

ANNEX I

Ontario's Economy



Introduction

The Ontario economy is poised to rebound from the series of unanticipated shocks that dramatically slowed economic growth in 2003.

This annex presents the current average of private-sector forecasts for the Ontario economy for 2003 to 2006 and discusses the revenues that can be anticipated based on these forecasts.

While each forecast differs in detail, they all agree that Ontario's future prospects are brighter than this year's performance. Ontarians can look forward to a growing economy, strong job creation and rising incomes.

This future improvement, however, cannot be taken for granted. How well the economy performs will depend on both global events and on how well Ontario manages its own affairs.

Ontario is wide open to the world economy. Its growth depends to a large extent on external developments, notably the economic health of its leading trading partner, the United States, as well as the rise and fall of interest rates and movements in the Canada-U.S. exchange rate. As the experience of the past year vividly shows, the economy can also be severely affected by unanticipated shocks. The potential impact of these unexpected events underscores the need for prudence in planning.

Following a summary of the main features of the economic and revenue outlook, this annex describes the private-sector consensus view for the external environment, the outlook for the key indicators of Ontario's economic performance and the revenue outlook. The consensus projections provide a reasonable framework for budget consultations and planning. Ontario will present an updated set of planning assumptions when the 2004 Budget is introduced.

Summary

The Ontario economy suffered a number of unexpected setbacks in 2003, including the uncertainty caused by the Iraq war, Severe Acute Respiratory Syndrome (SARS), mad cow disease, the August blackout and the rapid appreciation of the Canadian dollar. The Iraq war dampened consumer and business confidence. SARS had a negative impact on the economy, especially in the second quarter with consumer spending and tourism being particularly hard-hit. The rapid rise in the Canadian dollar from 64 cents US at the start of the year to a high of over 77 cents US in December presents a challenge for Ontario's export and tourism industries. The electricity blackout on August 14 shut down power in most of Ontario for one business day and forced key industries to operate at reduced capacity during the following week. For the year as a whole, Ontario's real GDP growth slowed to an estimated 1.7 per cent, down from 3.6 per cent in 2002, in large part reflecting the negative impact of these events.

The outlook for the years ahead is brighter. While the global economy continues to face a variety of risks, recent data indicate that growth is strengthening worldwide. As the impact of temporary shocks diminishes, Ontario's economy is expected to regain momentum. Private-sector forecasters, on average, expect Ontario real gross domestic product (GDP) to grow by 3.1 per cent in 2004, 3.6 per cent in 2005 and 3.3 per cent in 2006.

Ontario Economic Highlights (Annual Average, Per Cent)						
	2001	2002	2003p	2004p	2005p	2006p
Real GDP Growth	1.8	3.6	1.7	3.1	3.6	3.3
Nominal GDP Growth	2.8	5.6	4.8	4.2	5.4	5.3
Unemployment Rate	6.3	7.1	7.0	7.0	6.5	6.4
CPI Inflation	3.1	2.0	2.6	1.5	1.8	2.0

p = private-sector survey average.
Note: The number of forecasters falls from 10 in 2003 to 4 in 2006.
Sources: Statistics Canada and Ontario Ministry of Finance Survey of Forecasts (December 10, 2003).

On the basis of private-sector consensus economic projections, Ontario can anticipate average revenue growth of about \$4.1 billion annually. This projection is based on existing federal transfer policies and the current provincial tax structure including the proposed measures incorporated in the Fiscal Responsibility Act, 2003.

U.S. Economic Outlook Improving

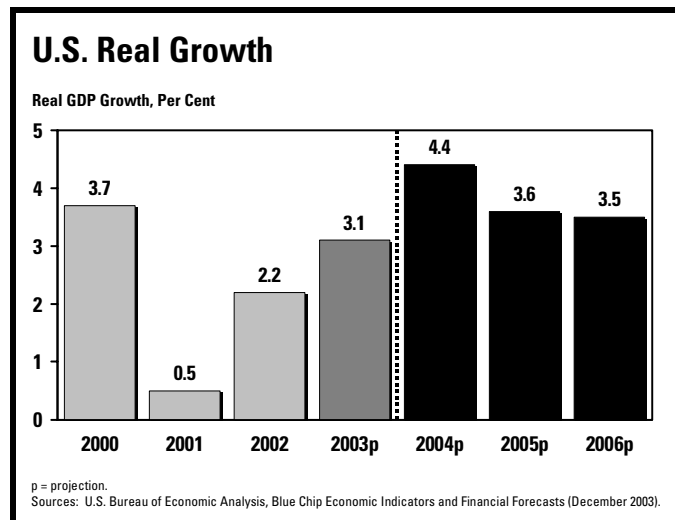
Economic conditions in the United States are a vital factor in Ontario's outlook. In 2002, U.S. consumers and businesses bought \$169 billion of goods from Ontario, which is equivalent to 35 per cent of our GDP. In addition, there were significant exports of services such as financing and transportation that are more difficult to measure accurately.

