

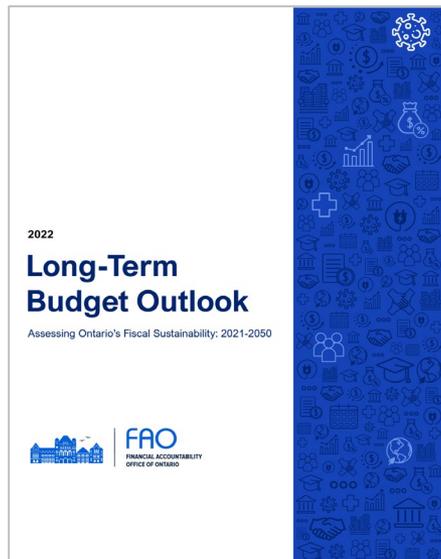
# Long-term Budget Outlook

**Assessing Ontario's Fiscal Sustainability:  
2021-50**

Briefing Deck



# Overview



- The Long-term Budget Outlook provides the FAO's projection of the government's fiscal position over the 2021-22 to 2050-51 period and assesses Ontario's long-term fiscal sustainability.
- The FAO's fiscal projection is based on existing and announced policies, underlying cost drivers, and the FAO's outlook for the provincial economy.



# Outline

- **Short-term fiscal outlook**
- **Long-term fiscal outlook**
- **Risks to the outlook**
- **Factors driving the projection**



