



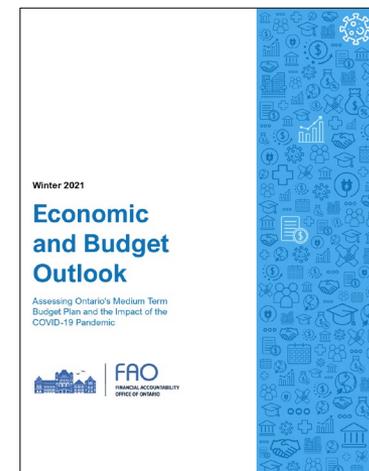
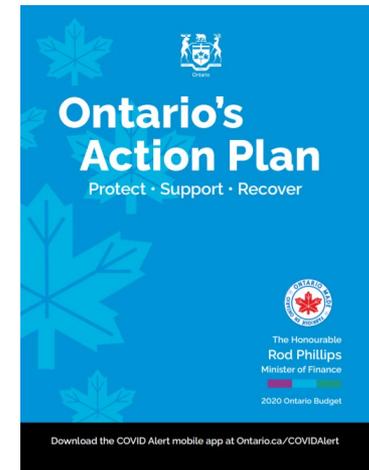
# Economic and Budget Outlook

Briefing Deck



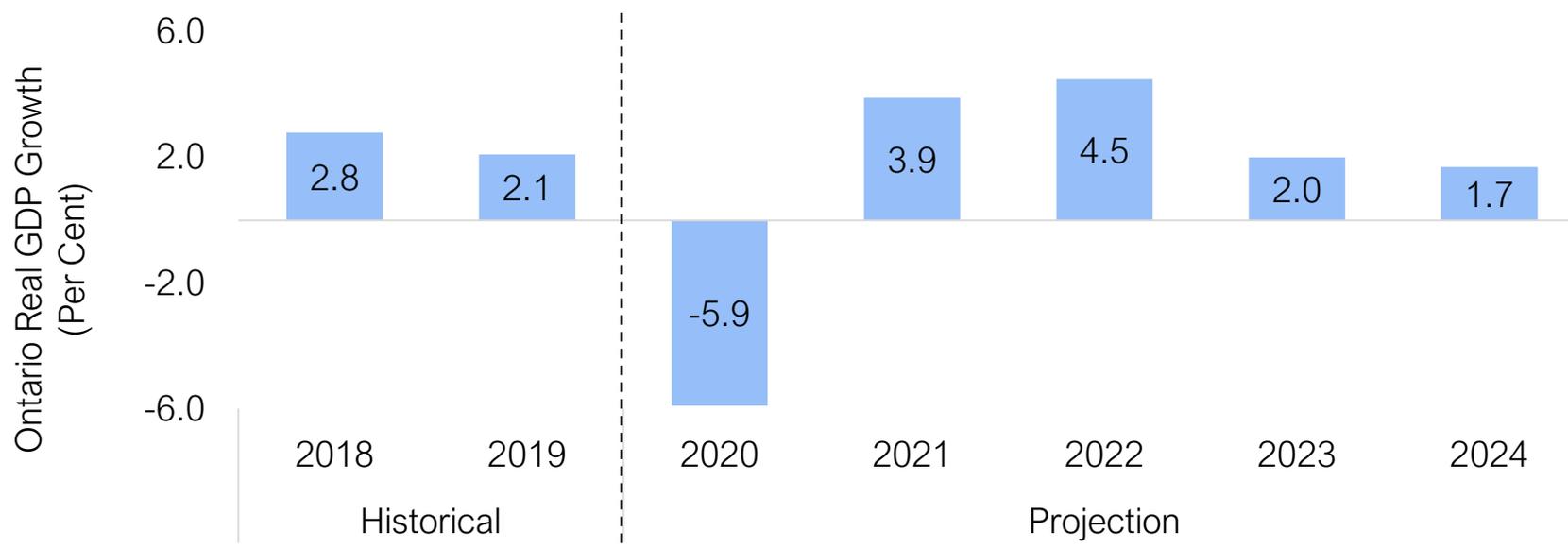
# Overview

- The Ontario government released its 2020 Budget on November 5, 2020, providing its medium-term fiscal plan
- The FAO's Winter 2021 Economic and Budget Outlook (EBO) provides an independent assessment of Ontario's economic performance and budget outlook



