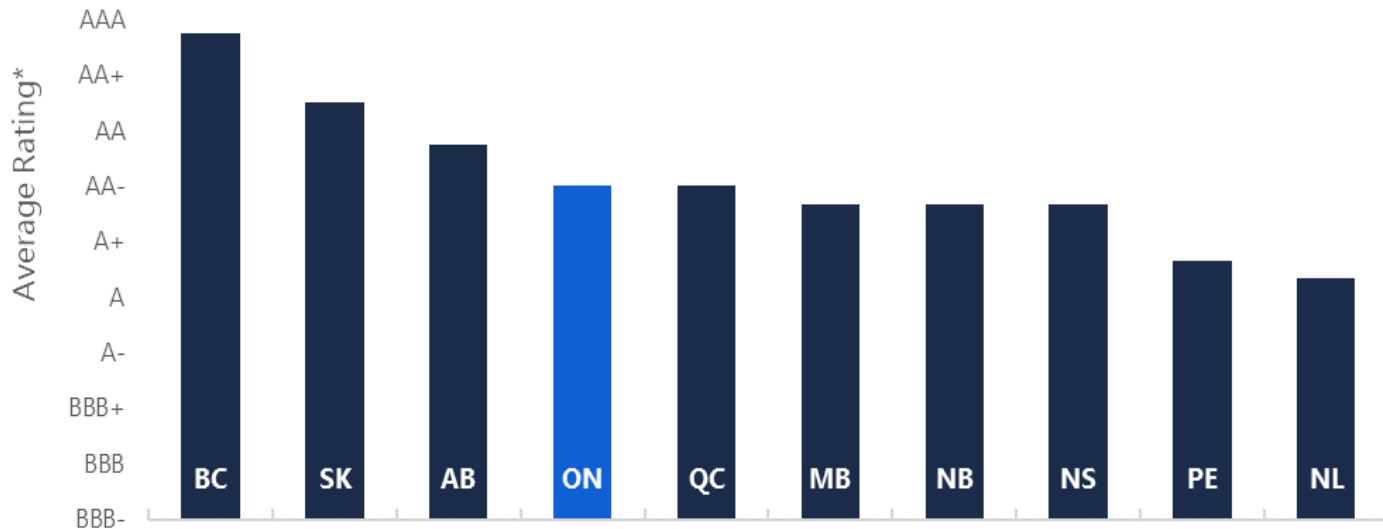


Source: Statistics Canada, Canadian Government Finance Statistics

Ontario's Credit Rating

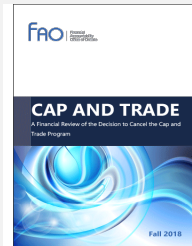
Currently, Ontario's credit rating is middle of the pack compared to other provinces ... but the Province's fiscal position is coming under increasing scrutiny

Average credit rating by province

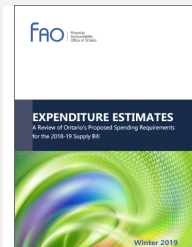


Source: S&P, DBRS, Fitch, Moody's and FAO.