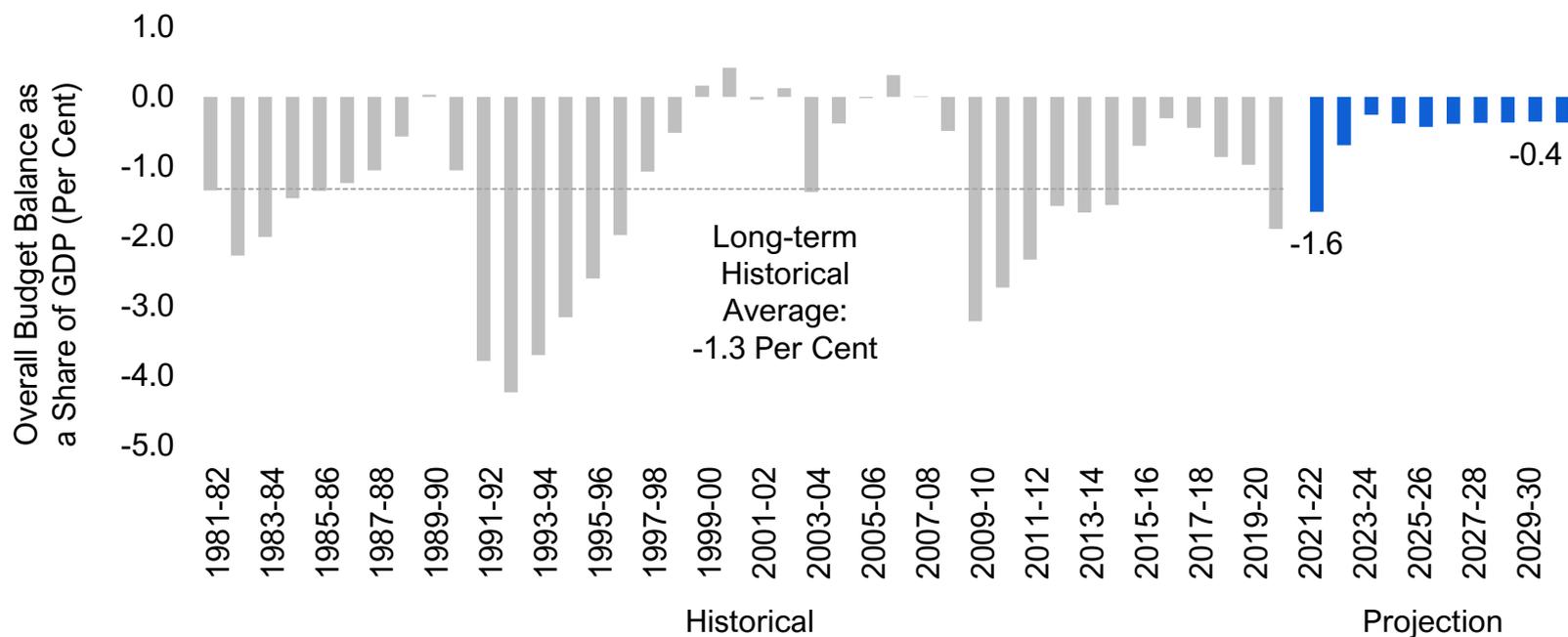
# Short-term fiscal outlook

- Lower budget deficits result in stable finances in the 2020s
- Ontario's debt burden projected to decline in the 2020s



# Lower budget deficits result in stable finances in the 2020s

- Ontario's deficits are expected to improve in the 2020s as the province recovers from the COVID-19 pandemic and the economy rebounds strongly.
- The budget deficit as a share of nominal GDP is projected to remain stable over this period.

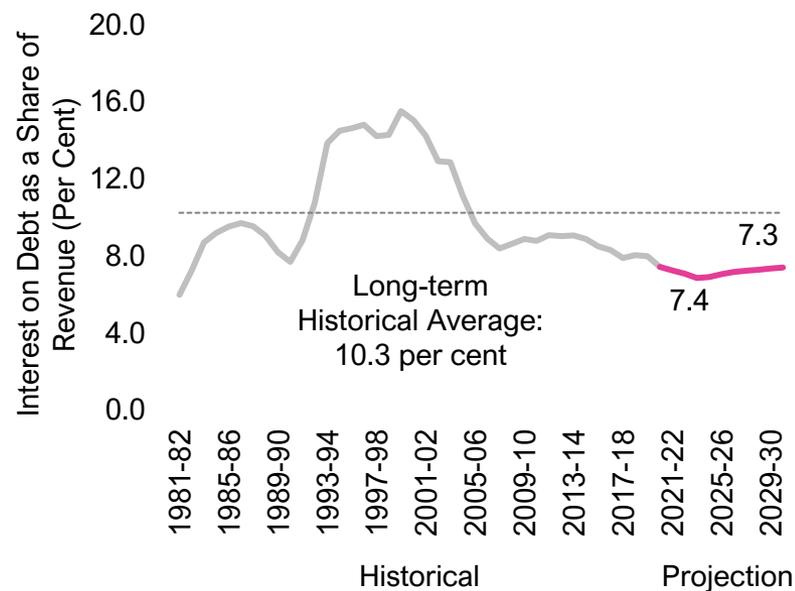
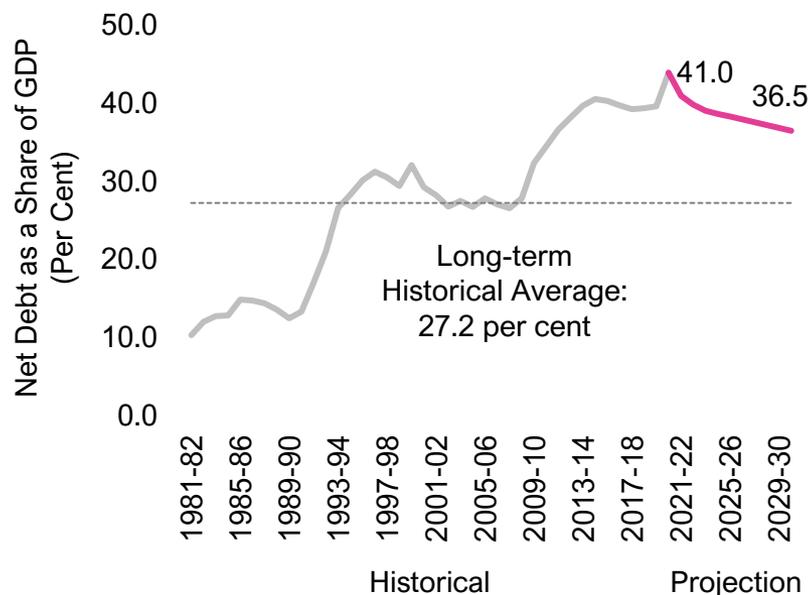


Source: Ontario Economic Accounts, Ontario Public Accounts and FAO.