Following almost three years of sluggish growth, the American economy is improving. The U.S. economy experienced a relatively mild recession in 2001, starting in April and lasting until November. Until recently, the recovery in growth was slow and job losses mounted. In 2001 and 2002, real GDP grew by an average of only 1.3 per cent a year. Close to 2.4 million jobs vanished as businesses cut costs to survive.

As a result of business restructuring, U.S. productivity surged, rising by an average of almost five per cent a year in 2002 and 2003. These productivity gains, along with stimulative monetary and fiscal policy and the lower value of the U.S. dollar, have helped the U.S. economy to turn the corner. Growth accelerated during 2003 with output rising 8.2 per cent (at an annual rate) in the third quarter, the strongest gain in nearly 20 years. Job creation is on the rebound. U.S. payrolls rose by 57,000 positions in November and more than 300,000 net new jobs were created over the past four months.

Private-sector forecasters, on average, expect U.S. growth to improve from 3.1 per cent in 2003 to 4.4 per cent in 2004. Forecasters expect the U.S. economy to expand by an average of 3.6 per cent over 2005 and 2006.

Impressive U.S. productivity gains during the weak growth period of the past few years are unprecedented. Higher productivity has resulted in improved profit margins and higher wages. Job creation has resumed and is expected to strengthen in coming months. Improved profits have supported stock-market gains and rising household wealth. As job creation rebounds, income growth will accelerate, supporting household spending. In addition, stronger world growth and the decline in the U.S. dollar should result in an improved U.S. trade balance. Investment spending, which has lagged until recently, is likely to continue to strengthen, reflecting growing profits and the need to incorporate new technology.

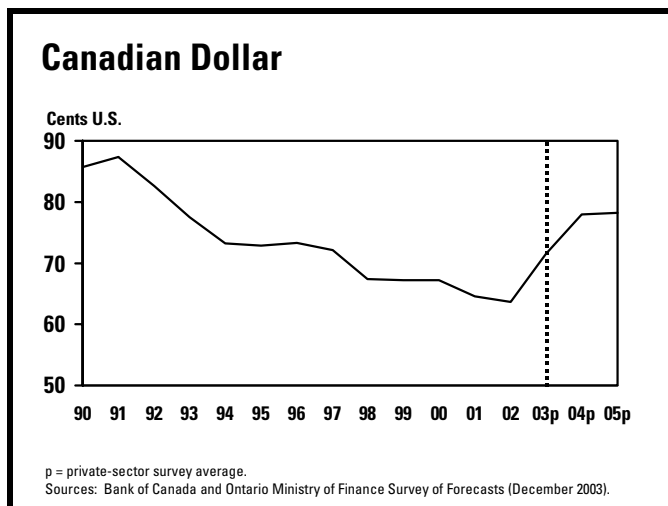


While continued growth is expected, the U.S. economy faces a number of significant challenges, including widening government deficits at both the federal and state levels, substantial current account deficits, and a still-overvalued currency. When and how these imbalances in the economy will be dealt with contributes to uncertainty about the future pace and durability of U.S. growth.

Rising Canadian Dollar

The overvalued U.S. dollar weakened against most major currencies in 2003. The Canadian dollar traded above 77 cents US in early December, up from 64 cents US at the beginning of the year. Although the Bank of Canada can exercise some control over the pace of exchange-rate movements by adjusting Canada-U.S. interest rate differentials, it cannot change the underlying direction. Because of the wide U.S. external trade deficit and massive fiscal gap, the depreciation of the U.S. dollar against other currencies is expected to continue into 2004. In contrast, Canada's current account surplus, its commitment to sustainable public finances, and rising global commodity prices, are consistent with a stronger Canadian dollar.

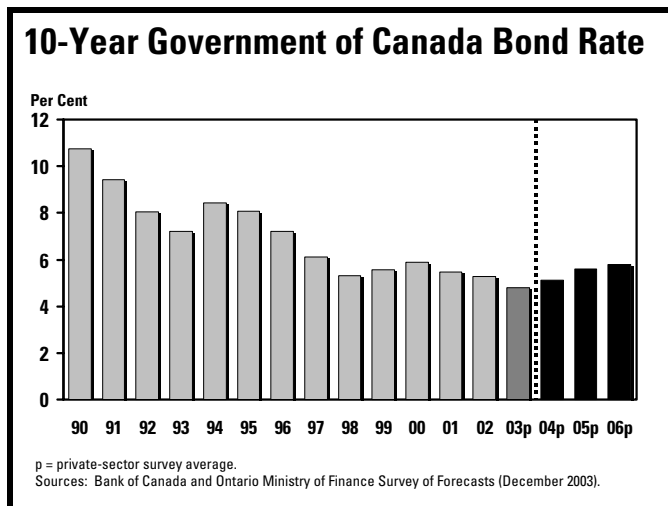
The dollar is expected to climb from an average of 71.4 cents US in 2003 to an average of 78.0 cents US in 2004 and 78.2 cents US in 2005. This is a serious challenge for Ontario businesses and workers, especially those in export-oriented industries. However, a higher dollar also has benefits because it lowers import costs, which increases living standards for Ontarians and encourages investment in productivity-enhancing equipment. About 60 per cent of Ontario's machinery and equipment investment is imported.



