Budget Sensitivities

Changes in Ontario's current revenue or expense policies, as well as external factors can have a significant impact on Ontario's budget balance by 2025-26. To gauge the sensitivity of Ontario's finances to changes in key variables, the FAO estimated the impact of changes in four key areas to Ontario's budget balance in 2025-26. These areas include: tax policy, federal transfers, spending and interest rates.

For example, if the government permanently raised personal income tax (PIT) rates in 2018-19 to generate 10 per cent more PIT revenue (roughly an additional $510 per taxpayer on average in that year), Ontario's deficit would fall by $6.5 billion by 2025-26.

For the HST, if the government permanently raised the rate from 8.0 per cent to 9.0 per cent beginning in 2018-19, it would raise about $3.4 billion in the first year. Over time, this amount would grow, while interest on debt payments would be somewhat lower. The combined effect would lower Ontario's deficit in 2025-26 by $6.0 billion.

For spending, if the government was able to reduce the growth rate of health care spending by 1 per cent in each year of the projection, Ontario's deficit would improve by $7.5 billion by 2025-26.

Sensitivity of Ontario's budget balance to select factors

Change Beginning in 2018-19	Deficit Reduction in:	
	2018-19	2025-26
Taxation		
A sustained 10 per cent increase in Personal Income Tax revenues ($510 per tax filer in 2018-19) over the projection	$3.6 billion	$6.5 billion
A sustained 1 percentage point increase in the general Corporations Tax rate over the projection	$1.2 billion	$2.1 billion
A sustained 1 percentage point increase in the HST rate over the projection	$3.4 billion	$6.0 billion
Federal Transfers		
A sustained 1 percentage point increase in the annual growth of the Canada Health Transfer over the projection	$0.1 billion	$1.9 billion
A sustained 1 percentage point increase in the annual growth of the Canada Social Transfer over the projection	$0.1 billion	$0.7 billion
Health Care Spending		
A sustained 1 percentage point decrease in the growth rate of health care spending over the projection	$0.6 billion	$7.5 billion
Interest Rates		
A sustained 1 percentage point decrease in Ontario's effective borrowing rate over the projection	$0.4 billion	$3.1 billion

Note: These estimates include the associated impact to interest on debt, but do not incorporate any economic feedback effects.

Source: FAO.

5 | Appendices

Forecast Tables

Table 1a: FAO outlook for key revenue drivers

(Per Cent Growth)	2016a	2017e	2018f	2019f	2020f	2021f	2022f	Average*
Nominal GDP								
FAO - Spring 2018	4.3	4.5	4.2	4.1	4.1	3.9	3.9	4.1
Ontario Budget 2018	4.3	4.4	4.1	3.9	4.0	3.9	-	4.0
Current FAO Consensus **	4.3	4.5	4.1	4.0	3.9	4.1	4.1	4.0
Labour Income								
FAO - Spring 2018	3.4	3.7	5.3	4.4	4.0	3.8	3.8	4.4
Ontario Budget 2018 ***	3.3	3.6	5.9	4.5	4.2	4.2	-	4.7
Corporate Profits								
FAO - Spring 2018	7.3	9.9	2.4	3.1	4.4	4.1	4.1	3.5
Ontario Budget 2018	7.3	9.2	1.5	3.5	2.8	4.1	-	3.0
Household Consumption								
FAO - Spring 2018	4.2	4.4	4.5	4.2	3.8	3.8	3.8	4.1
Ontario Budget 2018****	4.2	-	4.8	4.2	4.0	-	-	4.3

a = Actual e = Estimate f = Forecast
* For comparison purposes, average is calculated from 2017 to 2021.
** FAO Consensus includes forecasts from the Centre for Spatial Economics, the Policy and Economic Analysis Program at the University of Toronto, and the Conference Board of Canada.
*** 2018 Ontario Budget reports Labour Income on a National Basis, whereas FAO reports Labour Income on a Domestic Basis.
**** The average for Household Consumption in the 2018 Ontario Budget is from 2018 to 2020.
Source: Statistics Canada, 2018 Ontario Budget, Ontario Economic Accounts, FAO Consensus and FAO.

