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# Economic and Budget Outlook Fall 2018

## Media Statement

Good morning and welcome.

My name is Peter Weltman and I am Ontario's Financial Accountability Officer.

Standing with me today is David West, the FAO's Chief Economist. We will both be available to answer your questions following this brief statement. Si vous avez des questions en français, n'hésitez pas à les poser. Nous allons faire de notre mieux de vous répondre en français.

Today, my office released our bi-annual 'Economic and Budget Outlook' report, providing a forecast for the economy and an assessment of Ontario's fiscal outlook. The report incorporates the latest economic data, as well as updated fiscal information from the government's 2018 Fall Economic Statement.

Let me begin with the bottom line for the current fiscal year.

Based on the FAO's projection, Ontario's budget deficit will more than triple this year to \$12.3 billion. The 2018-19 deficit will be the largest since 2011-12, and results from a significant increase in program spending combined with a decline in overall revenue.

The sharp deterioration in Ontario's budget balance also comes after four years of strong, above-average growth for Ontario's economy. Going forward, most economic forecasters, including the FAO, expect that economic growth will

moderate, as higher interest rates combined with elevated household debt slow the growth of household spending and residential construction.

Since coming into office, the Ontario government has introduced significant changes to both revenue and spending policies. These changes included cancelling the cap and trade program, scaling back or cancelling new spending initiatives from the previous government, reversing several tax increases included in the 2018 Budget and introducing a new low income tax credit as well as paralleling business tax changes introduced by the federal government. These policy changes, combined with a moderately weaker economic forecast, have contributed to a larger budget deficit since the FAO's Spring outlook.

It is important to note that the government's recent Fall Economic Statement did not provide a fiscal forecast beyond the current year. In the absence of a fiscal projection by the government, the FAO developed a *status quo* forecast, which represents Ontario's expected fiscal outlook given existing policies. This status quo projection is not intended to be a prediction of Ontario's future budget outcomes. Instead, it is intended to provide a reference point against which MPPs can measure the extent of any future fiscal policy changes.

Based on the FAO's status quo projection, Ontario's budget deficit will increase to \$15.1 billion in 2019-20 (up from \$12.3 billion this year), largely due to reductions in revenue announced since the 2018 Budget. In the absence of policy changes, the budget deficit would continue to increase over the outlook, exceeding \$16 billion by 2022-23.

When facing a budget deficit, the *Fiscal Transparency and Accountability Act* requires the government to develop a recovery plan that explains both how and when the government will return the budget to balance. While the government has not indicated exactly when it intends to achieve balance, it has already committed to not raising taxes.

The report provides a sensitivity analysis of various fiscal policy choices, and I encourage you to review those. Here is one: if the government were to choose to balance the budget over four years, exclusively through spending restraint, the FAO estimates that the Province would need to limit the growth in program spending to 1.2 per cent per year. This would represent the slowest growth in program spending over a four-year period since the mid-1990s. Limiting expenditure growth to this extent would require the government to reduce annual spending by \$850 per person, or by 8 per cent from today's levels, by 2022.

Balancing the budget will require significant changes to Ontario's fiscal policy. Policy changes of this magnitude could have wide-ranging impacts on Ontario households and businesses, as well as on the overall economy. Ontarians would benefit from an informed debate on the Province's budget objectives and the trade-offs necessary to achieve them.

Thank you.

David and I are happy to take questions. Il me ferait plaisir de répondre à vos questions.

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