

ONTARIO'S ECONOMIC OUTLOOK AND FISCAL PLAN

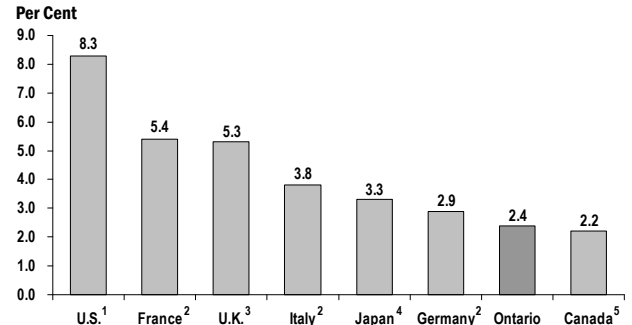
March 26, 2009

The global economic outlook has deteriorated significantly in recent months. The U.S. economy – critically important to Ontario as a destination for most of its exports – is in the midst of one of its deepest downturns. Ontario is not immune to these broader forces and the current recession is expected to persist through the first half of 2009.

Recognizing the economic challenges facing Ontario, the McGuinty government continues to protect and enhance key public services.

- The 2009 Budget forecasts a deficit of \$3.9 billion for 2008-09 and \$14.1 billion in 2009-10
- This is due to a significant deterioration in revenues and to the short-term measures to stimulate the economy – not due to significant increases in core program spending
- As a percentage of gross domestic product (GDP), the 2009-10 deficit is far below that of the U.S. federal government, and is about the same as that now anticipated by the Canadian federal government.

Jurisdictional Comparison: 2009-10 Deficit-to-GDP



Note: Not all jurisdictions use comparable accounting methodology.
Sources: ¹ Congressional Budget Office (U.S.); ² European Commission; ³ U.K. Treasury – Pre-Budget Report (November 2008); ⁴ Organisation for Economic Co-operation and Development (OECD); ⁵ 2009 Federal Budget.

The McGuinty government has laid out a plan to balance the budget by 2015-16. It will do so by continuing to hold program expense growth below revenue growth, and by continuing the prudent management that enabled it to eliminate the \$5.5 billion hidden deficit it inherited in 2003.

RECENT ECONOMIC DEVELOPMENTS

Ontario is experiencing the impact of a sudden synchronized slowdown in the global economy. The global economic outlook has deteriorated significantly in recent months, and Ontario's economic performance has weakened sharply since the fall of 2008:

- Real consumer spending fell by an estimated 1.0 per cent in the fourth quarter of 2008
- Ontario exports fell more than seven per cent in 2008; imports also declined, but at a slower pace
- Ontario's international and interprovincial trade balance deteriorated significantly in 2008, falling from a surplus of \$12.4 billion in 2007 to a deficit of \$743 million in 2008.

As a result, Ontario's real GDP fell by an estimated 0.4 per cent in 2008, following growth of 2.3 per cent in 2007.

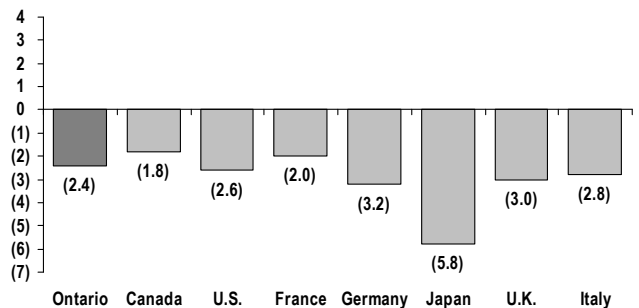
PRIVATE-SECTOR FORECASTS

Due to the rapid deterioration of the global economy, private-sector forecasters have revised their projections down significantly in recent months:

- On average, private-sector forecasters are calling for Ontario real GDP to decline by 2.4 per cent in 2009
- Ontario's real GDP decline is not as steep as that expected to occur among most countries that make up the G7
- Forecasters who provide quarterly forecasts expect the economy to contract for at least three quarters, with an average peak-to-trough decline of 3.3 per cent
- All forecasters expect growth to improve in 2010.

G7 Economic Growth, 2009

Average Real GDP Growth
Per Cent



Sources: Blue Chip Economic Indicators (March 2009), Consensus Economics (March 2009) and Ontario Finance Survey of Forecasts (March 2009).