Table 1b: FAO outlook for Ontario real GDP and components

(Per Cent Growth)	2016a	2017e	2018f	2019f	2020f	2021f	2022f	Average*
Real GDP								
FAO - Spring 2018	2.6	2.7	2.2	2.0	1.9	1.9	1.9	2.0
Ontario Budget 2018	2.6	2.7	2.2	1.8	1.9	1.7	-	1.9
Current FAO Consensus **	2.6	2.8	2.1	2.0	2.1	2.1	2.0	2.1
Real GDP Components								
Household Consumption ***	2.9	3.5	2.5	1.9	1.8	1.8	1.8	2.0
Residential Investment	7.4	2.9	-3.5	0.9	1.8	2.1	2.4	0.3
Business Investment ****	-8.8	4.8	5.9	4.8	3.4	3.0	2.7	4.3
Government (Consumption and Investment)	2.1	2.9	3.3	1.7	1.2	1.2	1.2	1.9
Exports	2.5	-1.4	1.9	2.2	2.0	2.0	2.0	2.0
Imports	0.0	1.2	1.6	1.9	1.8	1.8	1.8	1.8

a = Actual e = Estimate f = Forecast
* For comparison purposes, average is calculated from 2017 to 2021.
** FAO Consensus includes forecasts from the Centre for Spatial Economics, the Policy and Economic Analysis Program at the University of Toronto, and the Conference Board of Canada.
*** Household Consumption is Household and Non-Profit Consumption Expenditure.
**** Business Investment is Non-residential Investment and Machinery & Equipment.
Source: Statistics Canada, 2018 Ontario Budget, Ontario Economic Accounts, FAO Consensus and FAO.

Table 2: FAO outlook for selected economic indicators

	2016a	2017a	2018f	2019f	2020f	2021f	2022f
Employment (Per Cent Growth)							
FAO - Spring 2018	1.1	1.8	1.5	1.2	1.0	0.9	0.9
Ontario Budget 2018	1.1	1.8	1.7	1.1	0.9	0.8	-
Unemployment Rate (Per Cent)							
FAO - Spring 2018	6.5	6.0	5.8	5.8	5.9	5.9	5.9
Ontario Budget 2018	6.5	6.0	5.5	5.4	5.4	5.4	-
Labour Force (Per Cent Growth)							
FAO - Spring 2018	0.9	1.2	1.2	1.2	1.1	0.9	0.9
Ontario Budget 2018	-	-	-	-	-	-	-
Population Growth (Per Cent)							
FAO - Spring 2018	1.3	1.6	1.3	1.2	1.2	1.1	1.1
Ontario Budget 2018	-	-	-	-	-	-	-
CPI Inflation (Per Cent Growth)							
FAO - Spring 2018	1.8	1.7	2.1	2.3	2.0	2.0	2.0
Ontario Budget 2018	1.8	1.7	2.2	2.2	2.1	1.9	-
Canada Real GDP (Per Cent Growth)							
FAO - Spring 2018	1.4	3.0	2.1	2.0	2.0	2.0	1.9
Ontario Budget 2018	-	-	-	-	-	-	-
U.S. Real GDP (Per Cent Growth)							
FAO - Spring 2018	1.5	2.3	2.6	2.3	2.0	2.0	1.9
Ontario Budget 2018	1.5	2.3	2.8	2.4	2.1	2.0	-
Canadian Dollar (Cents US)							
FAO - Spring 2018	75.5	77.0	76.3	76.6	76.9	77.5	78.1
Ontario Budget 2018	75.5	77.0	80.1	80.9	81.2	81.2	-
WTI Crude Oil (US$)							
FAO - Spring 2018	43	51	59	58	61	64	68
Ontario Budget 2018	43	51	59	59	59	60	-
Three-month Treasury Bill Rate (Per Cent)							
FAO - Spring 2018	0.5	0.7	1.3	1.9	2.3	2.6	2.9
Ontario Budget 2018	0.5	0.7	1.4	2.2	2.7	2.7	-
10-year Government Bond Rate (Per Cent)							
FAO - Spring 2018	1.3	1.8	2.3	2.7	3.1	3.3	3.5
Ontario Budget 2018	1.3	1.8	2.4	3.0	3.5	3.5	-

a = Actual f = Forecast

Source: Statistics Canada, 2018 Ontario Budget, Bank of Canada, 2018 Federal Budget, FAO Consensus and FAO.

