

Spring 2022

Economic and Budget Outlook

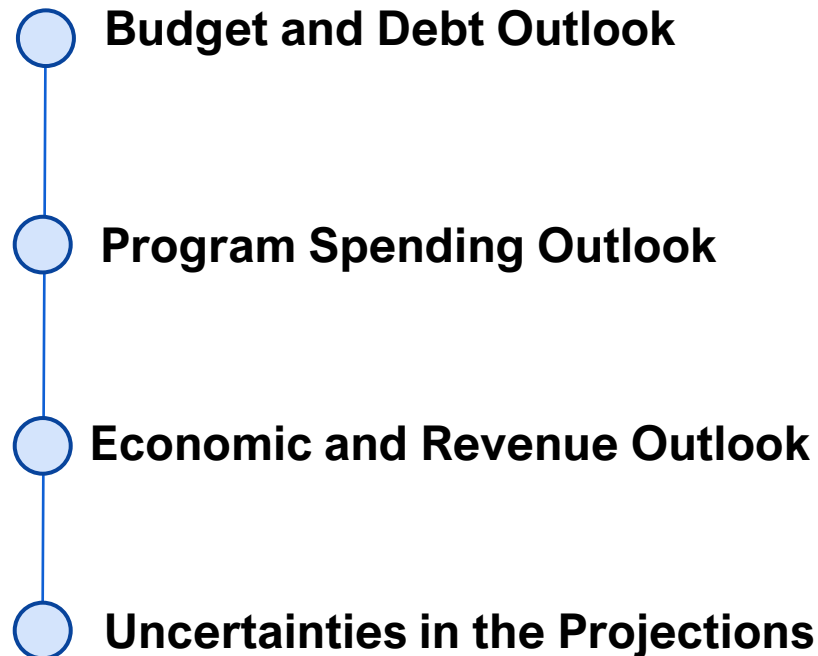
Strong economic growth driving significant fiscal improvement

Briefing Deck



Outline

- The Economic and Budget Outlook report provides the FAO's projection of the Ontario government's fiscal position to 2026-27, based on information available up to March 28, 2022.



