



ONTARIO'S ECONOMIC OUTLOOK AND FISCAL PLAN

March 29, 2011

The Ontario economy is turning the corner after the global recession and is now poised for a period of sustained growth.

The Open Ontario plan, along with the government's continuing approach to prudent fiscal management, provides a solid foundation for supporting the economic recovery and ensuring long-term prosperity for the province.

The deficit for 2010–11 is projected to be \$16.7 billion, which is \$3.0 billion lower than outlined in the 2010 Budget. This is largely due to the fact that program expense for 2010–11 is projected to be \$2.6 billion lower than the forecast published in the 2010 Budget.

Over the next two years, the government is on track to improve on its deficit projections by \$1.7 billion, for a total cumulative improvement of \$4.7 billion over three years. The government has a responsible plan to balance the budget — a plan that is working.

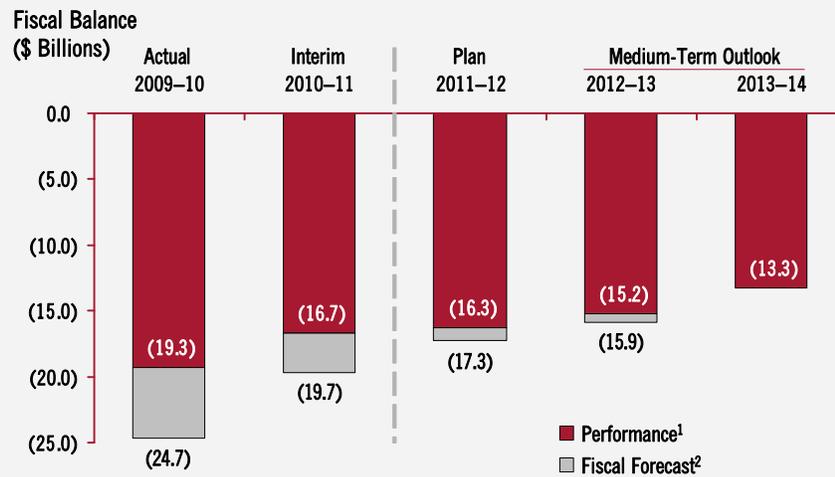
The Open Ontario Plan is Working

Ontario's plan to make the province more competitive is getting results.

Jobs are coming back and the economy is turning the corner. Key indicators, such as real GDP and employment, are near pre-recession levels. Ontario has recovered 91 per cent of the jobs lost during the global downturn and all private-sector forecasters predict sustained economic growth for the province.

The balanced pace of deficit reduction ensures the province is overcoming the fiscal challenge it faces through realistic and responsible means — not by putting vital public services at risk or resorting to arbitrary, across-the-board cuts.

Ontario's Fiscal Performance



¹ Represents current forecast for 2010-11 to 2013-14. For 2009-10, actual results are presented.

² Forecast for 2010-11 through 2013-14 based on the 2010 Budget. Projection for 2009-10 from the 2009 Ontario Economic Outlook and Fiscal Review.

Beyond 2012-13, the Ontario government remains on track to meet its fiscal targets outlined in the 2010 Budget. This includes a \$13.3 billion deficit in 2013-14, followed by steadily declining deficits and a return to a balanced budget by 2017-18.

Through prudent fiscal management, the government has overachieved on its budget targets in five of the last seven fiscal years. These results are in large part the outcome of the government's continued efforts to reduce growth in program expense while protecting the public services that matter most to Ontarians.

Although the economy is recovering, the government cannot rely on economic growth alone to eliminate the deficit. The Ontario government is setting priorities and getting better value for money across government.

Economic Outlook

Ontario's real GDP grew by an estimated 2.8 per cent in 2010, following declines of 0.9 per cent in 2008 and 3.6 per cent in 2009. The Ministry of Finance's plan is based on Ontario's real GDP increasing by 2.4 per cent in 2011, 2.7 per cent in 2012 and 2013, and 2.6 per cent in 2014. The provincial forecast is more cautious than average private-sector forecasts. The modest but solid pace of growth reflects a fundamentally sound domestic economy and continued increases in global demand for Ontario's exports.