Table 3a: Medium-term FAO fiscal outlook

($ Billions)	2016a	2017f	2018f	2019f	2020f
Revenue					
Personal Income Tax	30.7	32.4	35.2	37.0	38.8
Sales Tax	24.8	26.0	26.8	27.9	28.9
Corporations Tax	14.9	15.7	15.2	15.7	16.2
All Other Taxes	24.1	25.3	25.9	26.7	27.5
Total Taxation Revenue	94.3	99.4	103.1	107.2	111.4
Transfers from Government of Canada	24.5	25.3	26.0	25.6	26.7
Income from Government Business Enterprise	5.6	6.1	4.9	6.0	6.6
Other Non-Tax Revenue	16.3	19.3	17.6	17.7	18.0
Total Revenue	140.7	150.2	151.5	156.6	162.8
Expense					
Health Sector	55.9	58.3	61.3	64.2	66.6
Education Sector	26.6	27.5	29.1	30.1	31.5
Postsecondary and Training Sector	10.1	11.1	11.8	12.0	12.0
Children's and Social Services Sector	16.1	16.8	17.9	18.7	19.8
Justice Sector	4.6	4.9	5.0	5.0	5.0
Other Programs	18.2	23.2	25.8	26.1	26.8
Total Program Expense	131.5	141.8	150.9	156.1	161.8
Interest on Debt	11.7	12.0	12.4	13.0	13.6
Total Expense	143.2	153.7	163.3	169.0	175.4
Budget Balance * (AG Presentation)	-2.4	-3.6	-11.8	-12.4	-12.7
Accounting Adjustments					
Fair Hydro Plan	-	2.0	2.4	2.6	2.8
Net Pension Assets	1.4	2.2	2.6	3.0	3.2
Total Accounting Adjustments	**1.4**	**4.2**	**5.0**	**5.6**	**6.0**
FAO Budget Balance* (Government's Presentation)	**-1.0**	**0.7**	**-6.8**	**-6.8**	**-6.6**
Budget Balance* (2018 Budget)	**-1.0**	**0.6**	**-6.0**	**-5.9**	**-5.8**

a = Actual f = Forecast

* Budget balance is presented without reserve.

Note: Years represent fiscal years starting in number presented (i.e. 2017 is fiscal year 2017-18). Numbers may not add up due to rounding. All values presented on Auditor General's recommended accounting standards.

Source: 2018 Ontario Budget, Public Accounts of Ontario and FAO.

Table 3b: Medium-term FAO debt outlook

($ Billions)	2016a	2017f	2018f	2019f	2020f
Budget Balance*	-2.4	-3.6	-11.8	-12.4	-12.7
AG Presentation					
Accumulated Deficit	205.9	209.5	221.3	233.7	246.4
Net Debt	314.1	324.8	346.7	370.2	393.8
Net Debt to GDP (Per Cent)	39.5	39.1	40.1	41.1	42.0
Impact of Accounting Adjustments	12.4	16.7	21.7	27.3	33.3
Government Presentation					
Net Debt	301.6	308.1	325.0	342.9	360.5
Net Debt to GDP (Per Cent)	38.0	37.1	37.6	38.1	38.5

a = Actual f = Forecast

* Budget Balance is presented without reserve.

Note: Years represent fiscal years starting in number presented (i.e. 2017 is fiscal year 2017-18). Numbers may not add up due to rounding. All values presented on Auditor General's recommended accounting standards.

Source: Statistics Canada, 2018 Ontario Budget and FAO.