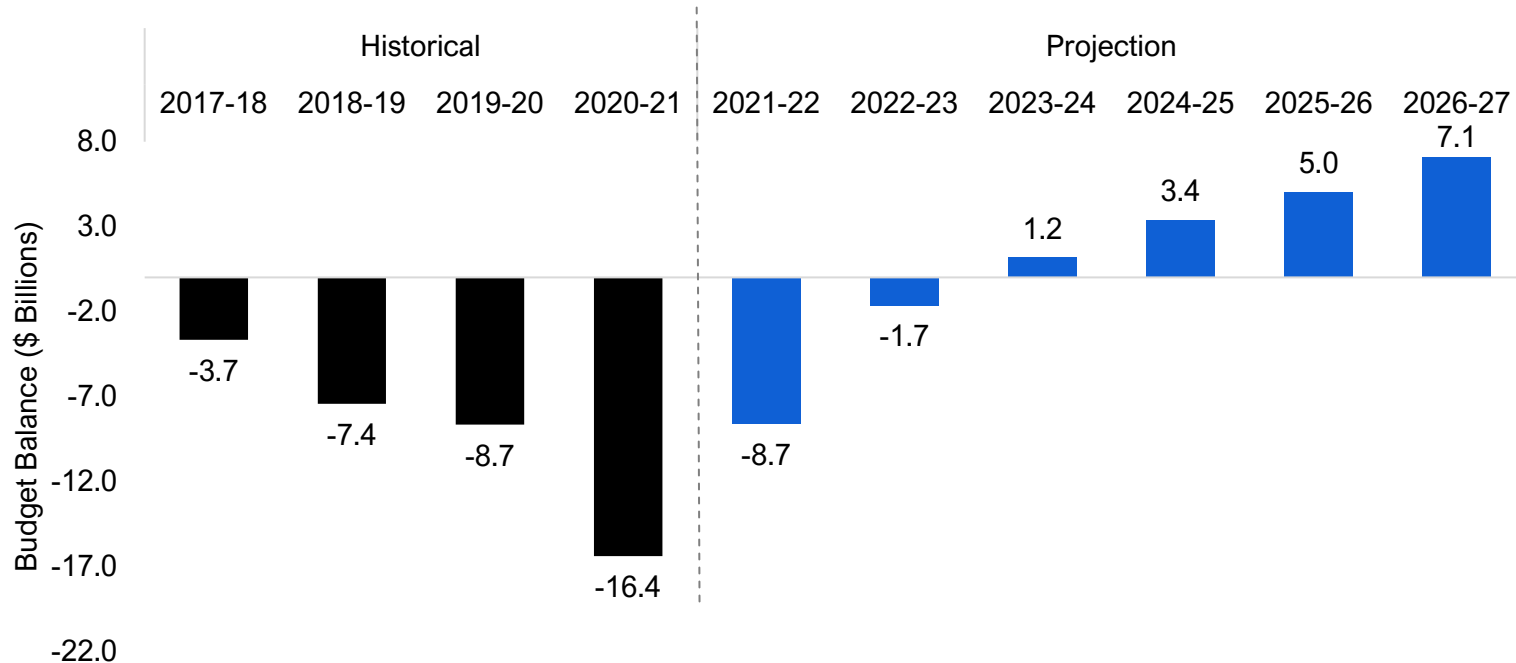
Budget and Debt Outlook

- The FAO expects Ontario to record a balanced budget in 2023-24, followed by surpluses
- Surpluses would improve Ontario's fiscal sustainability indicators



FAO projects a balanced budget by 2023-24, followed by surpluses

- Under current policies, Ontario's budget position would improve from a deficit of \$16.4 billion in 2020-21 to a surplus of \$7.1 billion by 2026-27, as strong revenue growth is projected to outpace the rate of increase in program spending.

