



## 2010 ONTARIO MID-YEAR FISCAL REVIEW

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### Staying the course

A year ago, Ontario's mid-year fiscal review sent shockwaves when it revealed a revised deficit projection of nearly \$25 billions for 2009/10, the largest ever in the province (although the actual figure has since come in lower at \$19.3 billion). In fact, the economic and fiscal situations had deteriorated to such a degree at the time that the exercise looked very much like a full-blown budget with new spending initiatives (e.g. the auto bailout) and substantially revised revenue estimates. Fast forward to this year's Economic Outlook and Fiscal Review and the exercise is back to what it has traditionally been – an update with few surprises or changes from the March budget.

The main good news had been 'leaked' by Finance Minister Dwight Duncan in the past few days: this year's deficit is now projected to come in \$1 billion lower relative to budget, at \$18.7 billion. The reduction reflects both higher revenues and lower expenses. Revenues have been adjusted higher thanks a stronger economy that boosted tax revenues (primarily corporate taxes), contributing an extra \$0.8 billion. For their part, expenses have been adjusted lower reflecting smaller interest payments on the provincial debt, representing a \$0.2 billion lift to the bottom line. There were increases in program spending (most notably on the Ontario Clean Energy Benefit, aimed at reducing the cost of electricity for families and small businesses) but they were entirely covered by the drawing of a portion of the contingency funds the province had set aside in the budget.

Minister Duncan left unchanged his government's deficit projections of \$17.3 billion for 2011/12 and \$15.9 billion for 2012/13, despite slower economic growth for those years than assumed in the budget. He also indicated that the government is still on track to balance its books by 2017/18.

### Mid-year review details

The \$1 billion reduction in this year's projected deficit is primarily the result of higher revenues, although lower interest payments also led to a small decrease in projected expenditures. **Revenues** are expected to increase by \$790 million relative to the Budget figures. This improvement is driven by higher expected revenues from corporate taxes (\$700 million) and sales taxes (\$330 million). The new corporate tax figure reflects higher 2009 returns (booked this fiscal year), while the increase in sales tax revenue is due to stronger-than-expected consumer spending in 2010. The update also shows a \$380 million increase in revenue from the Education Property Tax, which results entirely from a change in how the Ontario Energy and Property Tax Credit is recorded (revenue from the Credit has been shifted to this category from the sales tax category); a revenue-neutral accounting change. The positive changes in the sales and corporate tax revenue sources more than offset a downward revision of \$1.1 billion to the personal income tax projection, which reflects weaker 2009 tax returns processed since the 2010 budget.

On the **expenditure** side, the largest change relative to the 2010 budget is a new \$300 million outlay for the Ontario Clean Energy Benefit, a program that provides tax rebates on energy bills for eligible families. Other changes include an additional \$85 million due to increased demand in the Home Energy Savings Program and \$57 million for extra forest firefighting. However, these increases in program expenditures are essentially ‘covered’ by the drawing of \$450 million from the \$1.8 billion contingency funds set up in the March Budget. While program expenditures are therefore unchanged, net expenditures have decreased relative to the budget due to a \$250 million reduction in expected interest payments.