Table 4: Extended FAO fiscal outlook

($ Billions)	2021f	2022f	2023f	2024f	2025f
Spending Restraint Projection					
Total Revenue	169.1	175.2	181.5	188.1	195.0
Total Expense	179.9	183.5	186.9	190.3	193.9
Program Expense	165.5	168.4	171.2	174.2	177.5
Interest on Debt	14.4	15.1	15.6	16.1	16.4
Budget Balance*	**-10.8**	**-8.2**	**-5.3**	**-2.2**	**1.1**
Net Debt to GDP (Per Cent)	**42.8**	**43.1**	**42.7**	**42.0**	**40.8**
Status Quo Projection					
Total Revenue	169.1	175.2	181.5	188.1	195.0
Total Expense	182.4	189.3	196.2	203.6	211.6
Program Expense	167.9	173.9	179.8	186.1	193.0
Interest on Debt	14.5	15.4	16.4	17.5	18.7
Budget Balance*	**-13.3**	**-14.1**	**-14.7**	**-15.4**	**-16.6**
Net Debt to GDP (Per Cent)	**43.1**	**43.9**	**44.4**	**44.8**	**45.1**
Impact of Accounting Adjustments					
To Budget Balance ($ Billions)	6.0	5.7	5.3	5.0	4.8
To Net Debt-to-GDP (Per Cent)	4.0	4.5	4.8	5.1	5.3

a = Actual f = Forecast

*Budget Balance is presented without reserve.

Note: Years represent fiscal years starting in number presented (i.e. 2017 is fiscal year 2017-18). Numbers may not add up due to rounding. All values presented on Auditor General's recommended accounting standards.

Source: Statistics Canada, 2018 Ontario Budget, Public Accounts of Ontario and FAO.

Table 5: Provincial comparisons

Fiscal Performance (2016-17)	NL	PE	NS	NB
Total Revenue				
Per Capita ($)	13,803	11,590	10,345	11,654
to GDP (%)	23.5	27.4	23.5	25.8
Total Program Expenditures				
Per Capita ($)	13,743	10,881	9,764	11,041
to GDP (%)	23.4	25.7	22.2	24.4
Interest on Debt				
Per Capita ($)	2,097	829	868	918
to GDP (%)	3.6	2.0	2.0	2.0
to Revenue (%)	15.2	7.2	8.4	7.9
Total Expenditures				
Per Capita ($)	15,840	11,710	10,633	11,959
to GDP (%)	27.0	27.7	24.2	26.5
Primary Balance				
Per Capita ($)	60	709	581	613
to GDP (%)	0.2	11.2	1.4	1.8
Deficit (-) or surplus				
Level (Millions $)	-1,080	-18	150	-231
Per Capita ($)	-2,037	-120	158	-305
to GDP (%)	-3.5	-0.3	0.4	-0.7
Net Debt				
Level (Millions $)	14,251	2,196	14,955	13,997
Per Capita ($)	26,874	14,694	15,765	18,481
to GDP (%)	45.8	34.7	35.8	40.9
Economic and Demographic Indicator Growth (2016)				
(Per Cent)				
Real GDP	1.9	2.3	0.8	1.2
Nominal GDP	2.6	4.0	2.8	3.6
Employment	-1.5	-2.3	-0.4	-0.1
Population	0.3	1.8	0.8	0.5

* Ontario 2016-17 Fiscal Performance measures are presented after adjustment for pension assets.

Source: FAO, Department of Finance Canada's Fiscal Reference Tables (September 2017) and Statistics Canada.

QC	Ontario*	MB	SK	AB	BC
12,313	10,069	11,868	11,863	10,009	10,816
26.0	17.7	23.1	18.1	13.5	19.5
10,861	9,406	11,818	12,451	12,315	9,697
22.9	16.5	23.0	19.0	16.6	17.5
1,164	838	712	473	240	544
2.5	1.5	1.4	0.7	0.3	1.0
9.5	8.3	6.0	4.0	2.4	5.0
12,025	10,244	12,529	12,924	12,555	10,241
25.3	18.0	24.3	19.7	16.9	18.5
1,451	664	50	-587	-2,305	1,119
0.4	0.1	0.1	-0.8	-0.7	0.4
-100	-2,435	-872	-1,218	-10,784	2,737
275	-174	-662	-1,061	-2,546	575
0.6	-0.3	-1.3	-1.6	-3.4	1.0
185,214	314,077	23,111	10,192	-3,919	37,795
22,256	22,472	17,533	8,873	2,101	7,944
46.9	39.5	34.1	13.5	2.8	14.3
1.4	2.6	2.2	-0.5	-3.7	3.5
2.7	4.3	2.3	-4.0	-4.9	4.8
0.9	1.1	-0.4	-0.9	-1.6	3.2
0.8	1.4	1.8	1.5	1.4	1.3