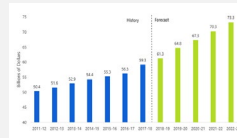
Financial Analysis



Cap and Trade



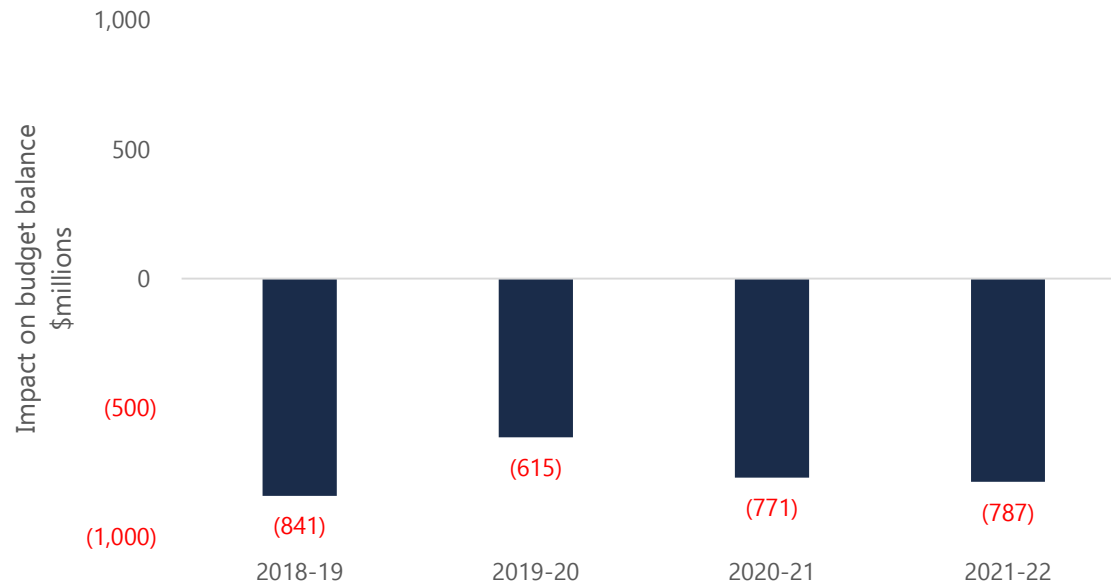
Expenditure Estimates



Assessing Ontario Government Health Spending

Cap and Trade: Impact on budget balance

Elimination of Cap and Trade program leading to a cumulative \$3.0 billion deterioration in the Province's budget deficit over four years

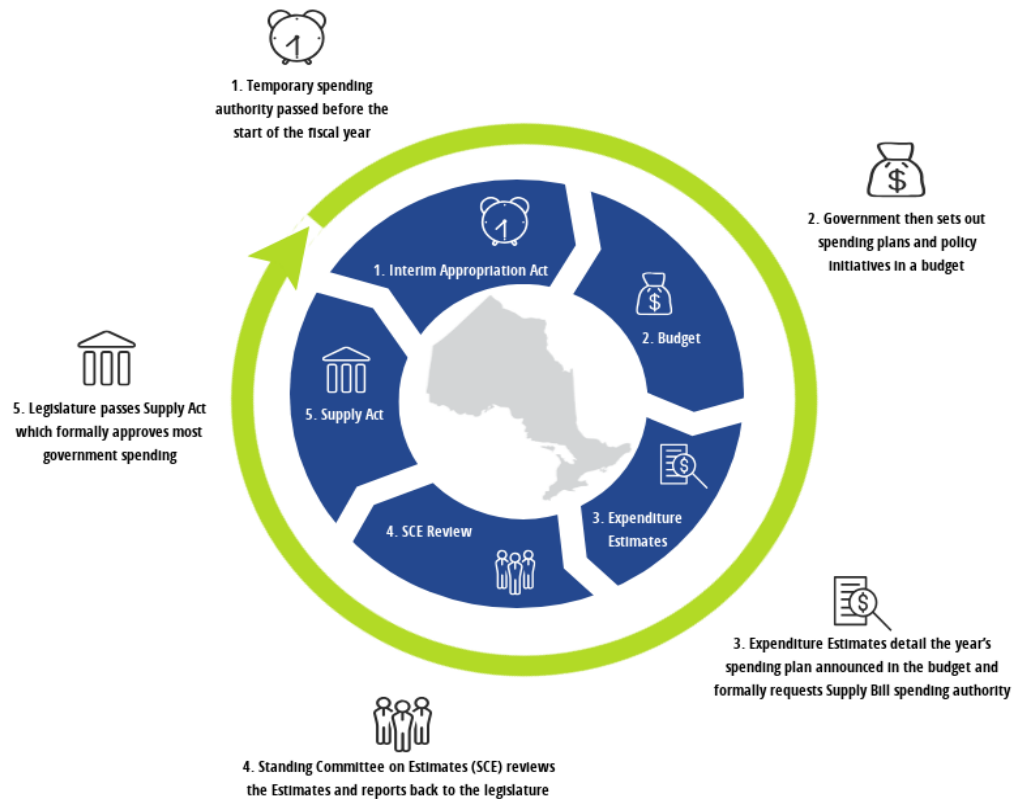


Sources: FAO calculations from public information and information provided by the Ministries of the Environment, Conservation and Parks and Finance, and Treasury Board Secretariat.