# Ontario's debt burden projected to decline in the 2020s

- The net debt-to-GDP ratio is projected to decline from 41 per cent in 2021-22 to 36.5 per cent by 2029-30.
- Interest on debt as a share of revenue is projected to decline slightly before returning to its current level of 7.3 per cent by the end of the decade.



Source: Ontario Economic Accounts, Ontario Public Accounts and FAO.



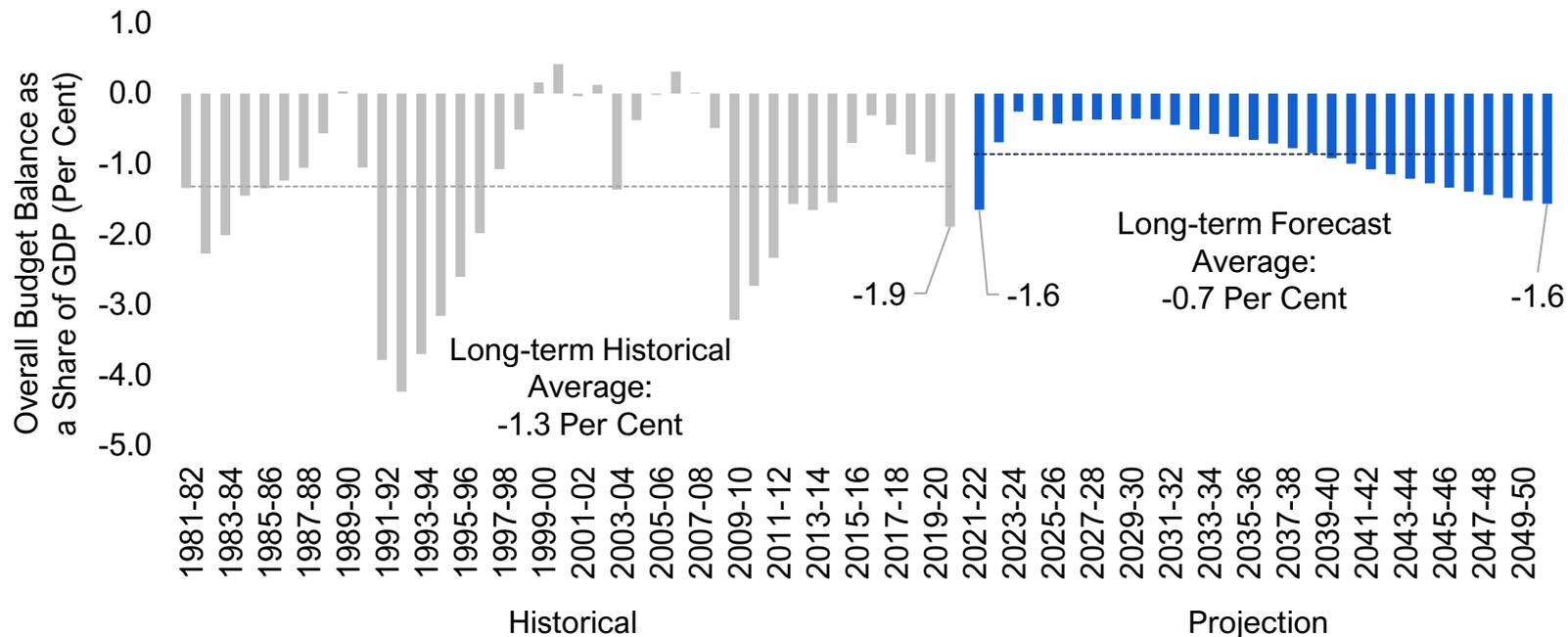
# Long-term fiscal outlook

- Ontario's budget deficit deteriorates over the long term
- Ontario's 2050-51 net debt-to-GDP ratio is projected to be close to the current share