Monetary policy also plays an important role in offsetting adverse impacts of exchange-rate movements. It is very hard for exporting companies, working on modest profit margins, to adjust to substantial reductions in their revenues due to a sudden large rise in the Canadian dollar. It is expected that the Bank of Canada will take action to adjust interest rates to support the economy if the rise of the dollar threatens growth.

Low Interest Rates and Moderate Inflation

Interest rates in Canada are expected to remain low by historical standards, reflecting moderate inflation and the expected upward trend for the Canadian dollar. Early in 2003, the Bank of Canada raised interest rates 50 basis points in response to what it saw as a rising threat of inflation. As growth faltered and inflation dropped sharply, the Bank of Canada cut interest rates by 50 basis points, undoing the previous rate hikes.



Although economic growth is projected to strengthen in the near term, the Bank of Canada is expected to hold interest rates fairly steady until the second half of 2004, with inflation remaining well below the mid-point of the Bank's target range of one to three per cent.

Beyond that point, as continued strong growth moves the economy closer to full capacity, the Bank of Canada is expected to increase short-term rates moderately to contain any inflationary pressures. Longer-term rates are also expected to rise.

Canadian Interest Rate Outlook (Annual Per Cent)

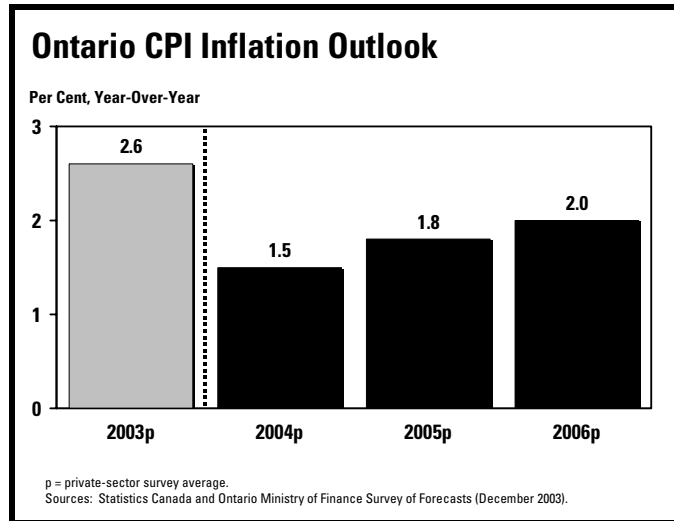
	2002	2003p	2004p	2005p	2006p
3-month Treasury Bill Rate	2.6	2.9	2.8	3.9	4.5
10-Year Government Bond Rate	5.3	4.8	5.1	5.6	5.8
CPI Inflation Rate	2.0	2.6	1.5	1.8	2.0

p= private-sector survey average.

Sources: Bank of Canada, Statistics Canada and Ontario Ministry of Finance Survey of Forecasts (December 2003).

The outlook for relatively low nominal interest rates reflects the prospect of sustained low inflation. Ontario's consumer price inflation rate rose from 2.0 per cent in 2002 to an estimated 2.6 per cent in 2003, largely because of higher average prices for oil, natural gas and auto insurance. According to private-sector forecasters, Ontario's CPI inflation rate is projected to average 1.5 per cent in 2004, 1.8 per cent in 2005 and 2.0 per cent in 2006.

The lower annual average inflation rate projected for 2004 reflects lower oil and gas prices, continued competitive pressures to improve cost efficiencies in production, plus the government's plan to lower auto insurance premium rates. Oil prices are currently around \$29 to \$31 US a barrel, down from an average of \$36 US in February 2003. On average, forecasters expect oil to settle to \$26.50 US by the end of 2004. The potential for conflict in many of the oil-rich regions of the world creates a substantial risk to price forecasts for this important commodity.



Exposure to External Shocks

The behaviour of the U.S. economy, crude oil prices, interest rates and the exchange rate can have significant impacts on Ontario's economic performance. The table below shows the typical range for the first- and second-year impact of changes in these outside forces on the real growth of our economy.

These estimates are based on historical relationships and illustrate the upper and lower bound for the average response. The results show the implications of changes in key assumptions in isolation from changes to other external factors. In any actual situation, the combination of other circumstances can also have a substantial bearing on the outcome. The range of possible impacts reflects a variety of factors.

- For example, each percentage point increase in U.S. real growth adds between 0.3 and 0.7 percentage points to real growth in Ontario in the first year. In this case, the range in part reflects the fact that the impact on Ontario growth depends on the composition of U.S. growth.
- A five-cent rise in the Canadian dollar reduces Ontario growth by 0.2 to 0.9 percentage points in the first year. This range reflects a number of uncertainties, such as the extent to which firms pass through lower costs for imports because of the higher Canadian dollar to prices for goods and services in Canada.

The magnitude of these shocks shows the importance of cautious planning since the growth of Ontario's economy and revenues depends critically on factors outside our control. Other unpredictable events, such as the outbreak of SARS and the power blackout in August, also underscore the need for prudent fiscal planning.