Ontario's Expenditure Estimates

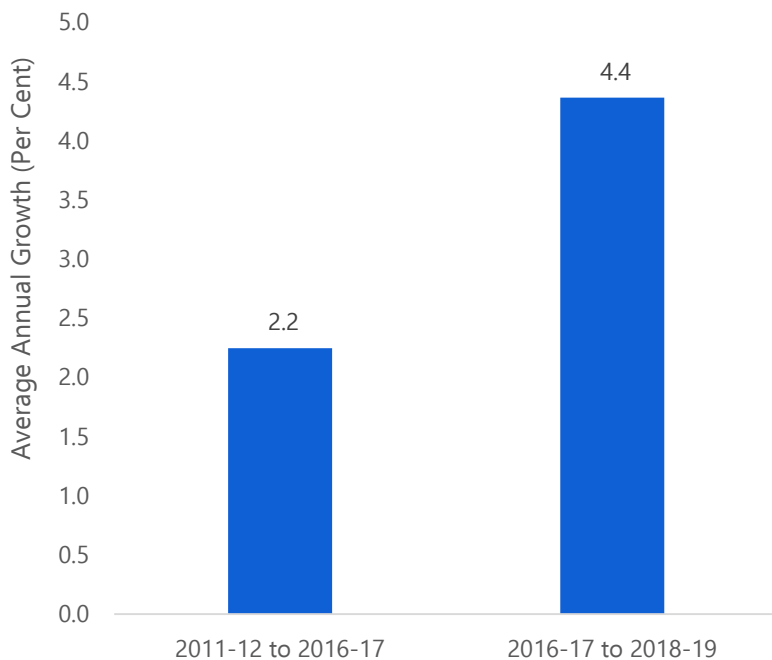
The government requested spending authority of \$145.8 billion in 2018-19

Review of Annual Supply Bill Cycle



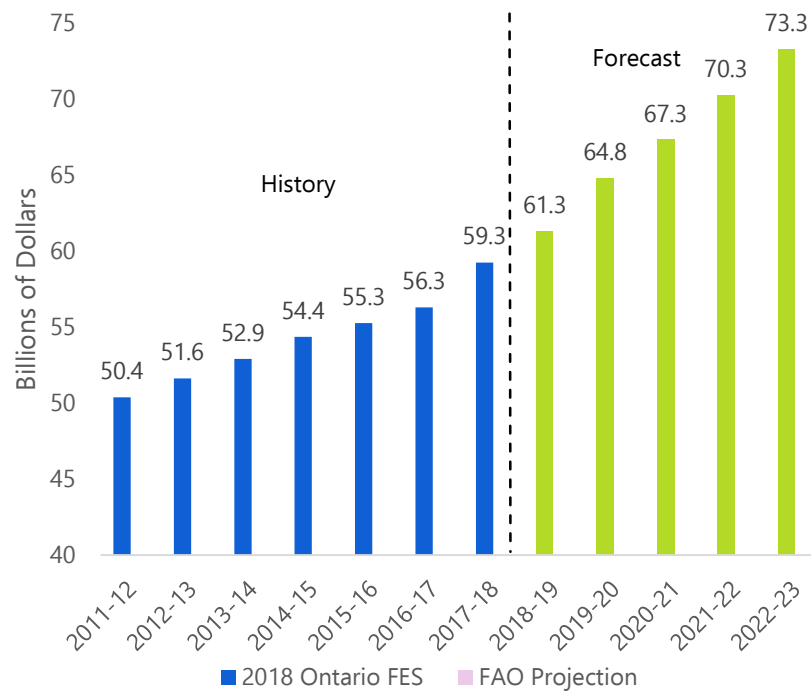
Health Sector Expenditures

Average annual growth in health spending doubled over the past two years



Source: 2018 Fall Economic Statement and FAO.