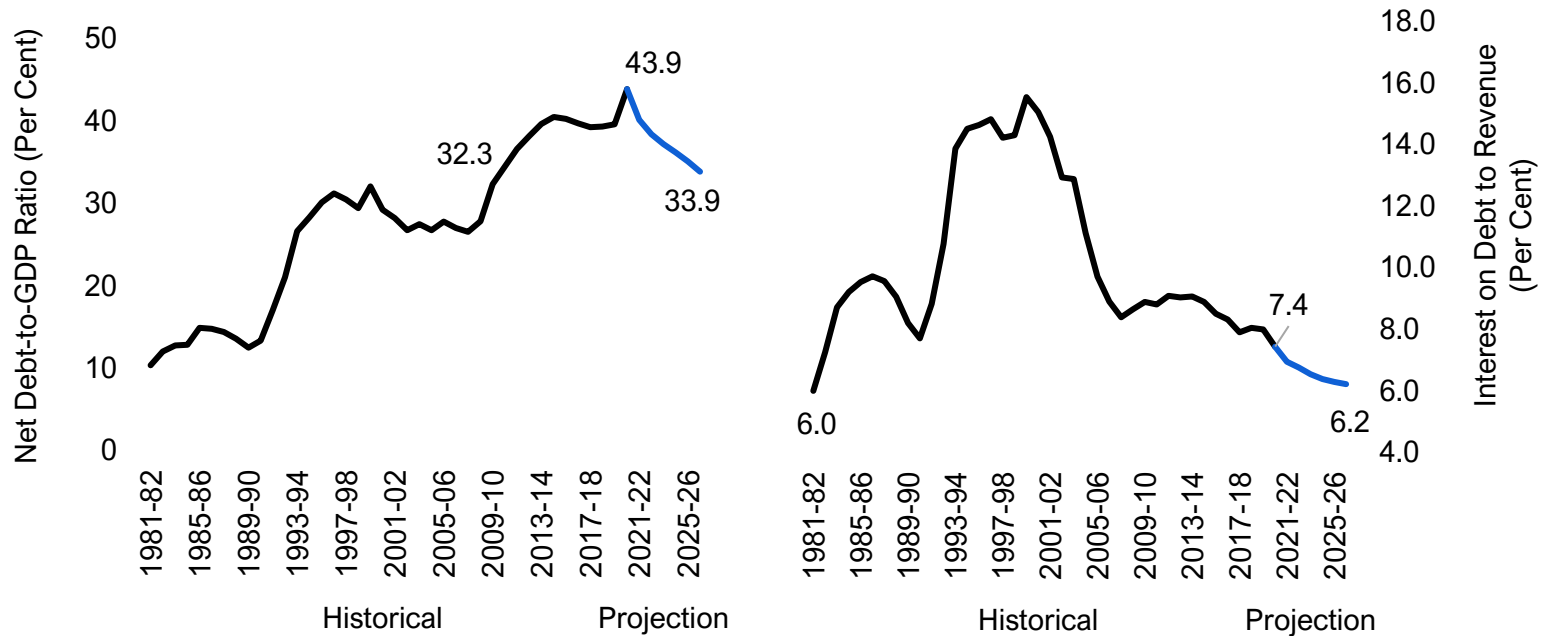


The Budget Balance is presented without the reserve.
Source: 2021 Ontario Economic Outlook and Fiscal Review and FAO.



Surpluses would improve Ontario's fiscal sustainability indicators

- The province's net debt-to-GDP ratio is expected to decline to 33.9 per cent by 2026-27, well below the 43.9 per cent recorded in 2020-21 and the lowest since 2009-10.
- Debt interest payments as a share of revenue are projected to decline from 7.4 per cent in 2020-21 to 6.2 per cent by 2026-27, the lowest since 1981-82.



Source: 2021 Ontario Economic Outlook and Fiscal Review, Ontario Public Accounts, Ontario Economic Accounts and FAO.



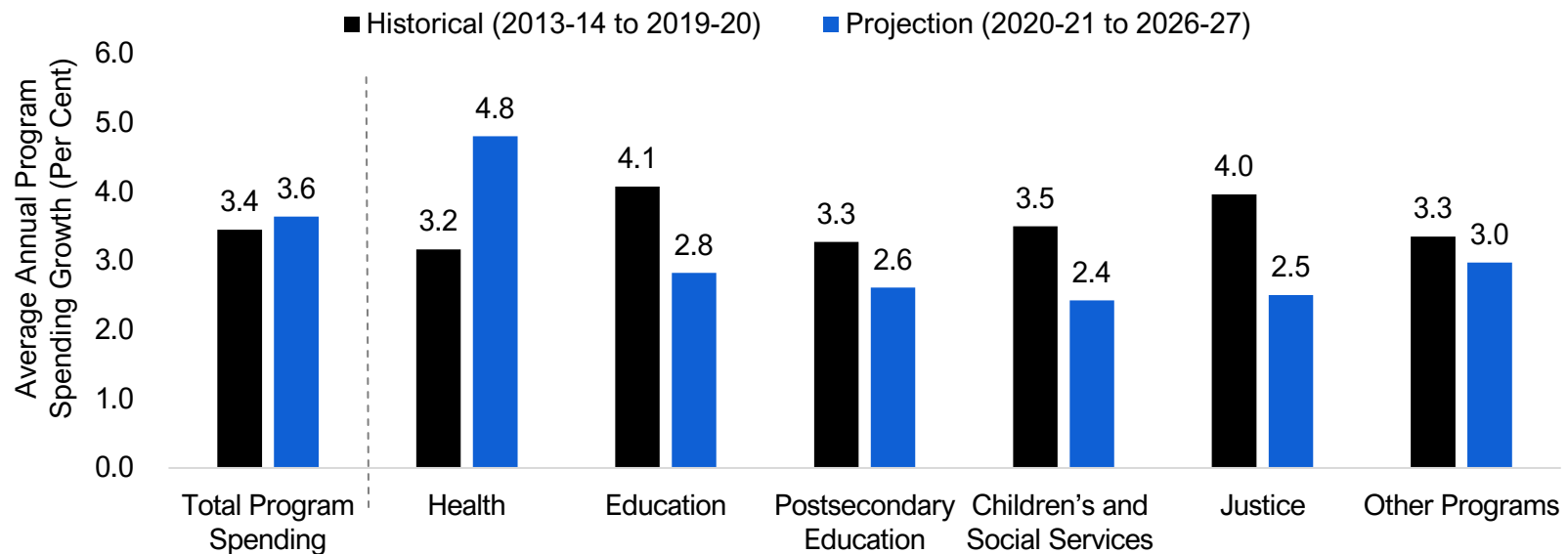
Program Spending Outlook

- Projected program spending growth is higher than the historical average, but there are notable differences across sectors



Spending growth rate to increase in health sector, slow down in all other sectors

- Total program spending is expected to grow by an average annual rate of 3.6 per cent from 2020-21 to 2026-27, higher than the historical average.
- Health sector spending growth will be higher than the historical average, while all other sectors will experience slower spending growth than the historical average.