Impact of Changes in Key Assumptions on Ontario Real GDP Growth

(Percentage point change)	First Year	Second Year
Canadian Interest Rates Increase by 1 Percentage Point	-0.1 to -0.5	-0.2 to -0.6
U.S. GDP Growth Increases by 1 Percentage Point	+0.3 to +0.7	+0.4 to +0.8
Canadian Dollar Appreciates by 5 Cents US	-0.2 to -0.9	-0.7 to -1.4
World Crude Oil Prices Increase by \$10 US per Barrel	-0.3 to -0.7	-0.1 to -0.5

Source: Ontario Ministry of Finance.

Business Cycles in Ontario

Recessions			Recoveries and Expansions	
Recession Quarters	Length (Quarters)	Peak-to-trough decline in real GDP	Expansion Quarters	Length (Quarters)
1954:1 - 54:2	2	-1.5%	1954:3 - 57:3	13
1957:4 - 58:2	3	-1.7%	1958:3 - 74:3	65
1974:4 - 75:1	2	-0.6%	1975:2 - 79:3	18
1979:4 - 80:3	4	-2.2%	1980:4 - 81:4	5
1982:1 - 82:3	3	-5.2%	1982:4 - 89:4	29
1990:1 - 91:1	5	-7.7%	1991:2 - 92:1	4
1992:2 - 92:3	2	-0.9%	1992:4 - 2003:2	43
Average	3	-2.8%	Average	25
Weighted by length of recession		-3.5%		

- The Ontario economy, like all economies, experiences business cycles. Turning points in economic growth have proved very hard for forecasters to predict precisely.
- Since the final quarter of 1992, Ontario has experienced its second-longest recession-free stretch of growth since the Korean War. A recession is usually defined as at least two back-to-back quarters of falling real GDP. Ontario real GDP fell 0.3 per cent in the second quarter of 2003. Whether the economy managed to rebound in the third quarter, which included the August blackout, will be known when the Ontario Economic Accounts are released in mid-January.
- Ontario economic growth was strong over the 1994 to 2000 period, averaging 4.7 per cent a year. Following the collapse of the high-tech bubble in 2000 and the terrorist attacks on September 11, 2001, real growth slowed. From 2001 to 2003, average annual growth was only 2.3 per cent.

Sensitivity of the Fiscal Outlook to Changes in Economic Assumptions

The following table shows the sensitivity of the fiscal balance to the direct impact of higher interest rates on Interest on Debt and the impact of stronger economic growth on revenues and expenditures.

Cumulative Impact of Changes in Economic Assumptions on the Ontario Fiscal Balance (\$ Millions)

	Full Year 2004-05	Full Year 2005-06	Full Year 2006-07
Sustained 1 Percentage Point Higher Canadian Interest Rates	-175	-435	-675
Sustained 1 Percentage Point Higher Real GDP Growth	625	1,320	2,090

Notes: The interest rate sensitivity is for the debt of the Province and the Ontario Electricity Financial Corporation. These responses would hold "on average" and could vary significantly depending on the composition of change in income and expenditures.

Source: Ontario Ministry of Finance.

Growth, Jobs and Productivity

The economic performance of our trading partners, the exchange rate and interest rates, along with the attendant risks and uncertainties, set the stage for Ontario's economic and revenue outlook.

Economic growth, job creation and rising productivity go hand in hand.

Productivity rises because workers and businesses adopt new technology, new tools and better ways of doing things. Productivity rises when public infrastructure makes it easier for people to travel from their home to their workplace, for business to move goods and materials, and for energy to move reliably through wires and pipelines.

Rising productivity helps us to compete in world markets without cutting wages or profit margins. Rising productivity increases real personal incomes, fuelling the demand for consumer goods and services. It also raises business profits, providing the capacity to pay for new investment. Success in world markets and in growing domestic demand mean a growing economy.

A growing economy requires a skilled and growing labour force. Ontario's excellent colleges and universities produce graduates who are well equipped to meet the challenges of today's evolving labour market. The growth of Ontario's labour force increasingly relies on immigration. Ontario is blessed with a quality of life and a tradition of openness that has continually attracted talented and energetic people from around the world. Ontario can put this "brain gain" to work and leverage this diversity to attract investment.

Private-sector forecasters expect the Ontario economy to generate strong job growth in the years ahead.

Fair, Efficient and Effective Financial Markets Essential for Economic Growth

Fair, efficient and effective financial markets are essential if Ontario is to have a strong and vibrant economy.

Investors and publicly traded companies alike must have confidence that securities regulation in Ontario is tough, transparent and fair. Investor protection and education are central to the saving and investment that create the market liquidity that companies need to raise funds to invest and create jobs in Ontario.

Ontario's economy also benefits from Toronto's critical role as Canada's financial and head office centre. Toronto has the third-highest job level in North America for finance and insurance, behind Chicago and New York City. Over 65 per cent of financial-sector employees have degrees or college certificates, and are supported by an exceptional level of investment in information technology.