Health spending forecast to rise to \$73 billion by 2022-23 under existing policies



Upcoming Work

- Economic and Budget Outlook, Spring 2019
- An analysis of government funding to support children and youth with autism
- Reports on education and social services spending
- Analysis of labour force participation rates
- More in-depth analysis of government spending
 - To support the Legislature's review of the annual Estimates

Thank you

fAO

Financial
Accountability
Office of Ontario

2 Bloor Street West
Suite 900
Toronto, Ontario
M4W 3E2
416.644.0702
fao-on.org
info@fao-on.org





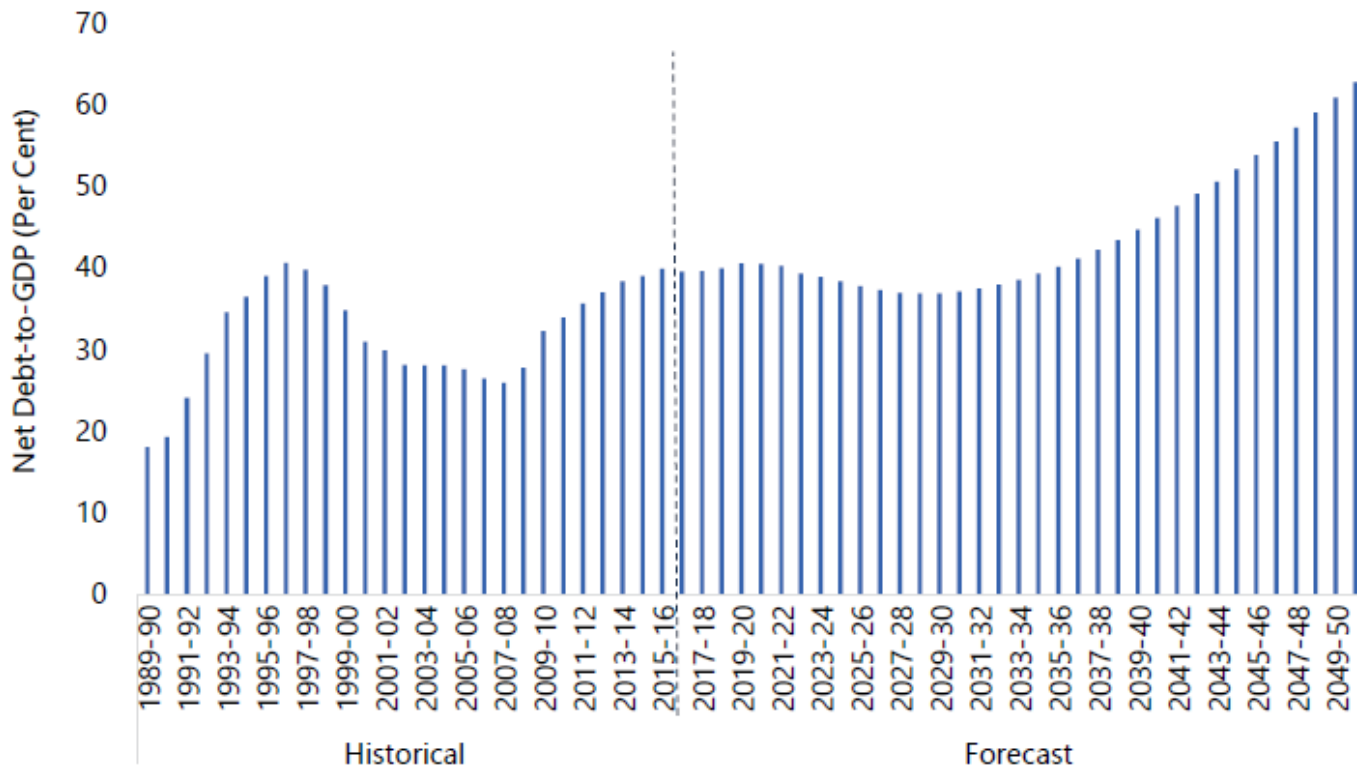
Other Analysis

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FAO's Long-term Budget Outlook

