Draft note from MoF on FAO report

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Date:	Fri, 08 Dec 2017 16:06:34 -0500
Attachments:	Media Advisory-FAO Fall 2017 Economic and Fiscal Outlook -En.docx (27.56 kB); FAO_fall_economicfiscal_outlook2017_OBT.doc (110.08 kB)

Hi Jordan,
Please see attached draft note from MoF on the FAO report to be released on Monday. I've also attached the media advisory from the FAO.

Rollout: The media briefing's start time has changed to 9:00 a.m. in Rm 228 of the Legislature. At the media briefing at 9:15 a.m., senior officials from the Financial Accountability Office of Ontario (FAO) will provide a brief presentation and review of the report, and answer questions on a not-for-attribution basis. Copies of the report will be available for the media at the start of the briefing at 8:00 a.m.

Press conference is at 10 a.m.

Overview:

· On December 11, 2017, the FAO will release its fall 2017 assessment of Ontario's medium-term economic and fiscal outlook.

· The FAO is projecting very strong growth for the Ontario Economy in 2017 along with a budget deficit of $4.0 billion.

· By 2021-2022, the FAO is projecting a budget deficit of $9.8 billion and $75 billion will be added to Ontario's net debt, increasing the net debt-to-GDP ratio to over 41 per cent.

KEY POINTS
Economic Outlook

- The FAO has raised its forecast for Ontario economic growth in 2017 from its spring outlook report. However, despite this upward revision, the FAO forecast is at the bottom of the current range of the MOF survey of private sector forecasts for both real and nominal GDP growth in 2017.
- Beyond 2017, the FAO forecast anticipates growth to moderate as the housing market and consumer spending cool alongside gradually rising interest rates, in line with the FES forecast.
- Over the 2017 to 2020 period, the FAO's forecast for average annual real GDP

growth of 2.2 per cent is the same as the 2017 FES outlook.
- However, for nominal GDP growth, the FAO's average annual forecast of 4.2 per cent over the 2017 to 2020 period is slower than the FES projection of 4.4 per cent growth. This difference is explained by a much lower FAO nominal GDP forecast in 2017 compared to the FES (4.7 per cent vs 5.3 per cent).
- The FAO forecast takes into account its estimate of the impact of the new minimum wage legislation, which is expected to boost wage growth over the forecast, but temper employment gains. Even with these employment impacts, the FAO predicts a modest decline in the unemployment rate.

Fiscal Outlook
- The FAO is projecting a budget deficit of $4.0 billion in 2017–18 using the **Auditor General's recommended accounting treatment for both the Fair Hydro Plan and the net pension assets of jointly sponsored pension plans.** In the absence of any fiscal policy changes the deficit grows steadily to $9.8 billion in 2021-22.
- Under the **government's accounting presentation (excluding the AG's recommendations)**, the FAO projects a small surplus for 2017–18 of $0.2 billion (excluding the reserve) and a return to deficits beyond 2017–18 driven by revenue factors - loss of temporary revenues combined with more moderate tax revenue growth.
- The FAO suggests that by not adopting the AG's recommended accounting presentation, the 2017 Budget and the 2017 FES have reduced transparency and clarity of Ontario's fiscal position and Ontario will continue to receive qualified opinions from the AG on its Pubic Accounts.

Budget Balance - FAO's Fiscal Outlook ($ Billions)	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**
AG Presentation	-5.0	-2.4	-4.0	-7.1	-7.8	-9.0	-9.8
Government Presentation	-3.5	-1.0	0.2	-1.9	-1.9	-2.6	-3.7
2017 FES -- Excluding Reserve	-3.5	-1.0	0.5	0.5	0.8	N/A	N/A

Revenue Outlook
- The FAO is projecting average annual revenue growth of 3.2 per cent from 2016-17 to 2019-20 as compared with the government's projections of 4.0 per cent. The main drivers are:
  - The FAO projections for taxation revenues are $2.9 billion lower by 2019-20 than the projections in the 2017 FES due to lower projected growth in household spending, labour income and corporate profits.
  - In addition, the FAO continues to highlight a number of one-time 2017-18 revenues, including: increase to sales and rentals from sale of final tranche of H1, higher federal transfers for infrastructure (PTIF), a one-time boost from extra Cap and Trade auction. Taken together the FAO estimates that these amount to $4.5 billion in additional one-time revenues in 2017-18.

Expense Outlook

- From 2017–18 to 2019–20 the FAO's outlook adopts the government's 2017 FES projections for program spending, **adjusted to reflect the AG's recommended accounting presentation.**
  - Both the Fair Hydro Plan and net pension asset adjustment impact the expense side with a combined impact of approximately $4.2 billion in 2017-18.

- The FAO notes that in 2018-19 and 2019-20, increases in program spending will be restrained to an average of 2.4 percent, below the growth in underlying spending pressures. Beyond 2019–20 the FAO projects program spending will grow faster -- at an average annual rate of 4.2 per cent – due to population pressures.

Borrowing and Net Debt

- Using the **government's accounting presentation** net debt-to-GDP is expected to reach 38.5 per cent by 2019–20 and 38.7 per cent by 2021–22. This increases to 41.4 per cent by 2021–22 **under the AG's accounting presentation for jointly sponsored pension plans and the Fair Hydro Plan.**
  - The 2017 FES projected a net debt-to-GDP ratio of 37.0 per cent by 2019–20.