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Ontario

Economic Outlook and
Fiscal Review

The Honourable Greg Sorbara
Minister of Finance

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General inquiries regarding the *2003 Ontario Economic Outlook and Fiscal Review* should be directed to:

Ministry of Finance
95 Grosvenor Street, Queen's Park
Frost Building North, 3rd Floor
Toronto, Ontario M7A 1Z1

or call:

Ministry of Finance Information Centre
Toll-free English inquiries 1-800-337-7222
Toll-free French inquiries 1-800-668-5821
Teletypewriter (TTY) 1-800-263-7776

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INTRODUCTION

Mr. Speaker, I rise today to present our government's Economic Outlook and Fiscal Review.

On October 2, the people of Ontario chose change. They chose a new government to deliver real positive change—to grow our economy, deliver excellent public services, and live within our means. We were honoured by their choice, and we will justify their trust.

When we were sworn in on October 23, we found that the financial circumstances of this province were far worse than the people of Ontario had been led to believe. It is these circumstances, and our response to them, that I'm addressing today.

A STRUCTURAL DEFICIT

Mr. Speaker, immediately after the election we asked former provincial auditor Erik Peters to give us the straight goods. He was asked to compare the Province's 2003-04 Budget, released in March, with the fiscal situation in October. He confirmed that Ontario could anticipate a deficit of \$5.6 billion in the current year—and he listed certain risks that could cost us another billion dollars or more.

Since his report, two things have happened. On the one hand, some of those additional risks have come to pass. On the other hand, we have taken action to stop the erosion of revenues and to restrain our spending.

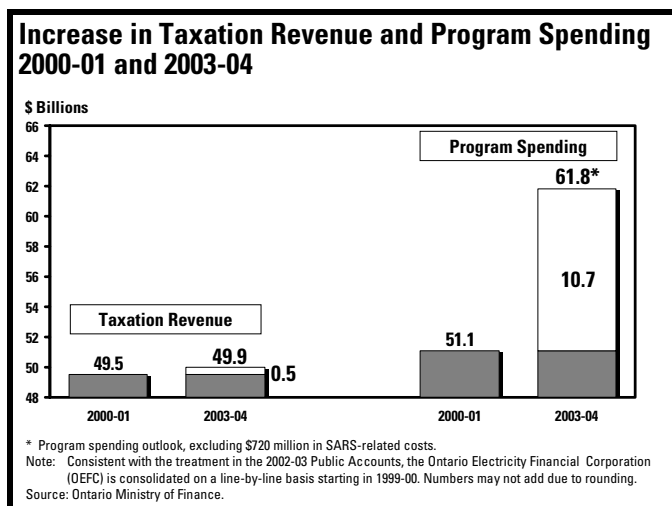
These factors have, frankly, offset each other.

Based on everything we know to this point, our updated fiscal forecast for 2003-04 is a deficit of \$5.6 billion.

And this is not a one-year problem. We have a serious long-term problem. It is a problem rooted in a chronic mismatch of revenues and expenditures that has been growing over the past several years.

To be specific, over the past three years program spending has grown by some \$10 billion while tax revenues have increased by only \$500 million. In short, we have inherited a situation where the cost of running programs and paying interest on debt has been growing much faster than revenues. Even the positive impact of Bill 2, the Fiscal Responsibility Act, 2003, will not solve the problem.

Without further action, without changing the way we do business and deliver programs, the Province is on track to spend more than it takes in, each year, every year.



We could face future deficits of at least \$4.5 billion a year, every year.

This is what economists call a structural deficit, what Ontarians would call unacceptable and what we call a challenge that simply must be met.

We have also identified other financial liabilities that have arisen over the past eight years, primarily within the broader public sector. These liabilities may add to the 2003-04 deficit but were outside the scope of Erik Peters' mandate. They include:

- Accumulated deficits in our hospitals and children's aid societies.
- Potential liabilities of the Pension Benefit Guarantee Fund.
- The financial woes of Ontario Power Generation (OPG).

These additional liabilities could reach \$2.2 billion. Further details on these liabilities are contained in the background document accompanying this statement. We are reviewing them to determine how to deal with them responsibly.

Preliminary indications from OPG that have recently come to our attention suggest there may be a substantial risk to its net income in the medium term. This risk could have a negative impact of \$250 million to \$900 million a year on our medium-term revenue outlook between 2004-05 and 2006-07. We will review these potential impacts as more information becomes available.

THE STARTING POINT

In the background document, we have included projections for each of the next three years. They describe the changes in spending that would be needed to reach a balanced budget by any of the next three years. They do not represent options so much as the starting point for our consultations.