# Ontario's budget deficit deteriorates over the long term

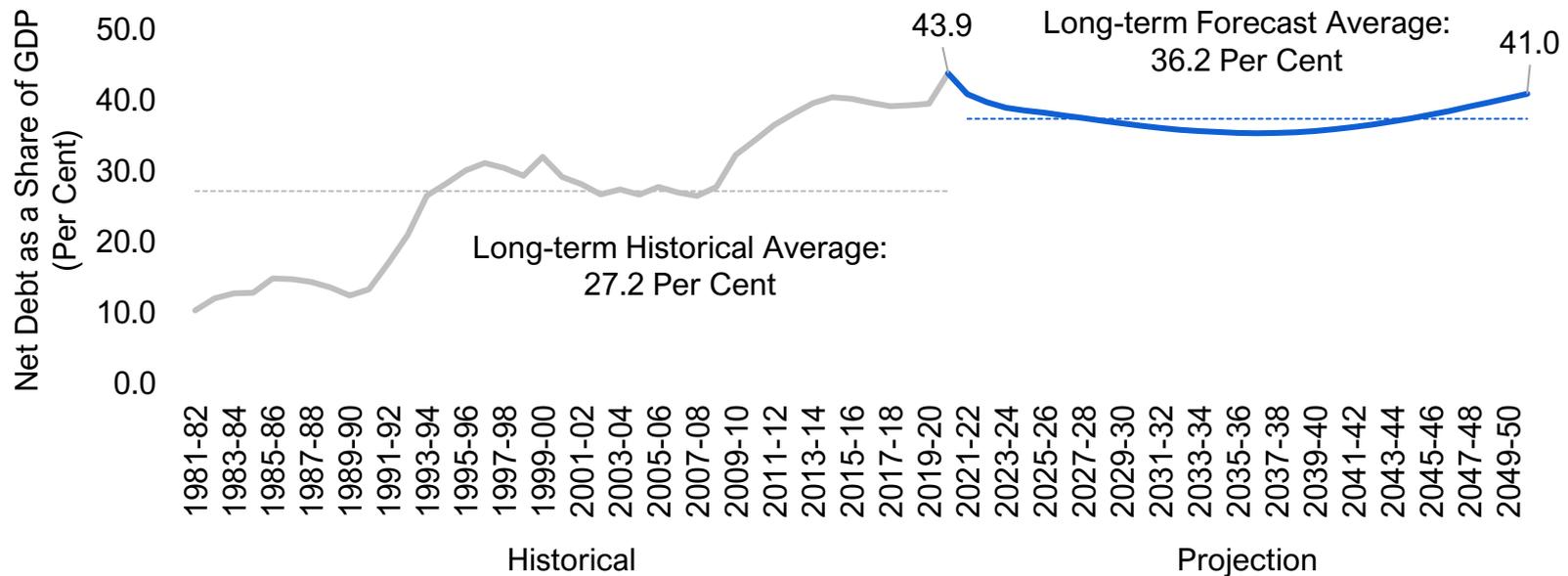
- During the 2030s and 2040s, the FAO projects a steady deterioration in Ontario's budget balance, as total spending grows faster than revenues.
- By 2050-51, the deficit widens to -1.6 per cent of GDP, similar to the rate recorded during the pandemic.



Source: Ontario Economic Accounts, Ontario Public Accounts and FAO.

# Ontario's 2050-51 net debt-to-GDP ratio is projected to be close to the current share

- Rising deficits are projected to increase Ontario's debt burden.
- By 2050-51, the net debt-to-GDP ratio is projected to reach 41 per cent, close to its current share.