# Strong rebound projected after record decline in Ontario's economy

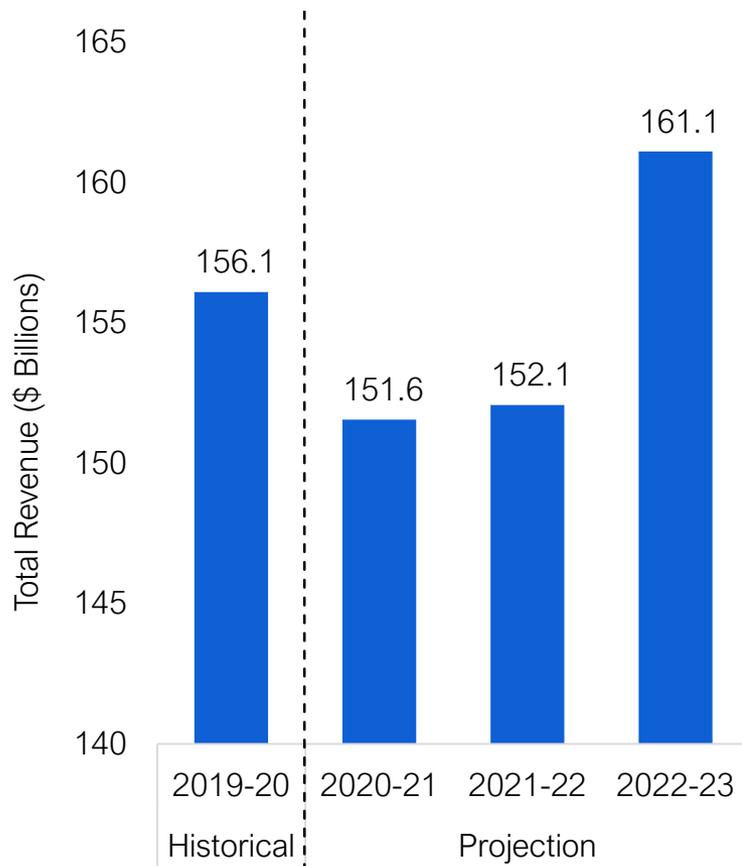
- The FAO projects Ontario real GDP will drop by 5.9 per cent in 2020, the largest annual decline in economic output on record.
- The economy is expected to rebound strongly in 2021 and 2022 as vaccines are distributed and shutdown restrictions ease.



Source: Statistics Canada and FAO.



