

On track to meet fiscal targets

Highlights

- For 2011-12 the Ontario government now expects a deficit of \$16 billion, \$0.3 billion less than budgeted last March.
- Revenues are projected to fall \$443 million short of the 2011 budget forecast. Excluding a loan repayment from Chrysler Canada and other first-quarter changes, the shortfall would have been \$778 million.
- The 2011 Budget plan included a \$700 million reserve for 2011-12. The reserve has been reduced by \$500 million to counter the impact of slower economic growth on fiscal performance.
- Program spending is consistent with the 2011 budget. Debt service is expected to cost \$193 million less than budgeted.
- Deficit projections for the next two fiscal years are unchanged from the March budget. The effect of lower revenues and higher program spending is offset by a decrease in debt service cost.
- Real GDP growth is now projected at 1.8% in both 2011 and 2012, down from 2.4% and 2.7 % in the 2011 budget. The projection for 2013 is 2.5% and for 2014 it is 2.6%.
- The borrowing requirement is projected at \$35 billion in 2011-12, \$37.2 billion in 2012-13 and \$40.0 billion in 2013-14. As of November 15th, 70% of the required 2011-12 borrowing had been completed.
- Debt resulting from accumulated deficits is estimated at 25.2% of GDP at the end of the current fiscal year and is projected to peak at 27.7% in 2014-15.

Opinion

To eliminate Ontario's deficit by 2017-18, last spring's budget targeted overall program spending growth of 1.4% annually. Given the current global economic uncertainty, the Commission on the Reform of Ontario's Public Services is expected to recommend reducing the target to 1%. The government says it will consider this change in preparing the 2012 Budget.

A proposed Healthy Homes Renovation Tax Credit, projected to cost \$60 million in 2011-2012, is to be financed entirely by reductions in business-support programs and tax expenditures. The measure would enable seniors or family members sharing a home with a senior to claim a tax credit of up to \$1,500 for permanent modifications that improve accessibility or help a senior to be more functional or mobile at home.

The Province has continued to extend the maturity of its debt, locking in interest rates below those assumed in the 2011 budget. The total long-term public borrowing requirement over the next two years will be \$3.6 billion lower than budgeted in March, primarily because of a lower-than-budgeted deficit in 2010-11 and the lower projected deficit in 2011-12. Borrowing in the current fiscal year will remain at the budgeted \$35 billion to take advantage of historically low interest rates and robust demand for Ontario long-term debt. The Province has set aside \$3.2 billion to buy back debt maturing over the next two fiscal years if opportunity arises.

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So far, so good: savings in debt service due to lower-than-expected interest rates and consequent debt-management measures will offset the projected loss of revenue due to lower medium-term GDP growth. The government's statement that it will consider a recommendation to reduce its program spending growth target to 1% over the medium term is reassuring, as is the \$1-billion reserve projected in the March budget for each of the next two years.

Marc Pinsonneault

TABLE 1. 2011–12 In-Year Fiscal Performance¹

(\$ Millions)

	Budget Plan	Current Outlook	Change Since Budget
Revenue²	108,717	108,275	(443)
Expense			
Programs	114,043	113,971	(72)
Interest on Debt	10,290	10,097	(193)
Total Expense	124,333	124,068	(264)
Reserve	700	200	(500)
Surplus/(Deficit)	(16,316)	(15,994)	322

¹ Budget plan revenue and expense have been restated from what was shown in the *2011 Budget* to reflect a fiscally neutral accounting change. See note at the bottom of Table 11 for more information.

² Excluding the impact of the one-time loan repayment from Chrysler and other first-quarter changes, total revenue declined by \$778 million.

Note: Numbers may not add due to rounding.

Source: 2011 Ontario Economic Outlook and Fiscal Review