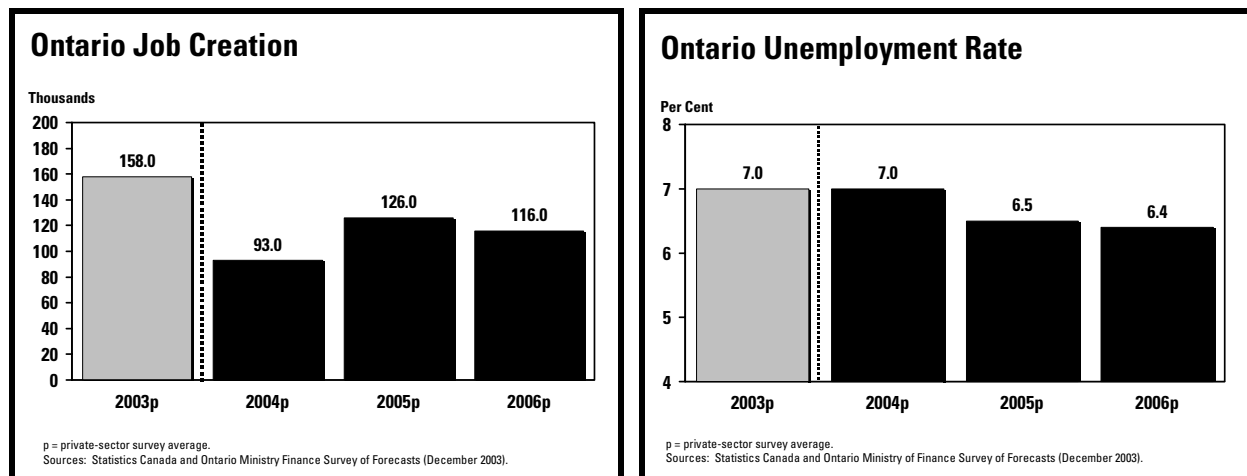
Financial services and their regulators must continuously adapt to more complex markets and new financial products if Ontario is to remain competitive internationally. The Ontario government will:

- Actively pursue the creation of a single national securities commission to enhance financial market efficiency, to cut costs for investors and companies, and to attract international investment.
- Propose technical legislative changes to clarify that investors in publicly traded trusts will not be liable for the activities of the trust.

Job Creation

Over the next three years, Ontario's working-age population is expected to grow by an average of about 150,000 people a year. This means the number of people in the labour force is likely to grow by about 105,000 a year. Strong economic growth is needed to generate jobs to employ the growing population and reduce the unemployment rate, which stood at 6.8 per cent in November 2003. Private-sector forecasters anticipate, on average, that Ontario economic performance will be strong enough to generate employment growth of about 1.8 per cent a year from 2004 to 2006, or an average of 112,000 jobs a year. This would lower the unemployment rate to 6.4 per cent in 2006.

Job creation stalled in the spring of 2003, as the economy weakened, reflecting in large part the negative impact of SARS. Job gains resumed in September. On average, job creation in 2003 is expected to reach 158,000 net new jobs.



Since a peak in August 2002, manufacturing employment in Ontario has fallen by 68,100 jobs, or 5.9 per cent. These losses were offset by gains in construction, finance and other parts of the private and public service sectors. Some of the manufacturing job losses are likely related to the rise in the Canadian dollar. Canada was one of the few industrialized countries to gain manufacturing jobs in the 1990s, most of them in Ontario. Ontario gained about 300,000 manufacturing jobs or an increase of 36.3 per cent from 1993 to 2002. Meanwhile, manufacturing employment in the United States fell by close to 1.5 million jobs, or 8.8 per cent. Ontario's strong performance reflected the gains from the free trade agreement as well as the lower exchange rate. The dollar fell from a high of over 89 cents US in November 1991 to a low of 62 cents US in February 2002.

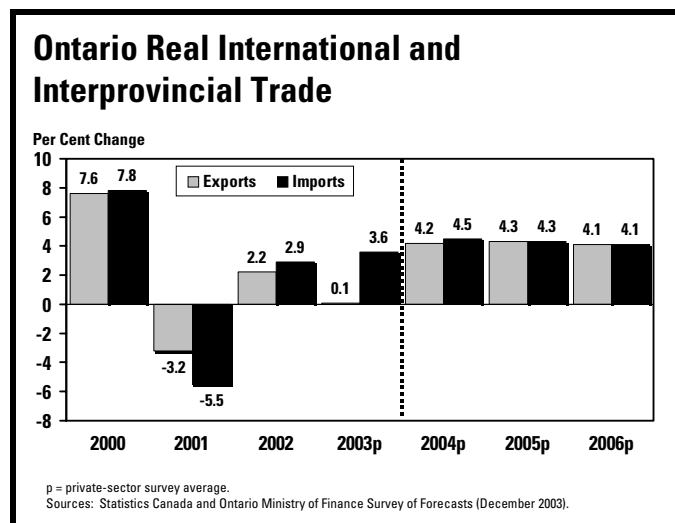
Ontario Exports Expected to Rebound

Looking forward, Ontario exporters will benefit from stronger global economic growth, particularly in the United States, the province's largest trading partner. Sales to the United States account for more than 90 per cent of Ontario international exports. The growing world economy will be particularly important as it will help Ontario industry adjust to the higher value of the Canadian dollar.