# Large drop in 2020 revenues

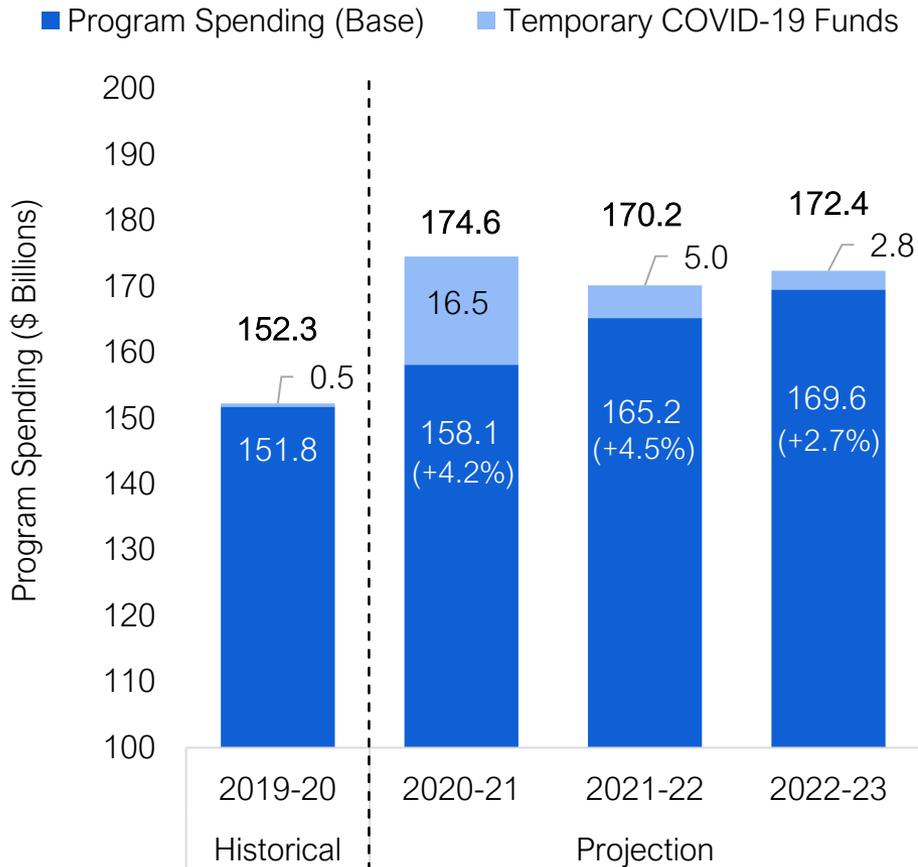


Source: 2020 Ontario Budget and FAO.

- Total revenues are projected to fall by \$4.5 billion in 2020-21 to \$151.6 billion, a decline of 2.9 per cent.
- Despite the expected economic recovery, total revenues are projected to be largely unchanged at \$152.1 billion in 2021-22.
  - Federal transfers are assumed to return to pre-pandemic levels, almost offsetting a rebound in tax revenues.
- Revenues rebound sharply in 2022-23 as the economy is more fully reopened.



# Spending increases in 2020-21 driven by COVID-19 measures



- The 2020 Ontario Budget plans for a \$22.3 billion increase in program spending in 2020-21, driven by \$16.5 billion in temporary COVID-19 spending.
- Over the projection, the Province plans to reduce COVID spending and slow base spending growth (i.e. non-COVID spending).