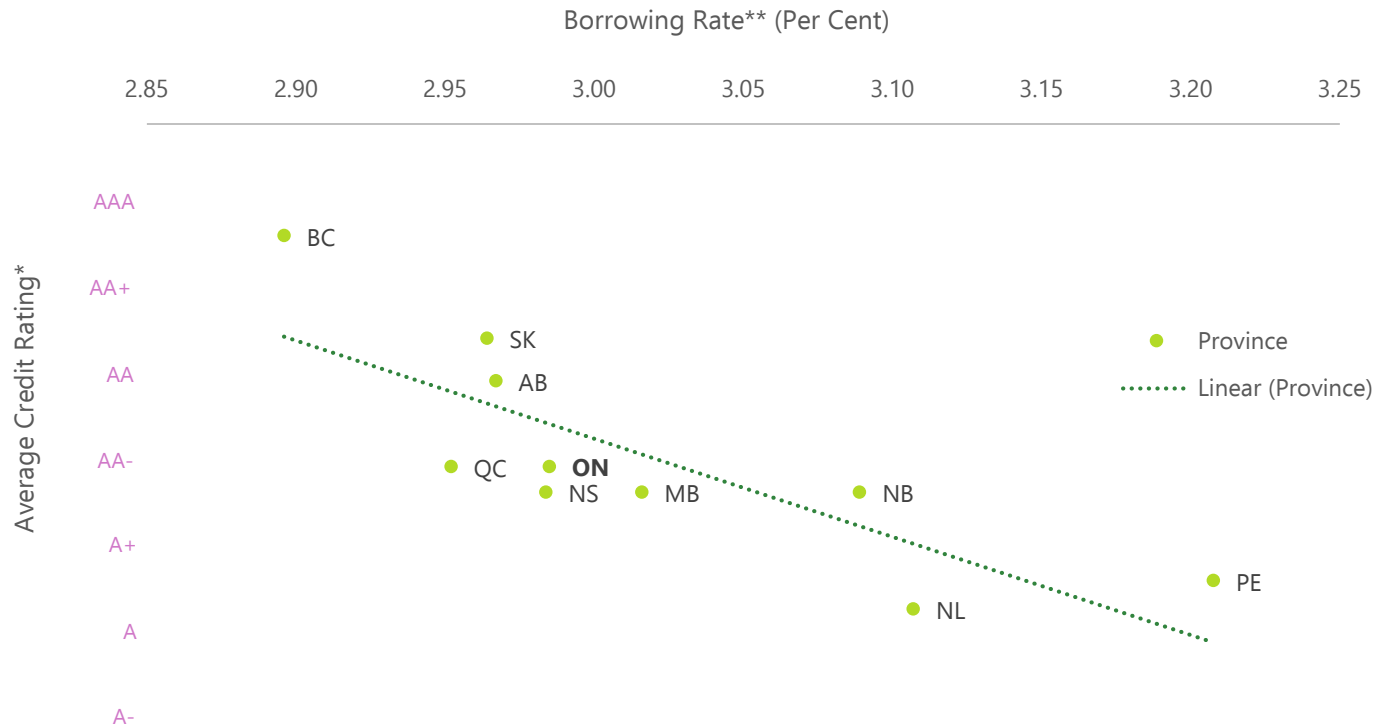
Net debt-to-GDP ratio rises to
63 per cent by 2049-50



Source: 2018 Ontario Public Accounts and Budgets, Statistics Canada and FAO.