Ontario exporters faced a number of obstacles in 2003. U.S. economic growth was sluggish in the first half of the year. Much of the weakness was concentrated in demand for autos and parts (45.9 per cent of Ontario's exports to the United States), as well as machinery and equipment (15.4 per cent). The SARS outbreak affected tourist spending in Ontario during the middle of the year and the blackout in August caused a sharp reduction in exports in that month. Despite a pickup in U.S. growth in the second and third quarters, Ontario exports have been slow to recover because U.S. firms have met higher demand by running down inventories.

Once the impact of these temporary factors fades, Ontario exports are expected to grow at a solid pace even with a higher Canada-U.S. exchange rate. Forecasters expect increasing U.S. investment in machinery and equipment, a sustained healthy level of U.S. auto sales and some inventory rebuilding. As a result, Ontario real exports are projected to rise 4.2 per cent in 2004, after virtually no growth in 2003. As business adjusts to the higher level of the Canadian dollar, real exports are projected to rise by an average of 4.2 per cent in 2005 and 2006.

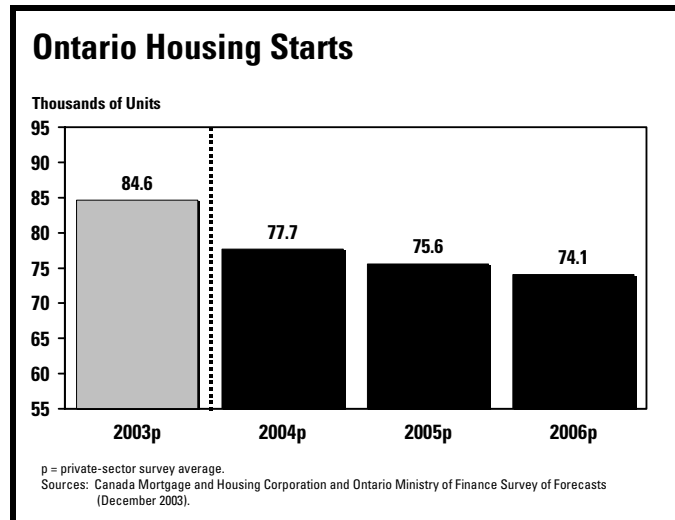
U.S. investment in machinery and equipment picked up sharply earlier this year, driven by replacement capital needs following two years of weak business investment spending. Forecasters expect machinery and equipment investment spending to jump by more than 10 per cent in 2004 and by an average of nearly 8 per cent in 2005 and 2006. U.S. auto sales are expected to remain close to 17 million units a year over the next three years, near historic high levels.



Ontario Household Spending Robust

Ontario spending on housing and consumer goods and services remained very healthy in 2003, partially offsetting the weakness in the external economy. Low interest rates, rising incomes and increasing wealth due to rising home values and stock-market gains have supported strong growth in household spending.

Ontario's housing market continued to shine in 2003. Low mortgage rates and rising incomes have helped keep housing affordable for Ontario's growing population. Ontario housing starts are on track to reach 84,600 units in 2003, up from 83,600 in 2002. This would be the highest level since 1989. In coming years housing starts are projected to slow, but still to remain at robust levels. Housing market activity over the medium term will be supported by low interest rates and healthy levels of immigration.

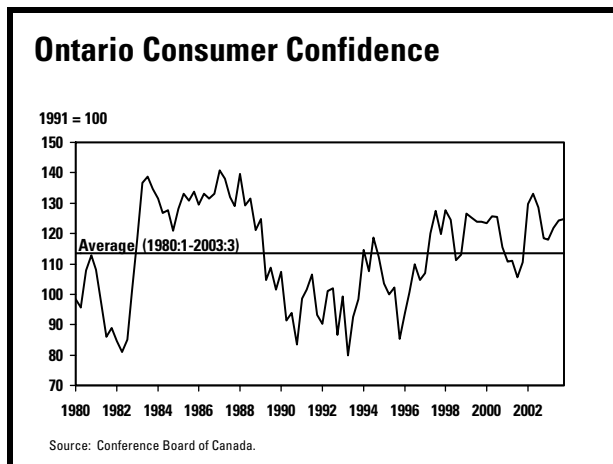
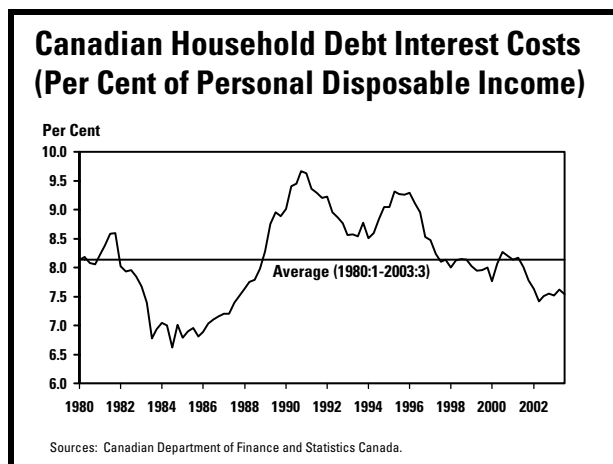


Five-year mortgage rates are currently 6.5 per cent, up from a low of 5.8 per cent in June. The

five-year rate is expected to move up to an average of 7.0 per cent in 2005 and 7.4 per cent in 2006. Negotiated mortgage rates can be one to one-and-a-half percentage points below posted rates.