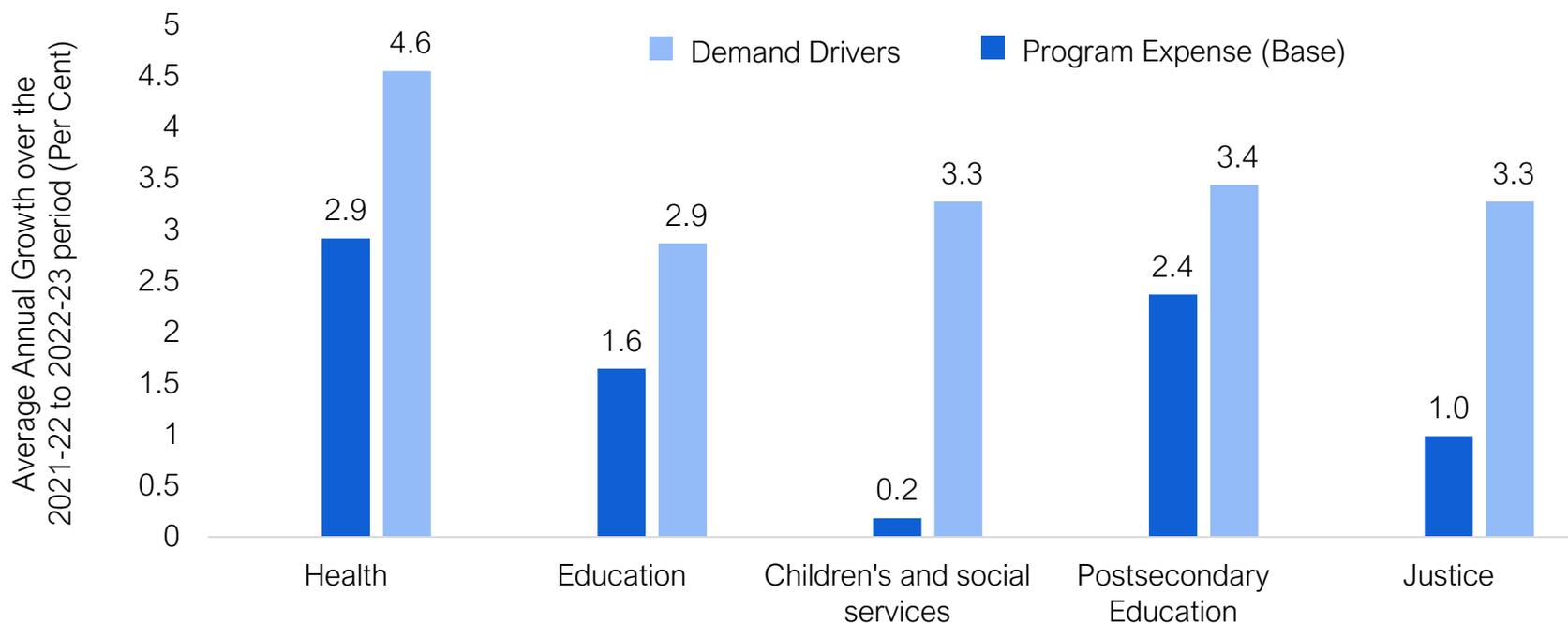
Note: The numbers in parenthesis represent the annual growth in base program spending.

Source: 2020 Ontario Budget and FAO.



# Spending in key sectors will not keep pace with the demand for public services

- After removing COVID measures, planned program spending growth in key sectors will be below the demand for public services (i.e. population growth and inflation) over the next two years.