Ontario's Cost of Borrowing

Ontario's cost of borrowing like its credit rating also lies in the middle of the pack compared to other provinces



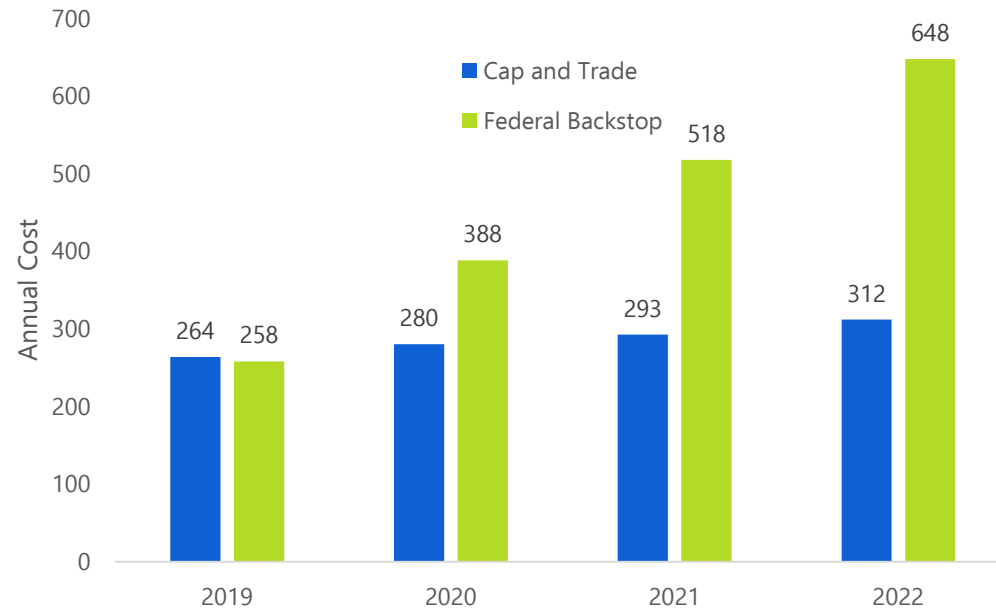
* Borrowing rates are for 10-year bonds.

Note: Borrowing rates and credit ratings as of September 11, 2018.

Source: CanDeal, S&P, DBRS, Fitch, Moody's and FAO.

Cap and Trade: Impact on households

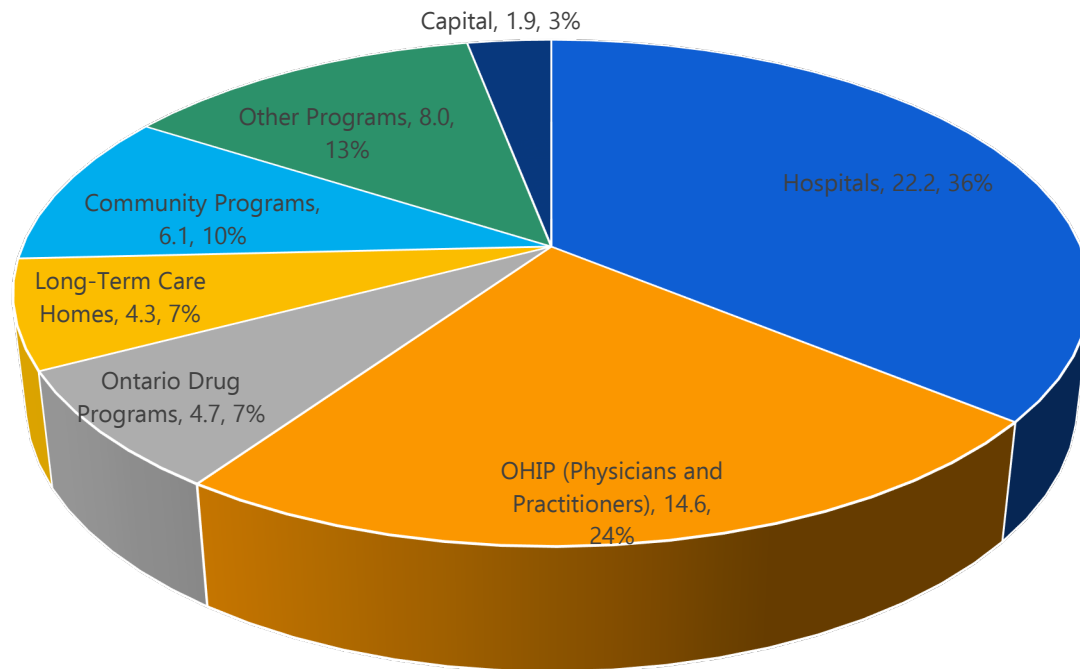
Households will bear higher carbon pricing costs under the federal backstop