ECONOMIC OUTLOOK

An unusual degree of uncertainty remains regarding Ontario's economic outlook. The Ministry of Finance is projecting a 2.5 per cent decline in Ontario's real GDP in 2009. Growth is expected to resume during the second half of 2009 and strengthen over the next few years, with real GDP growth rates of 2.3 per cent in 2010 and 3.3 per cent in 2011.

Resumed U.S. economic growth, government efforts to preserve and create jobs, low interest rates and actions taken to improve the functioning of global credit markets are expected to bring about the turnaround in mid-2009. This is partly due to the aggressive fiscal and monetary actions of national governments and central banks around the world.

MEDIUM-TERM FISCAL OUTLOOK

The government is currently projecting a deficit of \$3.9 billion in 2008-09, peaking at \$14.1 billion in 2009-10 and steadily declining to a balanced budget no later than 2015-16.

Total revenue is forecast to increase from \$93.4 billion in 2008-09 to \$104.4 billion in 2011-12, an average annual growth rate of 3.8 per cent over this period.

The province's total expense over the medium term is projected to increase from \$97.3 billion in 2008-09 to \$112.9 billion in 2011-12. This increase largely reflects the immediate measures the government is taking in this Document to preserve and create jobs.

- Total provincial expense in 2008-09 has been held to growth of only 0.8 per cent compared to 2007-08, and only 1.2 per cent higher than the 2008 Budget forecast
- Core provincial program expense is projected to grow by an annual average rate of 3.6 per cent between 2008-09 and 2011-12, which is lower than the 3.8 per cent growth projected for revenue over the same period.

Medium-Term Fiscal Plan and Outlook				
(\$ Billions)				
	Interim	Plan	Outlook	
	2008-09	2009-10	2010-11	2011-12
Total Revenue	93.4	96.0	103.6	104.4
Expense				
Programs				
Health Sector	40.7	42.6	45.2	47.4
Education Sector ¹	13.3	14.2	14.6	15.4
Postsecondary Education and Training Sector	6.1	6.6	6.6	6.4
Children's and Social Services Sector	12.1	12.7	12.9	12.5
Justice Sector	3.8	3.9	4.4	4.5
Other Programs	12.4	19.6	21.1	15.7
Total Programs	88.5	99.6	104.7	101.9
Interest on Debt	8.9	9.3	9.9	11.1
Total Expense	97.3	108.9	114.6	112.9
Reserve	—	1.2	1.2	1.2
Surplus/(Deficit)	(3.9)	(14.1)	(12.2)	(9.7)

¹ Excludes Teachers' Pension Plan.

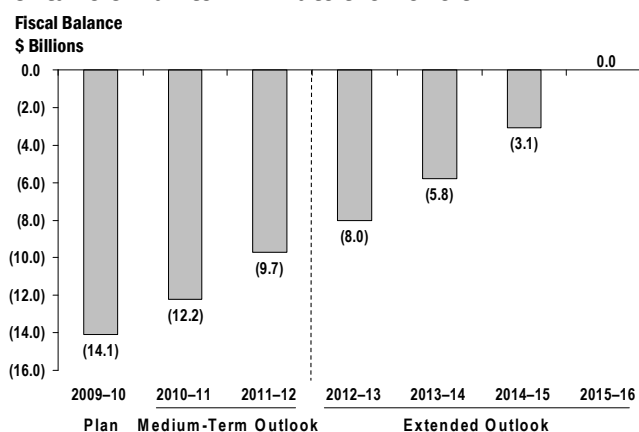
Note: Numbers may not add due to rounding.

ONTARIO'S FISCAL RECOVERY PLAN

The government has a plan to balance the budget no later than 2015-16, by:

- Holding the average annual rate of growth in core program expense to less than the average annual rate of growth in total revenue over the medium term and throughout the period of the recovery plan
- Adopting efficiency practices and managing overall expenditures, including a \$1.0 billion efficiency target in 2011-12
- Promoting principled and sustainable federal-provincial fiscal arrangements
- Maintaining a prudent debt-to-GDP ratio
- Maintaining a cautious and prudent fiscal plan, including contingency funds as well as reserves of \$1.2 billion each year between 2009-10 and 2011-12, and \$1.5 billion between 2012-13 and 2015-16.

Ontario's Plan to Eliminate the Deficit



During this period of recovery, Ontario's real GDP growth is projected to average 3.8 per cent and nominal GDP to average 5.6 per cent.

Media Inquiries

Alicia Johnston, Minister's Office, 416 325-3645
Scott Blodgett, Ministry of Finance, 416 325-0324

ontario.ca/finance-news

Disponible en français

Public Inquiries

1-800-337-7222