

Re: Summary: FAO's Fall Economic and Fiscal Outlook Report

From: "Thompson, Scott (MOF)" <scott.thompson@ontario.ca>
To: "Lewis, Brian (MOF)" <brian.lewis@ontario.ca>, "Schuurman, Tim (MOF)" <tim.schuurman@ontario.ca>
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Date: Mon, 10 Oct 2016 17:21:18 -0400

Thanks Brian. Good point on the OEA timing. Please follow up with FAO office. I don't mind if they are heavier on the downside risks, since that gives us a good point upon which to differentiate our version of the fiscal plan from his.
Scott

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Lewis, Brian (MOF)
Sent: Monday, October 10, 2016 5:17 PM
To: Thompson, Scott (MOF); Schuurman, Tim (MOF)
Cc: McLean, David (MOF); Pearce, Christopher (MOF); Tarin, Ghufuran (MOF); Birks, Ryan (MOF); McGrath, Tara (MOF); Lindquist, Emma (MOF); Esmail, Selena (MOF); Tiburcio, Daniel (MOF); Inglis, Liane (MOF); Lewis, Paul (MOF)
Subject: RE: Summary: FAO's Fall Economic and Fiscal Outlook Report

My \$0.02 worth in addition to the summary....

They have also incorporated the Q2 OEA #s, which we sent to them embargoed with Minister approval, but now the OEA won't be out before their report, so we'll need to ask them to be circumspect about how they describe the April to June quarter.

This version is a draft, and the FAO has invited us to provide comments on it. I'm not finding too much in there to provide them with comment on, expect that their discussion of risks is very one-sided (all downside) again. Last time around they didn't really make much change based on our comments. We'll go over it in detail tomorrow and see what else is in there we would provide comments on.

From: Thompson, Scott (MOF)
Sent: October-10-16 4:52 PM
To: Schuurman, Tim (MOF)
Cc: Lewis, Brian (MOF); McLean, David (MOF); Pearce, Christopher (MOF); Tarin, Ghufuran (MOF); Birks, Ryan (MOF); McGrath, Tara (MOF); Lindquist, Emma (MOF); Esmail, Selena (MOF); Tiburcio, Daniel (MOF); Inglis, Liane (MOF)
Subject: Re: Summary: FAO's Fall Economic and Fiscal Outlook Report

This is a very helpful summary, Tim. Nice work. We should summarize what we know from the FAO draft report with FPC this week, while living within their request for not sharing the specific material. Scott

Sent from my iPad

On Oct 7, 2016, at 6:40 PM, Schuurman, Tim (MOF) <Tim.Schuurman@ontario.ca> wrote:

Hello

We thought it would be useful to share a short summary of what the initial draft of the FAO's Economic and Fiscal Outlook Report includes. Please note that the FAO has requested this information only be shared with OPS staff at this point.

Fiscal Outlook

The FAO is projecting that Ontario will “near balance” in 2017-18. The FAO is currently projecting Ontario budget deficits of \$2.6 billion in 2016-17 and \$0.4 billion in 2017-18 (excludes the reserve), which represent modest improvements from the FAO's spring outlook report. This compares to 2016 Budget projections of a \$3.3 billion deficit in 2016-17 and \$1.1 billion surplus in 2017-18, without the reserve.

The FAO has also forecasted projections for Ontario's path to balance based on the change in the accounting treatment of pensions from the Public Accounts. It **carries forward the associated \$1.5 billion increase in program expense** through to 2020-21, resulting in projected budget deficits of \$4.1 billion in 2016-17 and \$1.9 billion in 2017-18 (excluding the reserve).

Beginning in 2018-19, the FAO projects that the deficit will steadily deteriorate as a result of increases in program spending and interest on debt payments that exceed revenue growth – similar to the spring report.

<image001.jpg>

Key factors driving change in Ontario's fiscal position since spring 2016 FAO report:

- 8.3 per cent increase in tax revenues in 2015-16 (strong PIT revenue), partially offset by slightly higher than expected program spending;
- new spending commitments, announced in the Speech from the Throne (child care spaces and HST rebate for household electricity bills, which the FAO estimates at \$1.8 billion/year starting in 2017-18);
- lower than expected economic growth in 2016 and 2017, which moderately dampens the expected growth in tax revenues.

The FAO expects Ontario's **net debt to rise by \$61 billion over the next five years** to \$366 billion by 2020-21, as a result of carrying forward the impact of the change in pension asset accounting included in the 2015-16 Public Accounts. The accounting change as well as the FAO's projected slower growth in nominal GDP, results in a higher net debt-to-GDP ratio relative to the FAO spring outlook and the 2016 Budget forecast (41.1% in 2016-17 declining to 40.6% by 2020-21).

Economic/Revenue Outlook

- The FAO has **modestly revised down its forecast for Ontario real GDP growth**, on average, over the 2016 to 2020 period relative to its spring forecast. Nominal GDP growth forecast for 2016 and 2017 was revised down, but modest upward revisions were made to 2018-2020.
- The FAO forecast for real GDP growth is similar to the preliminary FES forecast between 2016 and 2019.
- From 2015-16 to 2018-19, FAO projects 3.1% total revenue growth and 2.7% taxation revenue growth. This is below current MoF revenue projections for 3.4% total revenue growth and 3.7% over this same period.

We will be working with our partners across OEP, TBS, OFA/CEFD to provide further a more detailed analysis and fact check in time for requested feedback to the FAO by end of day Wednesday October 12. Subsequently, we'll also be working with partners to prepare materials to support the Ministers for the release of the report.

Tim Schuurman
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