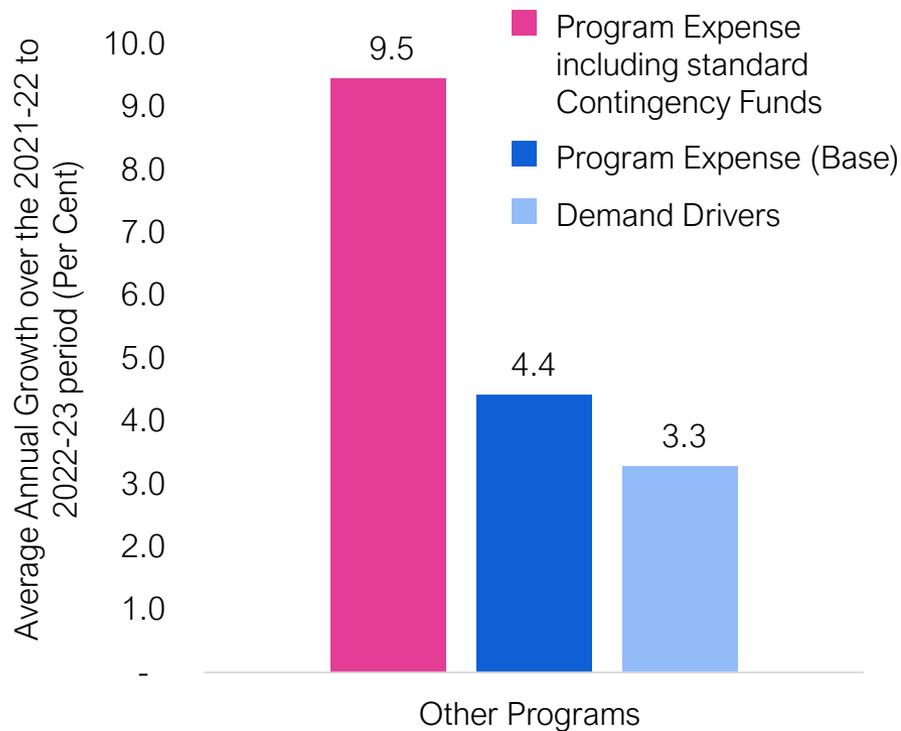


Note: The average annual growth rates over the 2021-22 to 2022-23 period refer to base program spending and do not include any COVID-19 related spending. Demand drivers reflect factors such as population growth, aging and consumer price inflation.

Source: 2020 Ontario Budget and FAO.



# Sharp increase in contingency funds after the pandemic is expected to ease



- In addition to COVID-19 funds, the government has allocated \$3.0 billion to its standard contingency funds in 2020-21, more than usual.
- Planned contingency funds grow significantly over the next two years in Budget 2020.
- The purpose of these large contingencies is not clear. Any unused contingency funds will reduce planned deficits.

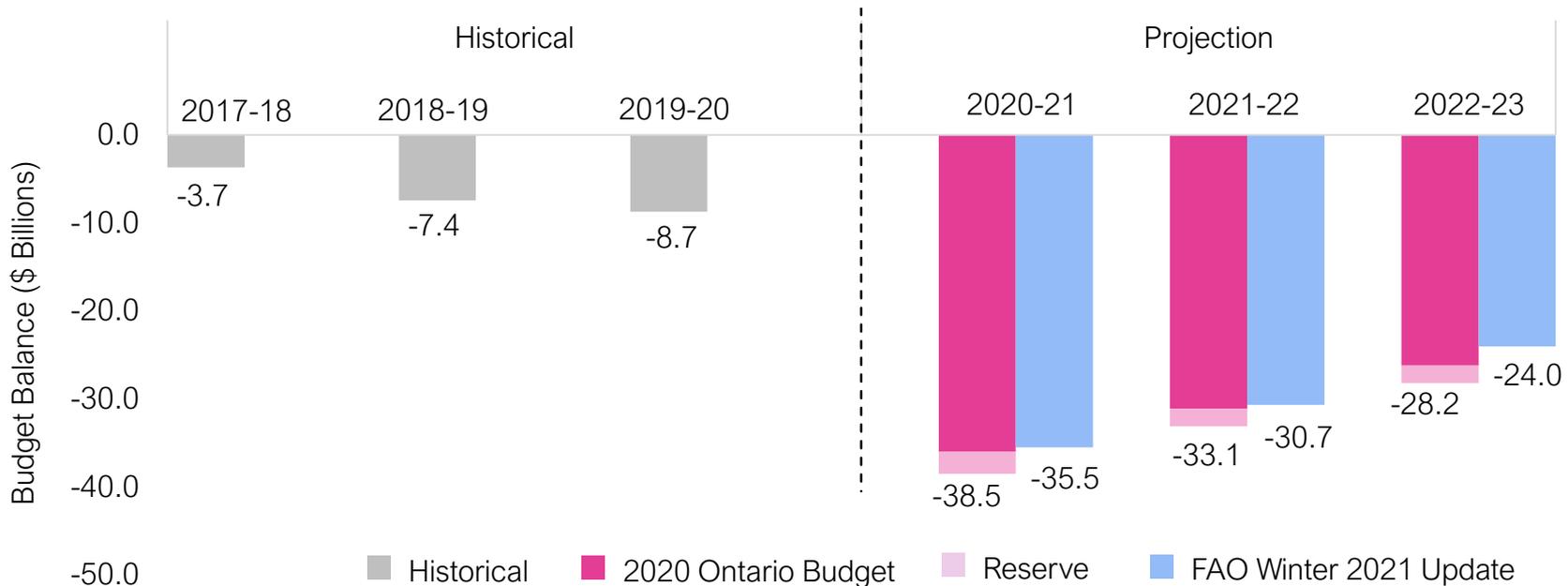
Note: The average annual growth rates over the 2021-22 to 2022-23 period refer to base program spending and do not include any COVID-19 related spending.