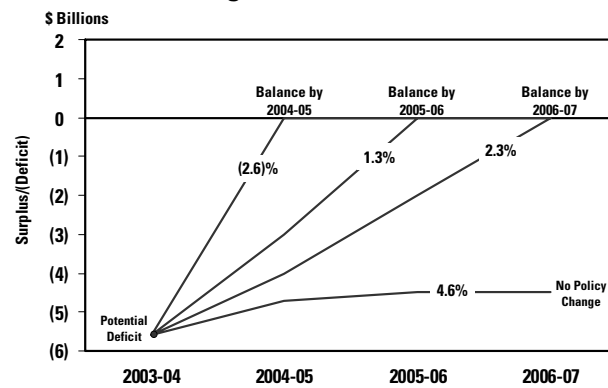
So, for example, spending would have to decline in absolute terms by 2.6 per cent from the level currently projected for this year to balance by the end of the upcoming fiscal year.

To get into the black by 2005-06, spending could increase by no more than an average of 1.3 per cent for each of the next two years.

To balance by 2006-07, spending could only grow by an average of 2.3 per cent a year for three years.

Even this is far less than the five per cent spending growth that has been the government average over the past five years.

Spending Growth Rates Required to Balance the Budget



Source: Ontario Ministry of Finance.

Clearly, we face some tough choices.

To be sure, we will not engage in a slash-and-burn “quick fix” approach that could endanger public services and, indeed, the economy itself. Ontario has had enough of that.

Instead, we must begin the work of transforming government, so that we can deliver high-quality public services on a sustainable basis.

STRONG ECONOMIC FUNDAMENTALS

While the finances we inherited are weak, our economy remains strong. Our workforce and businesses are performing well.

Despite setbacks like SARS, restricted border crossings, the blackout and mad cow disease, we are poised to achieve economic growth of 1.7 per cent this year. Private-sector forecasters agree that Ontario will rebound strongly next year and beyond. An average of their forecasts shows real GDP growth accelerating to 3.1 per cent next year, and 3.6 per cent the year after.

These gains reflect the latest data showing a rapid turnaround in the economy of the United States, our largest trading partner. After almost no growth in the current year, our exports are expected to grow by 4.2 per cent next year—this, despite our higher Canadian dollar.

We expect that by the end of this year Ontario will have created 158,000 net new jobs, seen more than 84,000 new housing starts, and enjoyed a 3.8 per cent rise in consumer spending.

While the increased value of our dollar has an impact on exporters, it will also help many of our businesses by lowering the cost of investing in imported equipment and technology. These investments, in turn, will boost productivity.

Our people and businesses have done their part. What they need now is a government that will do its part. And we will.

FIRST STEPS

We have already begun our work.

First, we acted immediately to restore a fair and competitive tax system to Ontario with the introduction of Bill 2, the Fiscal Responsibility Act, 2003. It will provide revenues we need to support the services Ontarians depend on.

Second, we have maintained a hiring freeze in the Ontario Public Service, while assuring those who work for this great province that strengthening public services is central to our mandate.

Third, we raised the cap on electricity prices. It wasn't an easy thing to do, but it was the right thing to do. The subsidized rates will have cost close to a billion dollars by the end of this fiscal year.

Fourth, we are improving transparency and accountability within the public sector. Our proposed changes to the *Audit Act* would allow value-for-money audits of hospitals, school boards, long-term care facilities, colleges and universities, Hydro One and OPG. In the wake of the Epp Report, we will ensure that the new leadership of OPG displays the openness and good governance that Ontarians have a right to expect.

Fifth, Mr. Speaker, we provided \$112 million in support for children who are struggling with their schoolwork.

Sixth, we have increased the minimum wage to \$7.15 an hour effective February 1—the first increase in almost nine years.

Seventh, we have moved to lower auto insurance rates and protect Ontario consumers.

We are fulfilling our commitments to the people of Ontario—and we will continue to do so.

THE WORK PLAN

Mr. Speaker, I have described the challenges, and the actions we have taken so far. But there is much more to do, and we have a work plan to guide us.

Our work plan consists of four major components:

1. An unprecedented consultation with the people of this province.
2. A broadly mandated period of restraint.
3. A commitment to build on the new spirit of co-operation among all levels of government.
4. The redesign of many government activities.

CONSULTATION

Our consultation with Ontarians is going to be comprehensive, intensive and inclusive.

Only with their help can we ensure the tough choices we face turn into the wise decisions that must be made.

We believe that front-line workers in the public sector are in a unique position to know what works and what doesn't—both in their own jobs and within their sector as a whole. We want to hear from them.