Source: Statistics Canada, Canadian Government Finance Statistics

Health sector expense in 2018-19 projected to be \$61.3 billion

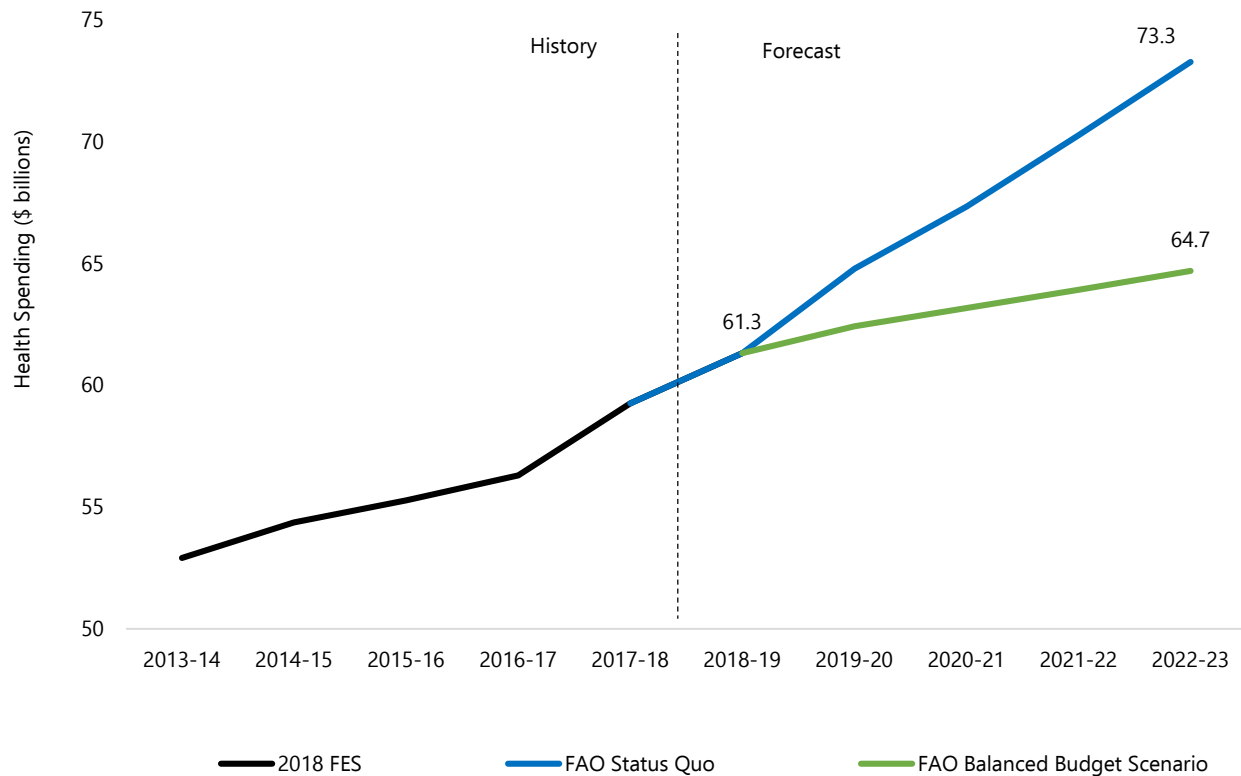
Health sector expense by program area 2018-19, (\$billions)



Source: FAO analysis of data from MOHLTC, TBS, the 2018 Fall Economic Statement and the February 19, 2019 Kaplan Board of Arbitration decision on physician compensation.