Ontario Economic Outlook

(Per Cent)

	2008	2009	2010	2011p	2012p	2013p	2014p
Real GDP Growth	(0.9)	(3.6)	2.8e	2.4	2.7	2.7	2.6
Nominal GDP Growth	0.1	(1.1)	6.1e	4.6	5.1	4.8	4.6
Employment Growth	1.6	(2.5)	1.7	1.7	1.8	1.8	1.7
CPI Inflation	2.3	0.4	2.5	2.3	2.1	2.0	2.0

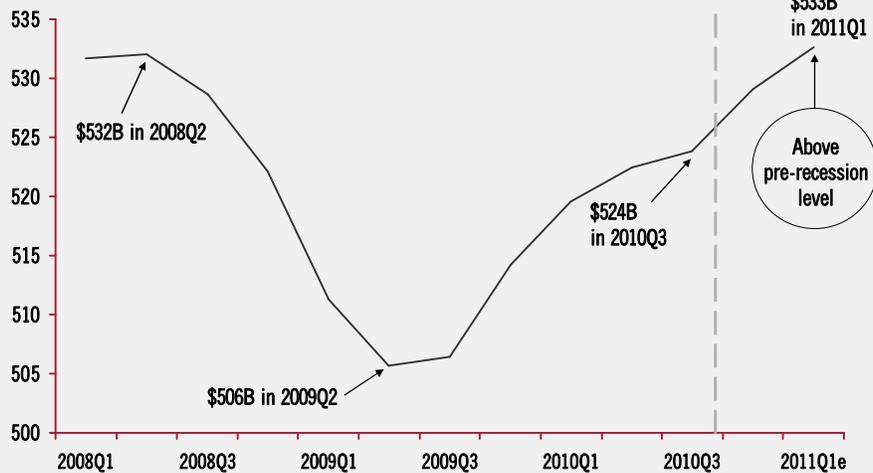
e = Ontario Ministry of Finance estimate. p = Ontario Ministry of Finance planning projection.

Sources: Statistics Canada and Ontario Ministry of Finance.

Ontario's key economic indicators, such as employment and real GDP, are near pre-recession levels. Real GDP increased for five consecutive quarters from the third quarter of 2009 to the third quarter of 2010. Recent statistics indicate that the economic recovery strengthened in the final quarter of 2010 and continued into 2011. It is likely that real GDP will have surpassed pre-recession levels in the first quarter of 2011.

Ontario Real GDP

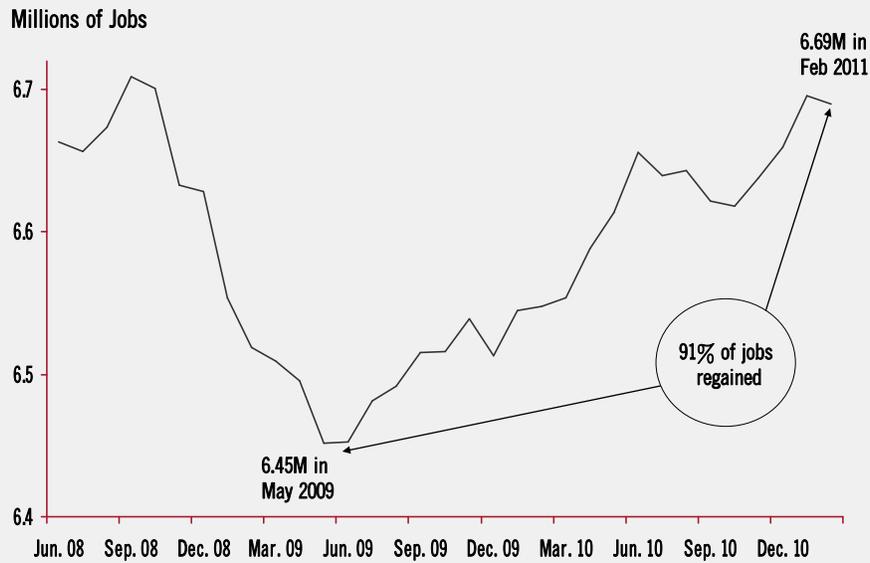
Billions of Chained (2002) Dollars



e = Ontario Ministry of Finance estimate.