We know that business people bring an invaluable perspective to the table, from how to grow our economy to how to serve consumers. We want to hear from them.

We want to hear from all Ontarians, from every walk of life and every corner of the province, for they are the people we are privileged to serve. On the Web, through citizens' juries, in town hall meetings, people will have their say, on their services, and the hard-earned dollars they want invested in those services.

RESTRAINT

The second element of our work plan is restraint. This must be our watchword as we begin to redesign government. We are already paying more than \$10 billion a year in interest on our debt. This is more than we spend in operating funding for our primary and secondary schools.

So we are asking our partners in health care, education and the rest of the broader public sector to temper their requests for more. We are asking them to bring forward new ideas to ensure the long-term sustainability of the public services they work so hard to provide.

I want to stress that this fiscal challenge is a threat to the services we are providing now, let alone the improvements we all want. But I also reassure all Ontarians that while the fiscal challenge we face has changed our timetable, it has not altered our commitment to these improvements one iota.

BUILDING ON INTERGOVERNMENTAL CO-OPERATION

The third element of our work plan is building on greater co-operation among all levels of government in Canada. From the recent Grey Cup Summit to the creation of the Council of the Federation, there are positive signs that governments across the country are listening to each other, and are ready to work together.

We have already reached new, constructive agreements with the federal government on SARS relief, highway construction, and agriculture.

The recent joint Greater Toronto Area caucus meeting was another watershed. Provincial, federal and municipal elected officials came together to talk about transit and housing—the most urgent needs of Canada’s largest urban area.

Premier McGuinty will soon appoint the member for Kitchener Centre, John Milloy, his parliamentary assistant for intergovernmental affairs, to a special mandate to foster more constructive relationships between governments and in particular with the federal government.

We believe that governments work best when they work together.

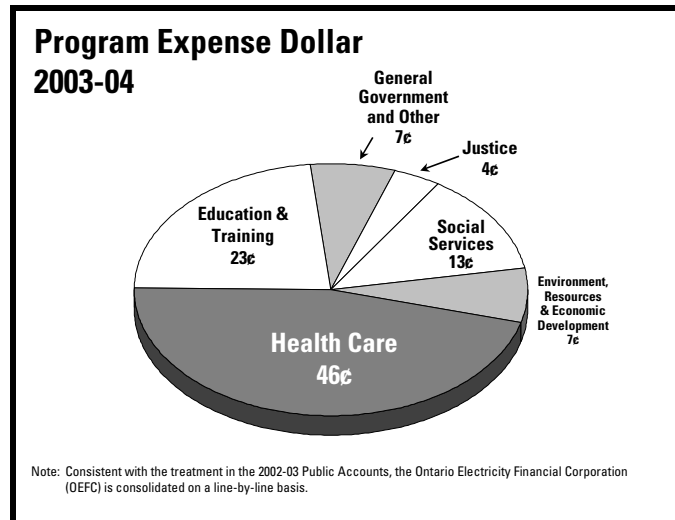
REDESIGNING GOVERNMENT

The fourth element of our work plan is redesigning government. We must develop new ways of thinking about spending and revenues.

Like all provinces, we face increasing challenges in meeting our citizens' health care needs. Forty-six per cent of our program spending goes to the health care system.

We must explore ways to make sure we deliver health care effectively, efficiently and responsibly.

We must apply that thinking to all of our public services, and indeed the structure of government as a whole.



We must be relentless in the pursuit of the best ideas, models and practices in the world for delivering and sustaining high-quality public services.

Mr. Speaker, the first decision that a good government makes is not to spend more, or to spend less. It is to spend wisely.

WHY THIS IS IMPORTANT

Mr. Speaker, let me conclude by telling this House why this is so important.

The deficit we have inherited threatens all that we want for Ontarians. Without a strong fiscal foundation, we cannot build a stronger Ontario.

We will do what we must do—while always remembering that the people of Ontario didn't send us here to simply crunch numbers and defeat deficits.

They sent us here with a greater mission: to strengthen our schools and our health care system, our cities and towns—the communities in which we build our businesses, celebrate our friendships, and raise our families.

Ontarians understand, *we* understand, that fiscal responsibility is a means to an end. And that end is a strong economy, of course—but a high quality of life above all.

Mr. Speaker, together, we will get the numbers right. We will repair the balance sheet. We will strengthen our financial position, so we can deliver the finest schools, the best health care, the cleanest environment and the strongest of communities.

So we can, as the Premier has said, make Ontario the envy of the world.

Thank you, Mr. Speaker.