Source: 2020 Ontario Budget and FAO.



# Large ongoing budget deficits projected

- The FAO projects Ontario's budget deficit will increase from \$8.7 billion in 2019-20 to a record \$35.5 billion in 2020-21.
- As the province recovers from the pandemic and the economy rebounds, the budget deficit is expected to remain elevated at \$30.7 billion in 2021-22 and improve modestly to \$24 billion in 2022-23.

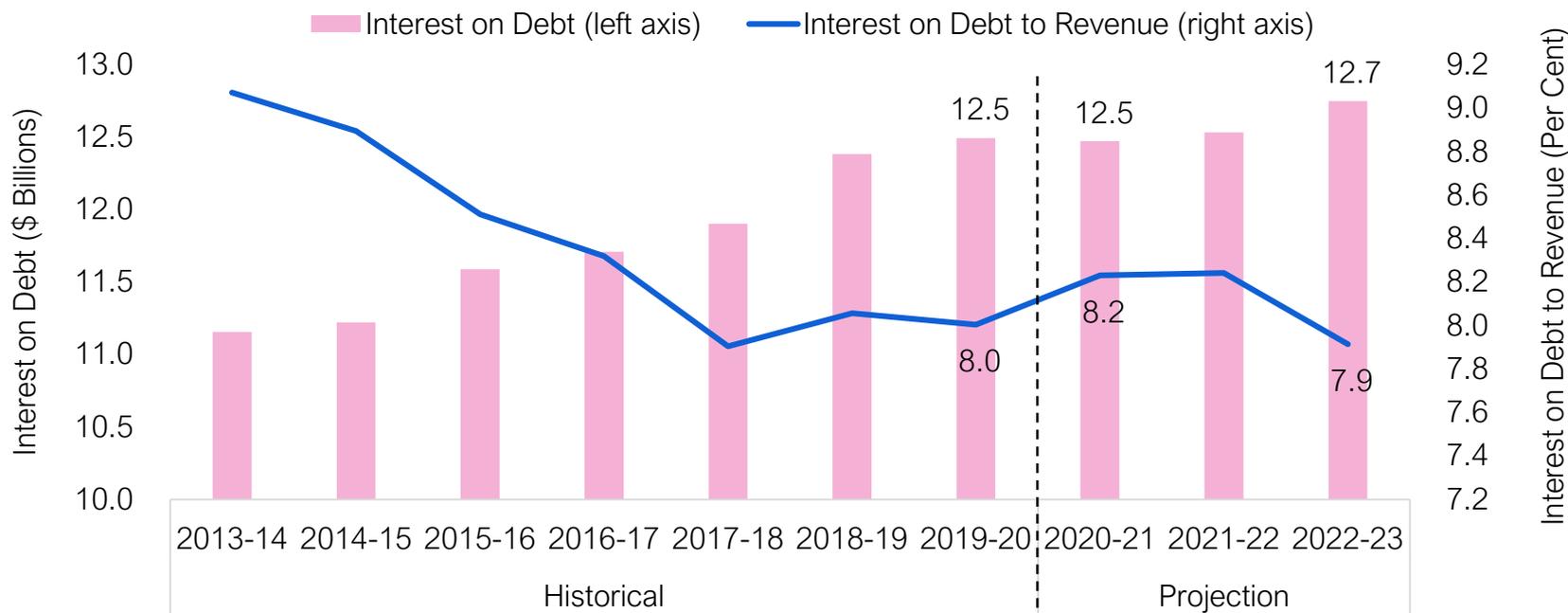


Note: The FAO's Budget Balance is presented without reserve.

Source: 2020 Ontario Budget and FAO.

