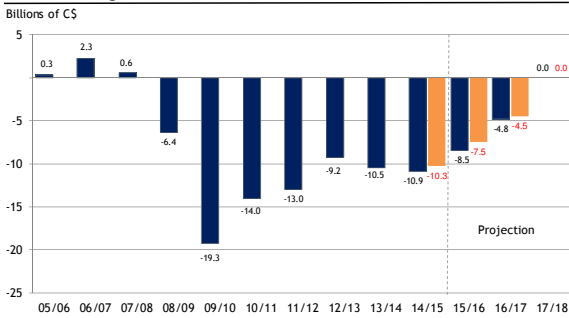


## THE 2015 ONTARIO ECONOMIC AND FISCAL REVIEW

November 26, 2015

### Ontario Mid-Year Fiscal Update

#### Ontario budget balance



Source: Ontario Ministry of Finance, RBC Economics Research

#### Economic growth assumptions

|                               | 2014 | 2015 | 2016 | 2017 | 2018 |
|-------------------------------|------|------|------|------|------|
| <b>Real GDP growth (%)</b>    |      |      |      |      |      |
| Budget 2015                   | 2.2  | 2.7  | 2.4  | 2.2  | 2.1  |
| Private sector average*       | 2.2  | 2.0  | 2.3  | 2.4  | 2.2  |
| Mid-year Update               | 2.7  | 1.9  | 2.2  | 2.3  | 2.1  |
| RBC                           | 2.7  | 2.1  | 2.5  | -    | -    |
| <b>Nominal GDP growth (%)</b> |      |      |      |      |      |
| Budget 2015                   | 3.6  | 4.2  | 4.2  | 4.2  | 4.1  |
| Mid-year Update               | 4.1  | 2.9  | 4.2  | 4.4  | 4.2  |
| RBC                           | 4.1  | 3.7  | 3.9  | -    | -    |

\*As of November 26, 2015

Source: Ontario Ministry of Finance, RBC Economics Research

The *Economic Outlook and Fiscal Review* for Ontario, released today, confirmed a plan to return to budget balance in 2017/18 with a slightly lower deficit profile in the intervening years. Deficits of \$7.5 billion and \$4.5 billion in 2015/16 and 2016/17, respectively, are now planned compared to previous respective shortfalls of \$8.5 billion and \$4.8 billion.

The \$1.0 billion revision to the bottom line in 2015/16 predominantly reflects stronger-than-expected revenue growth owing to progress related to the government's Hydro One initial public offering. The government anticipates that \$2.7 billion in funds will be available as a result of the November initial public offering, which represents an excess of \$1.1 billion relative to the "asset optimization" target for 2015/16 set out in the April budget. The government currently plans to generate \$5.7 billion from the partial sale of the public utility in total; however, the government booked the additional \$1.1 billion to 'other non-tax revenues' in 2015/16 whereas the \$1.6 billion originally expected from the sale was allocated to the Trillium Trust for infrastructure. On the other side of the ledger, program spending is projected to be \$0.4 billion higher in 2015/16 largely reflecting a \$0.3 billion planned investment in a Green Investment Fund (to be directed to Greenhouse Gas (GHG) reducing initiatives).

Through the medium-term, the profile for revenue growth is a cumulative \$2.3 billion higher than in Budget 2015. In addition to the \$1.2 billion lift in 2015/16 owing largely to the broadening of ownership of Hydro One (at \$1.1B), the government incorporated \$1.6 billion in additional revenues (\$0.3 billion in 2016/17 and \$1.3 billion in 2017/18) to reflect preliminary projections for proceeds from the cap-and-trade allowance auctions beginning in 2017 (The cap-and-trade program was announced following the April budget). A weaker economic growth outlook, and an attendant hit to revenues provided some offset to these projected revenue gains.

On the expenditure side of the ledger, the path for program spending was revised higher to incorporate a commitment to divert funds from the proposed cap-and-trade program into GHG reducing initiatives.

The government assumes real GDP growth rates of 1.9% and 2.2% in 2015 and 2016, respectively, both weaker than the 2.7% and 2.4% projected in Budget 2015. Assumptions for nominal GDP growth were also revised lower, at 2.9% and 4.2%, in 2015 and 2016, respectively.

Encouragingly, net debt is now projected to be \$0.5 billion lower (\$298.3 billion) as of March 31, 2016, than projected in Budget 2015. As a percentage of GDP, net debt is projected to peak in 2015/16 at 40.2% and remain at this level in 2016/17 before easing slightly to 39.4% in 2017/18.

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## Ontario's fiscal plan

| (\$ billions)           | Actual  | April Budget | November Update | Projected Outlook |         |
|-------------------------|---------|--------------|-----------------|-------------------|---------|
|                         | 2014/15 | 2015/16      | 2015/16         | 2016/17           | 2017/18 |
| Total revenues          | 118.5   | 124.4        | 125.6           | 129.5             | 135.3   |
| Total expenditures      | 128.9   | 131.9        | 132.2           | 132.8             | 134.1   |
| Program spending        | 118.2   | 120.5        | 120.9           | 120.6             | 121.3   |
| Interest on public debt | 10.6    | 11.4         | 11.3            | 12.2              | 12.9    |
| Reserve                 | -       | 1.0          | 1.0             | 1.2               | 1.2     |
| Surplus/(Deficit)       | (10.3)  | (8.5)        | (7.5)           | (4.5)             | 0.0     |

Source: Ontario Ministry of Finance, RBC Economics Research

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