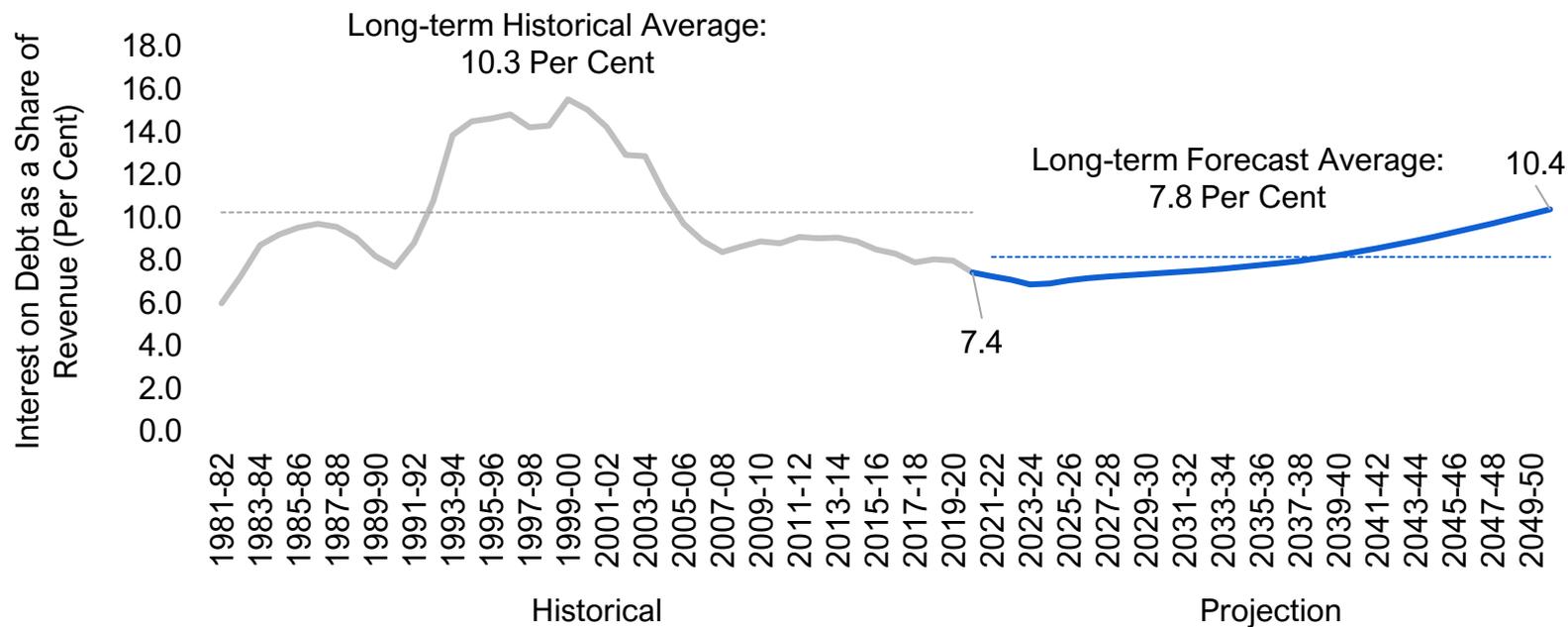


Source: Ontario Economic Accounts, Ontario Public Accounts and FAO.



# Interest on debt as a share of revenue projected to increase over the long term

- As interest rates rise and the government faces higher borrowing, Ontario's interest on debt as a share of revenue is projected to increase to 10.4 per cent by 2050-51, well above the 7.4 per cent recorded during the pandemic.



Source: Ontario Economic Accounts, Ontario Public Accounts and FAO.