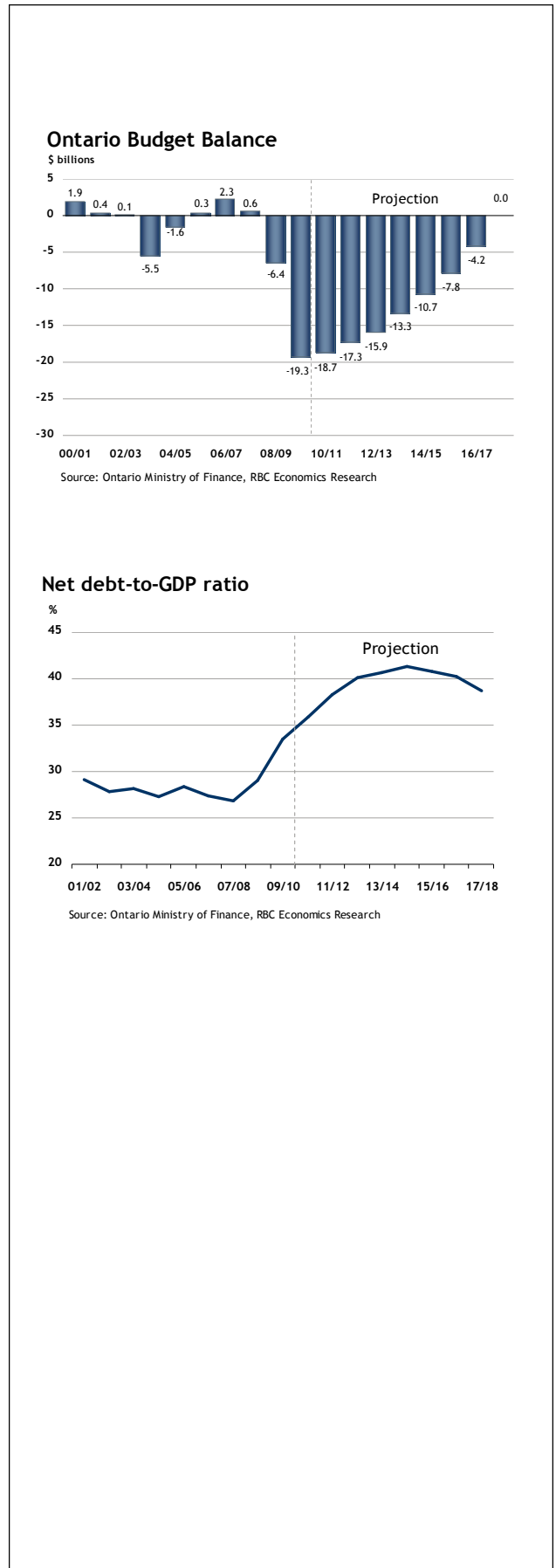
The **budget assumptions** have been updated to reflect stronger-than-expected growth in 2010, with the GDP growth forecast increasing from 2.7% to 3.2%. However, future projections are conservative, with the expected growth rate in 2011 downgraded to 2.2% from 3.2% (versus RBC’s 3.2%). Similarly, the 2012 forecast has been changed to 2.5%, also previously at 3.2%.

Overall, there were few surprises in this year’s mid-year review, and the revision to the bottom line went in the right direction – towards a lower deficit. However, with today’s other news on the successful GM IPO, of which the Ontario government is a major shareholder, there will be some positive implications for the provincial budget. The extent of which will likely be revealed by next spring.

### Ontario’s debt and borrowing requirements

Overall, Ontario’s **net debt** is projected to be \$219.5 billion (35.9% of provincial nominal GDP) at March 2011. This is slightly below the budget projection of \$220 billion, and is 13.4% higher than the \$193.6 billion net debt (33.9% of GDP) at March 2010.

The Ontario government expects that its total public **borrowing requirements** to decrease by \$2.0 billion in 2010/11 to \$43.6 billion reflecting the \$1 billion improvement in the fiscal bottom line and a proposed \$1 billion payment to the Province from the agreement with Teranet announced today, extending by another 50 years the company’s rights to use electronic land registration and writs services data. Long-term borrowing requirements are now estimated at \$38.7 billion this fiscal year, down \$1 billion relative to Budget. As of early November, 71% of the long-term borrowing requirements was completed. The document states that 60% of borrowings thus far in 2010/11 has been financed in the domestic market, up from 49% for the entire 2009/10, as the Province “has been responsive to strong domestic demand in Canada.”



## Ontario's fiscal plan

(\$ billions)	Actual		November Update			Projected Outlook (March Budget)				
	2009/10	2010/11	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Total revenues	95.8	106.9	107.7	107.6	111.8	117.6	123.4	129.6	136.1	142.9
Total expenditures	115.1	125.9	125.6	123.9	126.7	129.9	133.2	136.5	139.3	141.9
Program spending	106.3	115.9	115.9	113.1	114.5	116.5	118.7	121.0	123.3	125.7
Interest on public debt	8.7	10.0	9.7	10.8	12.2	13.3	14.4	15.4	15.9	16.2
Reserve	-	0.7	0.7	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Surplus/(Deficit)	(19.3)	(19.7)	(18.7)	(17.3)	(15.9)	(13.3)	(10.7)	(7.8)	(4.2)	0.0

Source: Ontario Ministry of Finance, RBC Economics Research

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