# Despite rapid rise in debt, interest costs manageable over next two years

- With large deficits adding to debt, the net debt-to-GDP ratio reaches almost 50 per cent by 2022-23 – about 10 percentage points higher than before the pandemic.
- However, historically low borrowing rates are expected to limit the rise in debt-interest payments to \$12.7 billion by 2022-23, just \$254 million higher than in 2019-20.

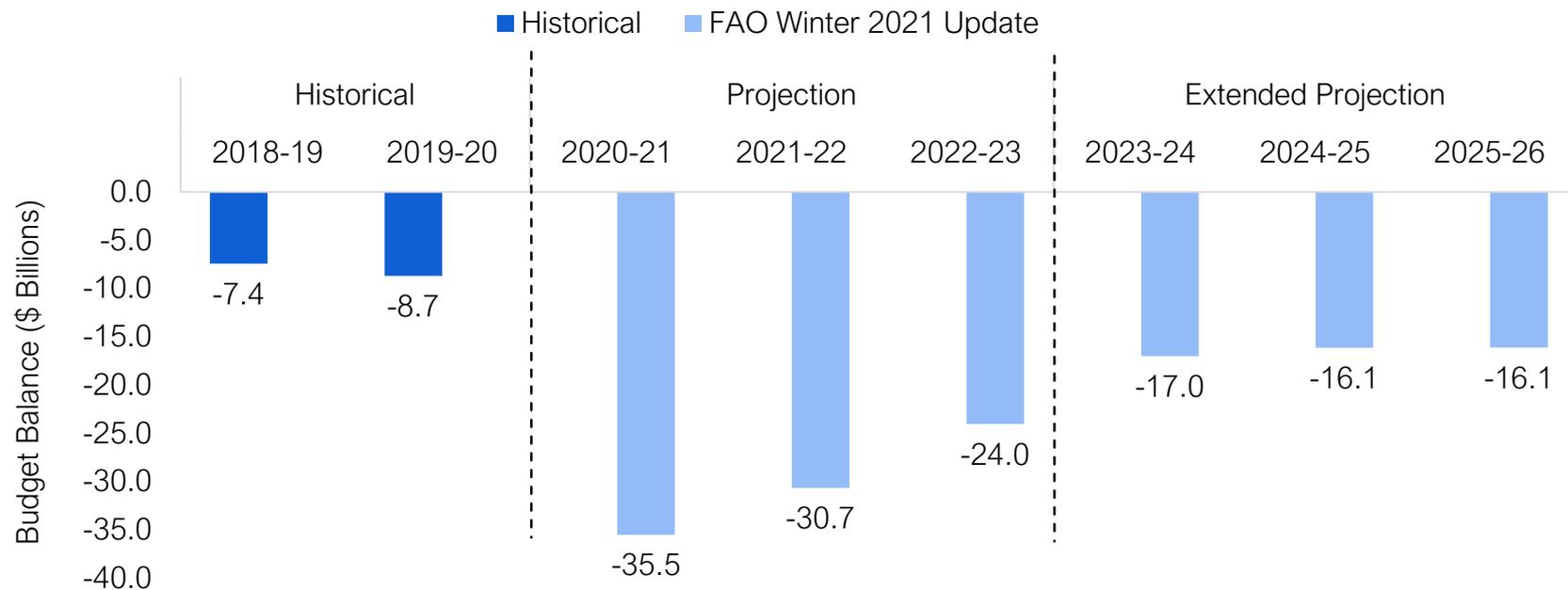


Source: Statistics Canada, 2020 Ontario Public Accounts and FAO.



# Balancing budget will require large adjustments

- By law, when the Ontario budget is in deficit, the government must develop a fiscal recovery plan specifying how and when it will balance the budget.
- In the absence of policy changes, the FAO projects Ontario's budget deficits would remain in the range of \$16 billion beyond 2022-23.



Note: Budget Balance is presented before the reserve.  
Source: Ontario Public Accounts and FAO.

# Thank you!



# FAO

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