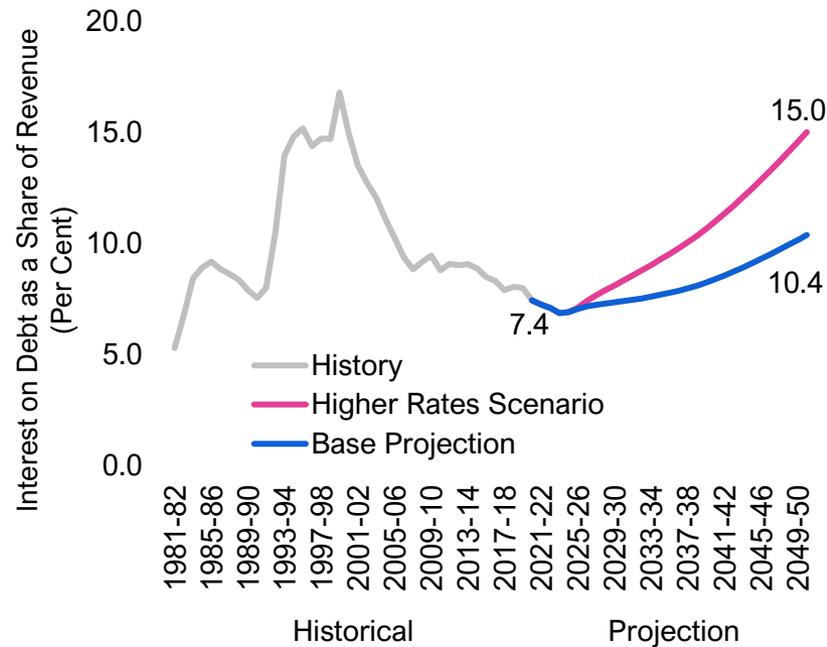
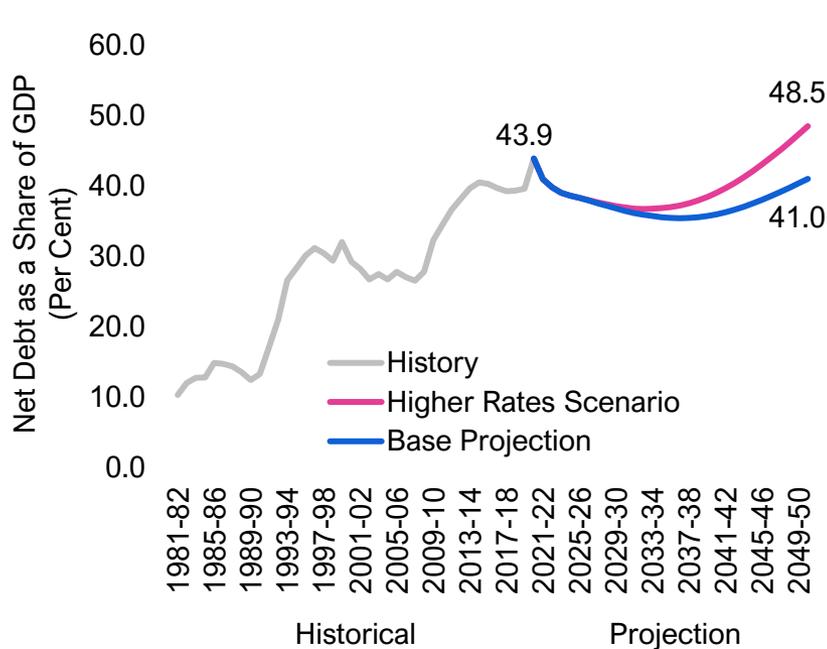
# Risks to the outlook

- There are risks to Ontario's fiscal projection, including potential changes to government revenue or spending policy, upward pressures on capital expenditures, and the outlook for interest rates.
- Higher than expected interest rates would increase the province's fiscal vulnerability.



# Higher than expected interest rates would increase fiscal vulnerability

- If government borrowing rates are 100 basis points higher than expected, Ontario's key debt measures would deteriorate.
- Net debt-to-GDP ratio would reach a record 48.5 per cent while interest on debt as a share of revenue would climb to 15 per cent, highest since the mid-1990s.



Source: Ontario Economic Accounts, Ontario Public Accounts and FAO.