Ontario's resale home market is headed towards record sales in 2003. So far this year, Ontario home resales are up 3.4 per cent from the same period a year earlier. For the year as a whole, an all-time high of over 180,000 homes are expected to change hands, with prices rising close to eight per cent. Even though some softening in home sales is expected, the level of activity is forecast to remain high over the next three years.

Led by buoyant housing-related expenditures, real consumer spending is expected to rise by 3.8 per cent in 2003 and 3.6 per cent in 2004. Furniture and appliance store sales are up 8.6 per cent over the first nine months of 2003. Spending growth will be supported by low interest rates, steady income gains and strong consumer confidence. The increased value of the Canadian dollar is one of the factors boosting consumers' spending power because imported goods are becoming cheaper.



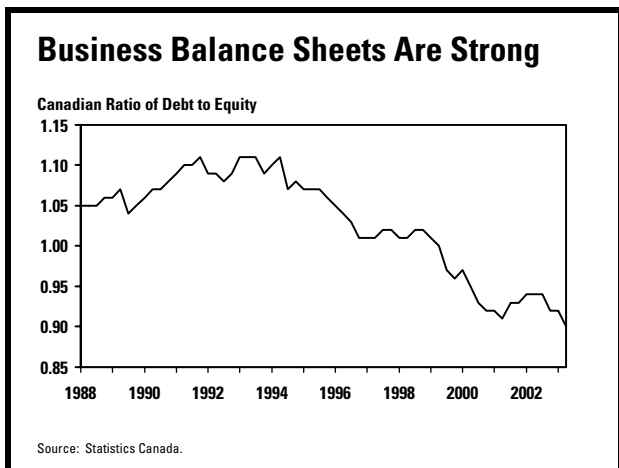
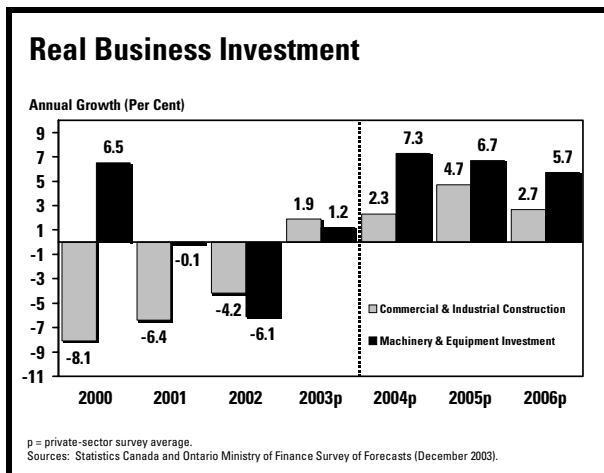
Although household debt levels have continued to rise, the cost of carrying that debt is low by historical standards. The ratio of Canadian household debt costs to personal disposable income was 7.5 per cent in the third quarter of 2003, below the average 8.1 per cent over the 1980 to 2003 period. The reasons for this are low interest rates and higher personal income. Furthermore, rising house values and an improvement in the stock market have bolstered household wealth. Healthy household finances are expected to sustain solid consumer spending over the forecast period.

Low interest rates and strong income gains also helped Ontario consumers remain confident in the face of setbacks such as SARS and the electricity blackout. Ontario consumer confidence has climbed in recent months and is currently 10.0 per cent higher than the average over the 1980 to 2003 period.

Personal income is expected to rise by 3.6 per cent in 2003. According to private-sector forecasters, continued moderate wage gains and a pickup in the pace of job creation will lead to personal income growth of 4.4 per cent in 2004. Solid consumer spending growth is expected to continue over 2005 and 2006, with real consumption projected to rise by an average 3.5 per cent a year, supported by average income gains of 5.3 per cent or 3.4 per cent when adjusted for inflation.

Investment Turnaround

Business investment in plant and equipment has been weak since the high-tech bubble burst in 2000. Recently, a recovery in business investment has started to take shape and is expected to continue, reflecting improving underlying demand conditions, rising profits, stock-market gains and healthy balance sheets. Ontario corporation profits are projected to increase by 11.5 per cent in 2003. In addition, the higher dollar has lowered the cost of investing in machinery and equipment. About 60 per cent of capital equipment used by Ontario businesses is imported.



To remain profitable with the higher-valued Canadian dollar and unrelenting competitive pressures, business in Ontario will concentrate on investments that incorporate the best technology and boost productivity. This investment in new productive capacity also helps transform new ideas into the innovative goods and services that succeed in local and global markets, and expands the long-term ability of Ontario's economy to grow and prosper. The private-sector projection of future investment growth rates is shown in the chart above.

