1

EXECUTIVE SUMMARY

FAO Projects a Return to Significant Budget Deficits

Despite a strong boost to revenues this year, the FAO is projecting an Ontario budget deficit of $4.0 billion in 2017-18, the result of the Auditor General of Ontario's recommended accounting treatment for both the government's Fair Hydro Plan and the net pension assets of jointly-sponsored pension plans.[1]

Beyond 2017-18, the FAO is projecting a significant increase in the budget deficit due to the loss of time-limited revenues, a more moderate pace of tax revenue growth, and the growing fiscal impact from the Fair Hydro Plan. By 2021-22, the FAO is projecting a budget deficit of $9.8 billion, in the absence of any fiscal policy changes. This is a significant deterioration since the FAO's spring outlook[2] and is primarily the result of the introduction of the Fair Hydro Plan, which will add $3.2 billion to the budget deficit by 2021-22, under the Auditor General's recommended accounting treatment.

In contrast, under the government's accounting framework, the FAO projects a small budget surplus in 2017-18, and a return to budget deficits beginning in 2018-19 due to the loss of temporary revenues and moderate growth in tax revenues.

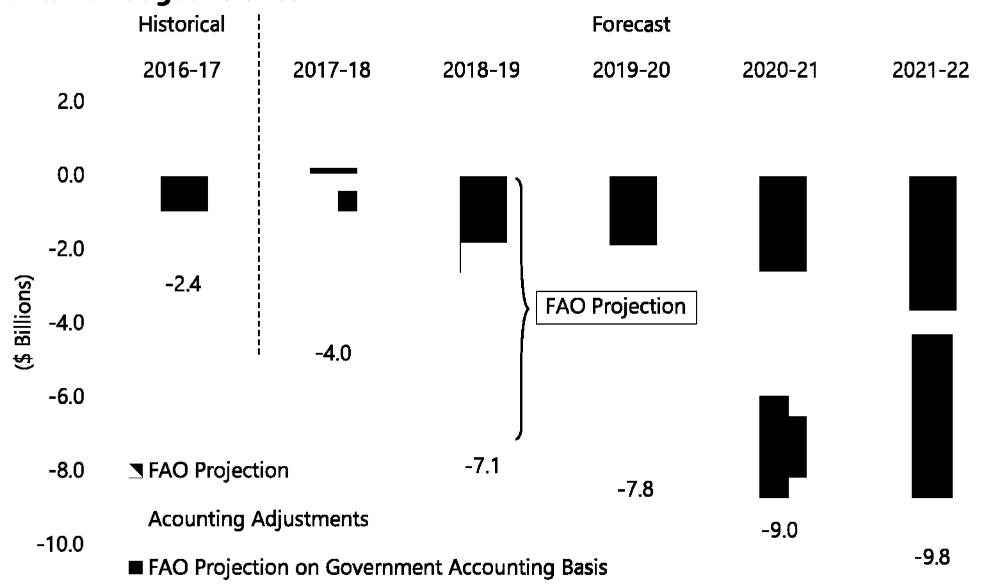
Since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more

1 See 'The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value For Money,' Auditor General of Ontario, October 2017; 'Independent Auditor's Report, 2016-17 Consolidated Financial Statements', Auditor General of Ontario, 2017; and 'An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan,' Financial Accountability Office, 2017.

2 'Economic and Fiscal Outlook, Assessing Ontario's Medium-term Prospects, Spring 2017,' Financial Accountability Office of Ontario.

difficult for legislators and the public to assess the government's fiscal projections. This has reduced the transparency and reliability of Ontario's fiscal plan.

Ontario Budget Balance



Note: Budget Balance before reserve.

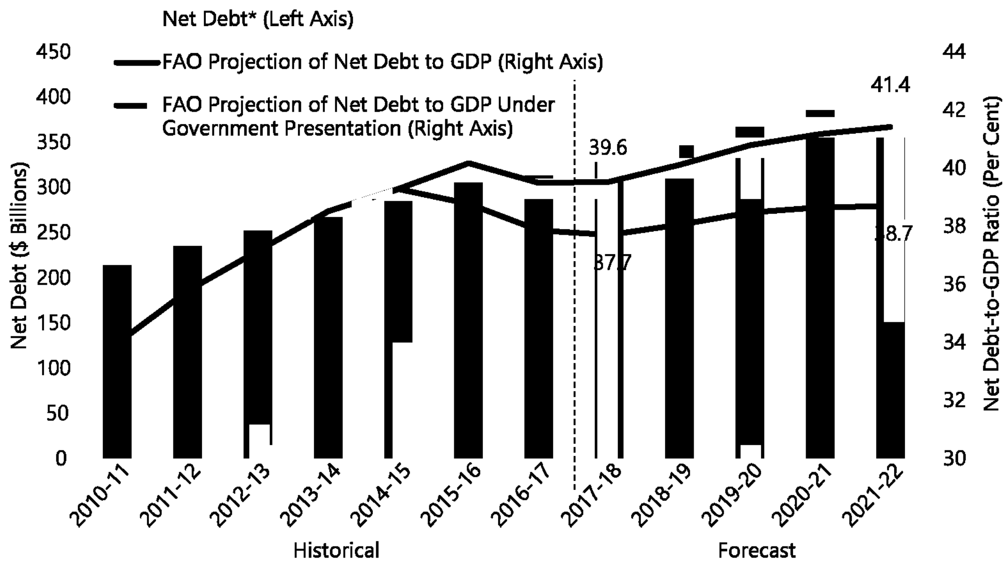
Source: Ontario Public Accounts, 2017 Ontario Economic Outlook and Fiscal Review and FAO.

The FAO is projecting very strong growth for the Ontario economy in 2017. Consistent with the outlook of most economic forecasters, the FAO expects the economy will grow at a more measured pace beginning in 2018. However, Ontario's economic performance could worsen if the renegotiation of NAFTA impairs Ontario's access to the US market, or if households reduce discretionary spending due to high debt levels and rising interest rates.

Total revenues are forecast to increase by 3.5 per cent per year on average over the outlook, somewhat slower than the rate of GDP growth. This reflects the loss of time-limited revenues in 2018-19, as well as moderating tax revenue growth over the outlook. By comparison, the FAO projects program spending will grow by 4.4 per cent on average from 2017-18 to 2021-22, when all spending related to the Fair Hydro Plan is included.

The FAO projects Ontario's net debt-to-GDP ratio will remain essentially unchanged in 2017-18 at just under 40 per cent. However, over the next four years, the FAO expects that without any change to current fiscal policies, approximately $75 billion will be added to Ontario's net debt, increasing the net debt-to-GDP ratio to over 41 per cent by 2021-22.[3] In contrast, the government continues to maintain a net debt-to-GDP target of 35 per cent by 2023-24 and 27 per cent by 2029-30.

Net Debt Outlook



* Net debt is presented on the AG's recommended accounting basis, which includes the impact of the Fair Hydro Plan and the pension adjustment.

Source: 2017 Ontario Economic Outlook and Fiscal Review, Ontario Public Accounts and FAO.

Current and future Ontario governments are facing difficult policy choices. Based on the FAO's fiscal projection, additional measures to raise revenue or lower spending will be required if the Province intends to achieve and maintain a balanced budget, and lower Ontario's debt burden.

3 The FAO's estimate of net debt incorporates the AG's recommended accounting framework.