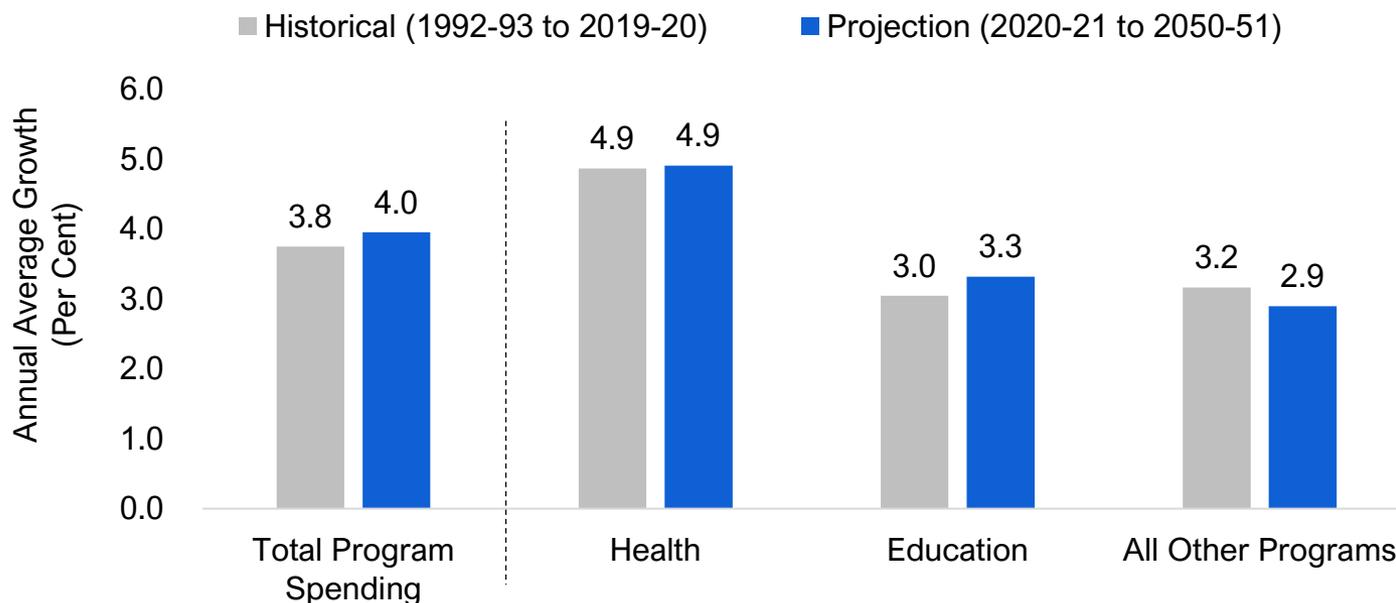
# Factors driving the projection

- Program spending growth expected to be faster than in the past
- Revenue growth expected to be slower than historical rates
- Economic growth to moderate, reflecting demographic changes



# Program spending growth expected to be faster than in the past

- Based on the FAO's outlook for increased inflation, faster growth in the school-age population, and continued impacts from population aging, program spending growth is expected to average 4.0 per cent during the projection.