Health Sector Spending

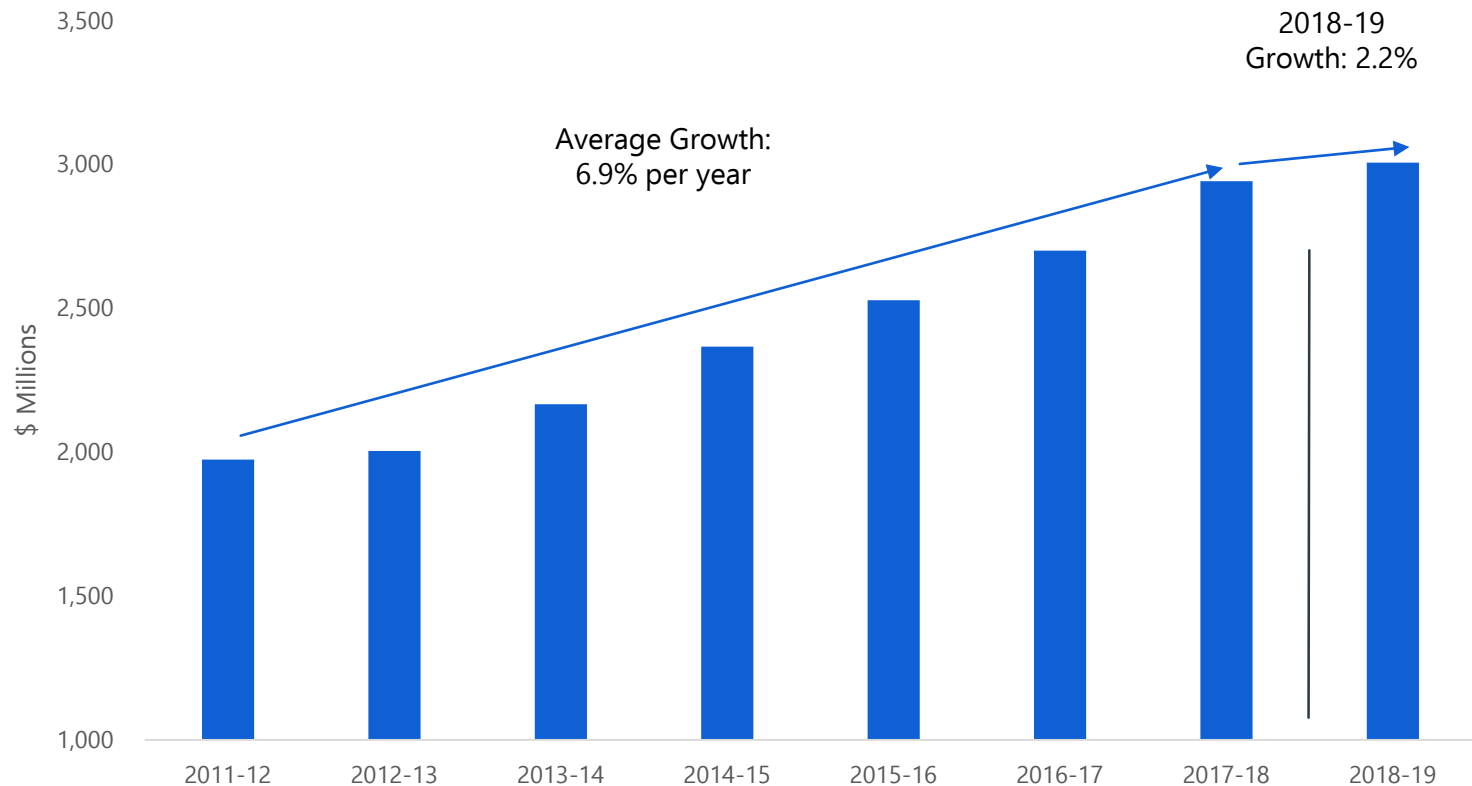
Balancing the budget using spending restraint requires \$8.6 billion less on health care by 2022-23



Source: 2018 Fall Economic Statement and FAO.

Annual Commentary on Ontario Service Fees

Growth in service fee revenues to slow in 2018-19



Source: 2018 Ontario Economic Outlook and Fiscal Review and Public Accounts of Ontario.