Note: Ontario Teachers' Pension Plan (OTPP) expense is included in the education sector.

Source: FAO calculations based on the 2021 Ontario Economic Outlook and Fiscal Review and information provided by the Ministries of Colleges and Universities; Education; Finance; Health and Long-Term Care; and Treasury Board Secretariat.



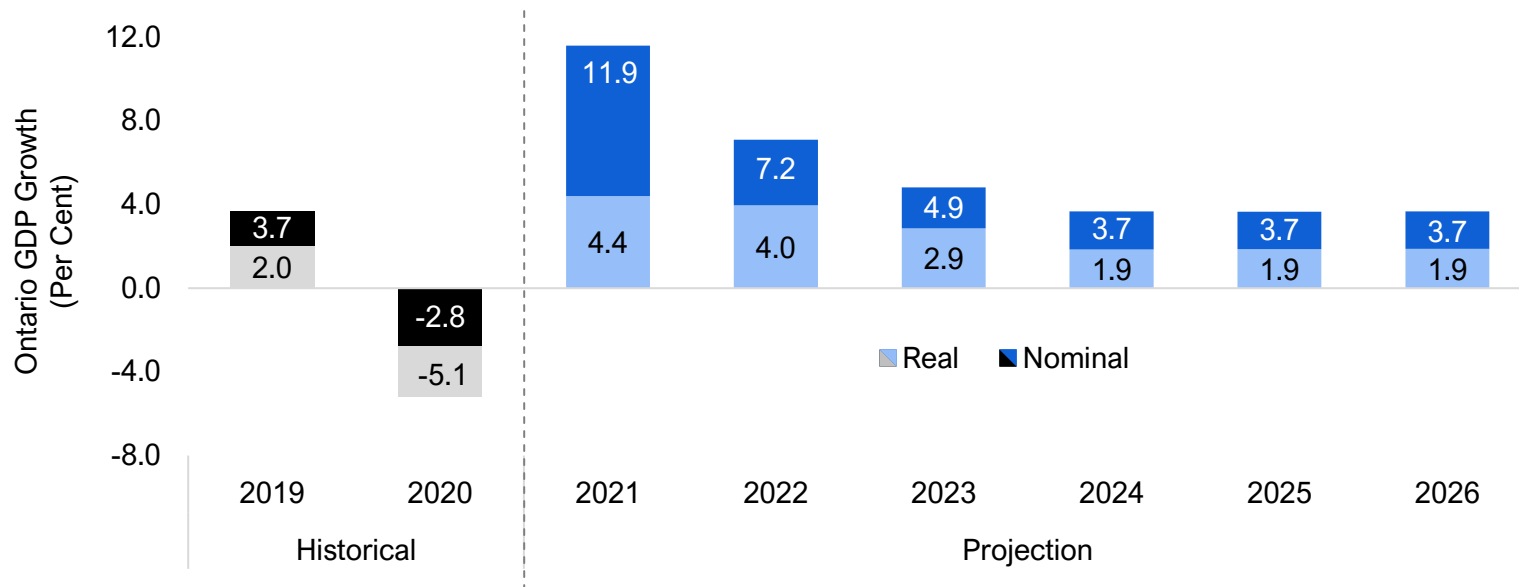
Economic and Revenue Outlook

- Strong economic growth expected for Ontario
- Gains in tax revenues and federal transfers are projected to drive strong revenue growth