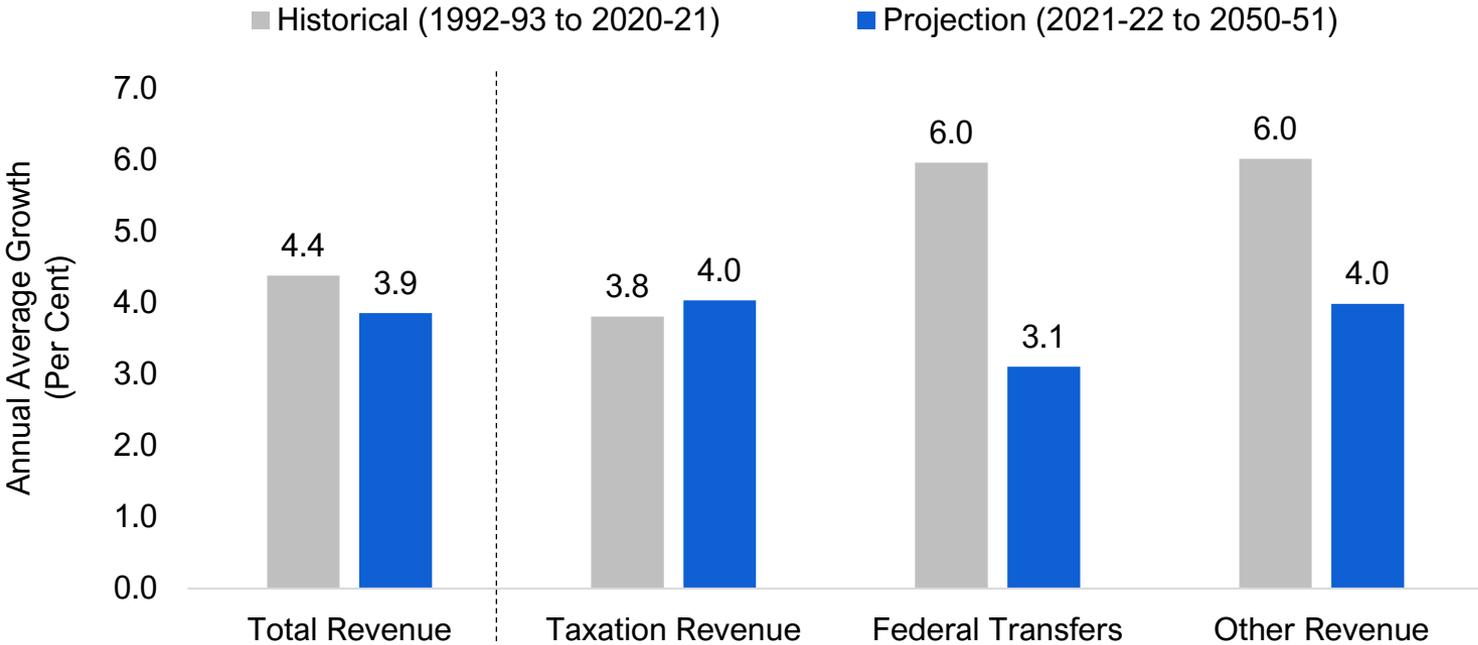


Source: FAO analysis of Ontario Public Accounts, Ontario Budgets, and information provided by the Ministry of Finance.



# Revenue growth expected to be slower than historical rates

- Total revenue is expected to grow at 3.9 per cent over the outlook, weaker than historical experience reflecting slower growth in federal transfers and other revenue.

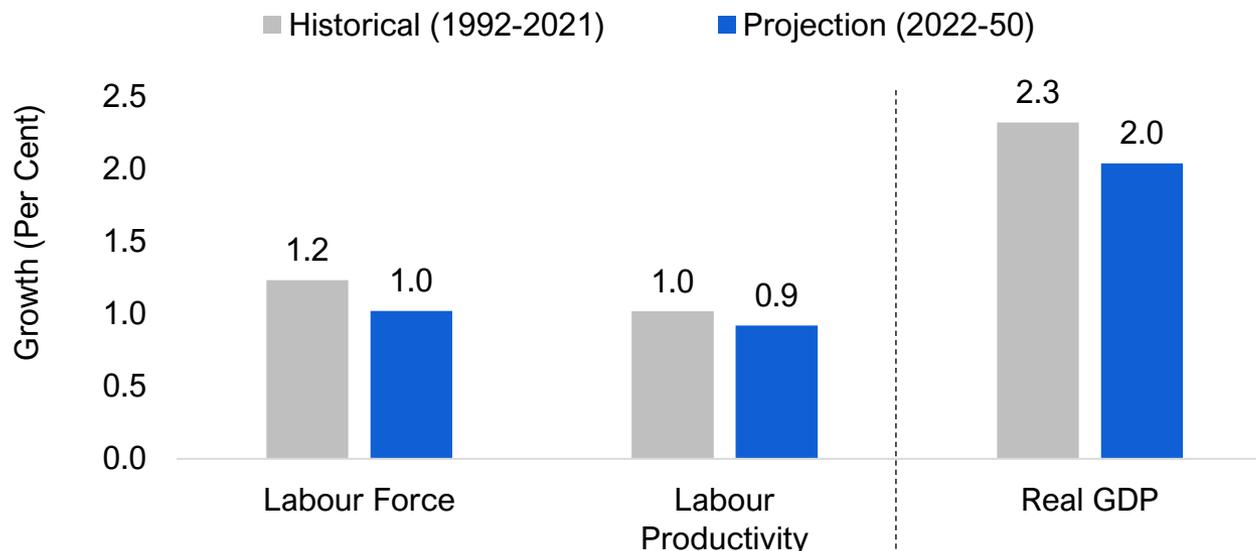


Source: Ontario Public Accounts, Ontario Budgets, and FAO.



# Economic growth to moderate, reflecting demographic changes

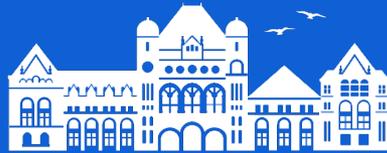
- In the long term, the FAO is projecting real GDP growth of 2.0 per cent annually, slower than the 2.3 per cent historical rate.
- The FAO's economic outlook reflects slower growth in the labour force and productivity.



Source: Statistics Canada and FAO.



# Thank you!



# FAO

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