Source: Ontario Ministry of Finance.

Rebound in Job Creation



Source: Statistics Canada.

According to Statistics Canada, almost 233,000 net new jobs have been created from May 2009 to February 2011, recovering 91 per cent of the jobs lost during the global economic downturn. During the recession, Ontario had a net loss of 257,000 jobs.

The unemployment rate in Ontario has recently fallen to 8.0 per cent from 9.4 per cent at the height of the recession. While there has been a solid recovery in employment so far, there has also been an increase in the number of Ontarians in the labour force. As a result, the Ontario unemployment rate remains above the pre-recession rate of 6.5 per cent.

Ontario Unemployment Rate Declining



Source: Statistics Canada.

The government responded with the Open Ontario plan in 2010, improving the province's economic fundamentals, encouraging an environment for job creation and protecting schools and hospitals.

Government Revenues

Ontario government revenues are recovering following the global recession. Taxation revenues are projected to grow 5.6 per cent over the previous year. Revenues are projected to increase at an annual average rate of 3.3 per cent from 2010–11 to 2013–14. Projected revenue increases are largely driven by the forecast for economic growth. There are no new taxes or tax increases included in the budget.

Total revenue in 2010–11 is estimated to be \$106,185 million. This is \$682 million (0.6 per cent) below the amount projected in the 2010 Budget. The medium-term revenue forecast is within one per cent of the 2010 Budget outlook in each year of the forecast.

Expense

Total expense in 2010–11 is currently projected to be \$122.9 billion, a decrease of \$3.0 billion from the 2010 Budget forecast. Program expense in 2010–11 is projected to be \$2.6 billion lower than forecast in last year's budget. This decrease reflects the government's prudent approach to managing expense and a portion of the contingency funds being available to be redirected to reduce the 2010–11 deficit.

Over the medium term, between 2010–11 and 2013–14, total expense is projected to increase at an average annual rate of 1.7 per cent — about half the rate of growth in revenue. This constrained rate of growth reflects the government's continued commitment to reduce the deficit without putting vital public services at risk or resorting to arbitrary, across-the-board cuts. It reflects Ontario's accelerated plan to achieve greater efficiencies in the delivery of public services.

To offset potential changes to revenue and expense that would otherwise have an effect on Ontario's fiscal performance, the fiscal plan includes prudence in the form of contingency funds of \$0.7 billion in 2011–12 and a reserve of \$0.7 billion in 2011–12 and \$1.0 billion in 2012–13 and 2013–14.

Borrowing Less

Ontario's total funding requirement for 2010–11 is \$38.6 billion, a decline of \$7.0 billion since the 2010 Budget. The province took advantage of favourable market conditions and robust demand for Ontario bonds to pre-borrow for 2011–12. This pre-borrowing, combined with a lower deficit forecast for 2010–11, will allow Ontario to increase its cash reserves by \$5.6 billion and reduce its short-term borrowing by \$1.6 billion compared to the 2010 Budget forecast.

Ontario was able to borrow almost 59 per cent in the domestic market in 2010–11, up from 49 per cent in 2009–10. This increase in domestic borrowing reflects strong global investor demand for Canadian-dollar assets, the liquidity of Ontario benchmark bonds and continuing confidence in the Province of Ontario credit. With a smaller borrowing program and expected ongoing strong demand in the domestic market, the province will be relying less on foreign markets to achieve its financing requirement.

-30-

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