Ontario economy expected to continue its strong rebound in 2022 and 2023

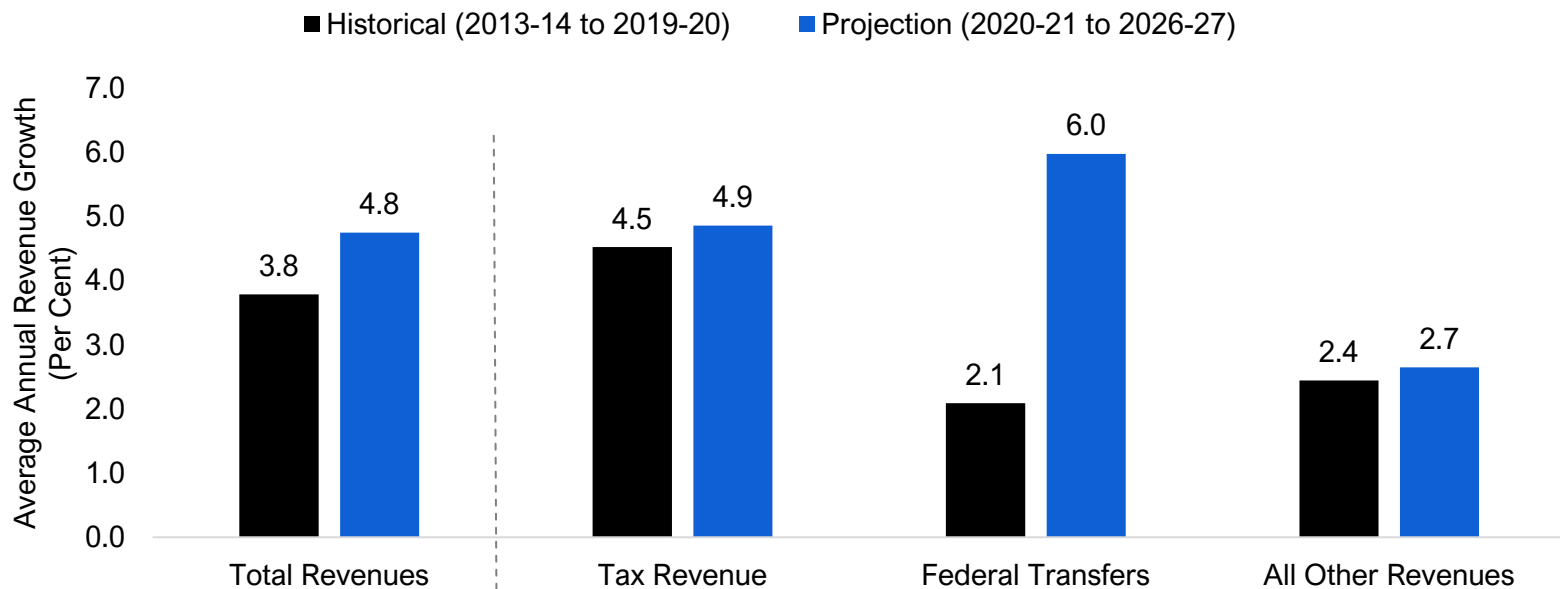
- Nominal GDP, a broad measure of the tax base, is expected to grow 7.2 per cent in 2022, following a gain of 11.9 per cent in 2021, the strongest showing since 1984.
- High inflation has become more pervasive in the economy and is expected to persist through 2023.



Source: Ontario Economic Accounts and FAO.

Gains in tax revenues and federal transfers are projected to drive strong revenue growth

- Tax revenues are expected to grow 4.8 per cent per year on average over the projection, reflecting the FAO's projection for strong economic growth.
- Federal transfer payments are projected to grow 6.0 per cent annually, reflecting strong growth in the Canada Health Transfer and the federal-provincial agreement for a '\$10-a-day' child care program.



Source: 2021 Ontario Economic Outlook and Fiscal Review, Ontario Ministry of Finance, Ontario Public Accounts and FAO.



Uncertainties and Risks

- Ontario's economic and fiscal projections are subject to several uncertainties and risks



There are several uncertainties and risks

- An escalation in geopolitical conflict, renewed supply chain challenges, higher inflation, repeated COVID-19 outbreaks, or faster than anticipated interest rate increases could lead to weaker economic growth over the next several years.
- If new revenue or spending measures are introduced in the upcoming 2022 Ontario Budget, the FAO's budget balance projection would change.
- To illustrate the impact of potential policy changes on Ontario's fiscal projection, the FAO estimated the sensitivity of key budget indicators to changes in three main policy areas: tax revenues, federal transfers and program expenditures.
 - For example: A policy change that permanently adds/removes \$1 billion of revenue in 2022-23 would change net debt by +/- \$5.9 billion and increase/decrease the net debt to GDP ratio by 0.5 ppt by 2026-27.



Thank you!



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