Investment will be supported by competitive corporate income tax rates. The combined federal and provincial general corporate income tax rates in Ontario will be about 36 per cent in 2004 compared to the current average of about 40 per cent in the United States. In addition to competitive tax rates, employers in Ontario benefit from publicly funded health care, which is a major expense for employers in the United States.

The table below shows the current average private-sector forecast for Ontario through 2006.

The Ontario Economy, 2001 to 2006						
(Per Cent Change)	Actual			Forecast		
	2001	2002	2003p	2004p	2005p	2006p
Real Gross Domestic Product	1.8	3.6	1.7	3.1	3.6	3.3
Personal consumption	2.4	3.6	3.8	3.6	3.6	3.3
Residential construction	9.2	9.6	3.1	-0.6	-0.1	0.8
Non-residential construction	-6.4	-4.2	1.9	2.3	4.7	2.7
Machinery and equipment	-0.1	-6.1	1.2	7.3	6.7	5.7
Exports	-3.2	2.2	0.1	4.2	4.3	4.1
Imports	-5.5	2.9	3.6	4.5	4.3	4.1
Nominal Gross Domestic Product	2.8	5.6	4.8	4.2	5.4	5.3
Other Economic Indicators						
Retail sales	2.6	5.6	3.8	4.7	4.8	4.7
Housing starts (000s)	73.3	83.6	84.6	77.7	75.6	74.1
Personal income	3.6	3.5	3.6	4.4	5.4	5.2
Wages and salaries	3.7	4.5	4.0	4.7	5.6	5.2
Corporate profits	-11.5	16.7	11.5	4.8	5.3	6.8
Consumer Price Index	3.1	2.0	2.6	1.5	1.8	2.0
Labour Market						
Employment	1.5	1.8	2.6	1.5	2.0	1.8
Job creation (000s)	91	105	158	93	126	116
Unemployment rate (per cent)	6.3	7.1	7.0	7.0	6.5	6.4

p = private-sector survey average.

Notes: The number of forecasters falls from 10 in 2003 to 4 in 2006.

Forecasters differ in the number of variables they project.

Sources: Statistics Canada and Ontario Ministry of Finance Survey of Forecasts (December 10, 2003).

The Economic Outlook and Revenues

A growing economy with rising incomes and spending also generates growing revenues that are required to pay for public services. Projected revenues are shown in the following table.

Revenue (\$ Billions)	Actual	Projection			
	2002-03	2003-04	2004-05	2005-06	2006-07
Taxation Revenue					
Personal Income Tax	18.2	18.6	20.0	21.6	23.1
Retail Sales Tax	14.2	14.6	15.5	16.6	17.6
Corporations Tax	7.5	7.2	8.2	8.6	9.0
All Other Taxes	9.7	9.6	10.1	10.6	10.9
Total Taxation Revenue	49.6	49.9	53.8	57.3	60.7
Government of Canada	8.9	10.3	10.1	10.6	10.7
Income from Government Enterprises	3.9	3.4	3.7	4.0	4.2
Other Non-tax Revenue	6.2	5.9	5.9	6.0	6.0
Total Revenue	68.6	69.5	73.5	77.9	81.7

Note: Numbers may not add due to rounding.

Source: Ontario Ministry of Finance.

Based on the consensus private-sector forecast, Ontario revenues are expected to total \$73.5 billion in 2004-05, an increase of \$4 billion from 2003-04. Over the next three fiscal years (including 2004-05), the average annual increase in total revenue that can be expected—based on the current structure of taxes and other revenues—is \$4.1 billion per year. As discussed in Annex II, this revenue growth alone will not be sufficient to eliminate the structural deficit that Ontario faces.

Personal Income Tax (PIT) revenue is expected to grow, on average, by 7.5 per cent annually over the medium term. This is consistent with the average private-sector forecast for growth in jobs, wages and incomes in the Ontario economy. PIT revenues grow at a rate faster than incomes because of the progressive structure of the income tax system. This means that individuals with higher real incomes pay proportionately more tax.

Retail Sales Tax (RST) revenues increase by an average of 6.6 per cent a year. Robust household spending is reflected in the forecast for retail sales growth in the Ontario economy. Business spending will also contribute to RST revenue growth since many business inputs are subject to the RST.

Corporations Tax, which includes the Corporate Income Tax, Capital Tax and Insurance Premiums Tax, increases as corporate profits and investment spending grow. This revenue growth reflects the proposed measures contained in the Fiscal Responsibility Act, 2003 to return tax rates to pre-2003 levels.

Recent preliminary indications from Ontario Power Generation Inc. (OPG) suggest that there may be a substantial risk to the net income of OPG in the medium term. This substantial risk could potentially negatively impact both Income from Government Enterprises and Electricity Payments-In-Lieu of Taxes in the government's medium-term revenue outlook by a combined \$250 million to \$900 million a year between 2004-05 and 2006-07.

Further details of the outlook for Ontario's revenues, including federal transfers and other non-tax revenues, are contained in Annex II: Ontario's Finances.

Conclusion

Private-sector forecasters expect strengthening economic growth for Ontario and this provides the basis for the projected increase in revenues.

Annex II incorporates these revenue forecasts into a discussion of the fiscal outlook.