

2010 Ontario Budget Webcast

March 31, 2010

Transcript of Minister's presentation

I am pleased to be here to talk about Ontario's 2010 Budget.

I would like to thank you for your questions which I have tried to address in the remarks that follow.

There are clear signs that the Ontario economy has stabilized and that recovery is taking shape.

Ontario has established a strong foundation for future prosperity through our tax plan for jobs and growth and by making major investments in key public services and infrastructure.

To that end, the Open Ontario plan lays out a balanced and responsible plan to manage spending, eliminate the deficit and secure the Province's long-term financial sustainability.

With our five year Open Ontario plan, we will continue to invest in Ontarians' knowledge and skills through postsecondary education, skills training, jobs programs and full-day learning.

We made a conscious decision to follow the IMF's advice and invest up to two per cent of GDP in stimulus to help lessen the impact of the recession on Ontarians. As a result, Ontario has a fiscal deficit.

We have been quick to act on the fiscal challenge that faces Ontario.

We have introduced measures to achieve significant fiscal savings – both this year and over the medium-term – that have allowed us to do better than the deficit projections published in the *Fall 2009 Ontario Economic Outlook and Fiscal Review*.

For fiscal years 2009-10 to 2011-12, the Province's total funding requirements have decreased by a cumulative \$8.7 billion from forecasts included in the *Fall 2009 Ontario Economic Outlook and Fiscal Review*.

This decrease is primarily due to lower than forecasted deficits in those years.

We have a realistic and responsible plan to eliminate the deficit in eight years. We will cut the deficit in half in five years.

The plan does not put job creation and economic growth at risk by cutting too much too soon, nor does it spend as if there is no deficit.

The Province is projecting a balanced budget by 2017-18.

The Open Ontario plan builds on the progress we have made over the past six years to enhance the programs and services that matter most to Ontarians.

The plan focuses our resources on areas that will open Ontario to new ideas, new economic growth and jobs.

As part of the Open Ontario plan, the 2010 Budget proposes initiatives that will enhance job creation and economic growth in northern Ontario.

These initiatives include creating a Northern Industrial Electricity Rate Program that would reduce industrial electricity prices by 25 per cent for qualifying large northern industrial facilities and the development of the area known as the Ring of Fire with potentially large mineral deposits.

We are also making Ontario a leader in the green economy.

The Province is achieving early success in the green economy by attracting the single-largest investment in renewable energy in provincial history.

The plan also calls for the development of a wide-ranging Water Strategy to protect Ontario's water resources.

The Province is actively working with the federal government to create a national securities regulator that will reflect Ontario's economic interests, enhance investor protection and improve the industry's international competitiveness.

In 2009, we responded to the global economic crisis by launching significant short-term infrastructure investments to stimulate economic growth, and we are continuing to invest \$32 billion in roads, bridges, public transit and energy retrofits for our schools to complete the second year of infrastructure stimulus investments.

Ontario's tax plan supports jobs and growth by replacing the Retail Sales Tax with a more modern value-added tax, cutting personal income tax for 93% of taxpayers and reducing corporate income taxes.

When fully phased in, these measures would cut Ontario's marginal effective tax rate on new capital investment in half.

This would make Ontario one of the most competitive jurisdictions in the industrialized world in terms of the taxation of new capital investment by corporations.

Stimulus investments combined with the tax plan will create the best possible climate to promote investment and job creation by the business sector.

The Province has introduced measures to achieve significant fiscal savings in 2009-10 and over the medium-term, which have allowed us to achieve lower deficit projections than the Fall 2009 forecasts.

Revenue growth and expense management will allow us to cut the deficit in half within five years, and eliminate it in eight years.

The Province is now projecting a \$21.3 billion deficit in 2009-10. Furthermore, we are projecting diminishing deficits of: \$19.7 billion in 2010-11, \$17.3 billion in 2011-12 and \$15.9 billion in 2012-13, with a balanced budget by 2017-18.

In total, the fiscal outlook for the Province of Ontario has improved by \$3.4 billion in 2009-10, \$1.4 billion in 2010-11 and \$2.1 billion in 2011-12, compared to the projections included in the *Fall 2009 Ontario Economic Outlook and Fiscal Review*.

Interest on debt expense is now lower than forecast in the *Fall 2009 Ontario Economic Outlook and Fiscal Review* partly reflecting the improved deficit projections over the medium term.

The reserve for 2009-10 has been drawn down to help offset the impact of slower economic growth on the Province's fiscal performance.

The reserve for 2010-11 to 2011-12 has been lowered to reflect the fact that the Ontario economy has stabilized and is showing signs of recovery.

The fiscal plan also includes contingency funds (both operating and capital) totalling \$2.0 billion in 2010-11 to help mitigate expense risks that may otherwise have a negative impact on results.

The contingency funds will provide us with the flexibility to respond in a timely manner to further challenges that may arise to Ontario's continuing recovery.

To address the current fiscal challenge, while protecting public services, we will introduce legislation that would: extend the freeze on MPP pay for a total of three years; and freeze compensation structures for non-bargained political and Legislative Assembly staff and non-bargained Broader Public Sector and Ontario Public Service staff for two years.

For those represented by bargaining agents, we will respect all collective agreements.

Our prudent and responsible plan to manage expenditures has a significant impact on base operating expenses, resulting in a decline. The expenditures will in effect be held at or below 2010-11 levels over the medium term.

In the current fiscal environment, we have revised the scope and timing of some capital investments. To help manage infrastructure spending over the coming years, we will phase construction of a number of major long-term capital projects.

We will continue with a comprehensive review of all government programs and services.

Ontario's net debt-to-GDP ratio was well below those of G7 countries in 2009-10, in spite of record public-sector capital investments in 2009-10 and plans for significantly more in 2010-11.

Going forward, Ontario's deficit as a share of provincial GDP is projected to be lower than all G7 jurisdictions (except Canada) in 2010-11.

Ontario's net debt-to-GDP ratio is expected to increase due to the projected deficits. The ratio peaks at below 42% before it stabilizes and begins to decline during the period of the recovery plan to balance the budget.

Ontario's economic outlook is heavily influenced by global economic and financial conditions, particularly U.S. demand, oil prices, the Canadian dollar exchange rate and interest rates.

The United States, which is beginning to recover from one of the deepest recessions on record, is Ontario's most important export market accounting for about 80 per cent of the Province's international exports.

Ontario's export growth is reviving as the U.S. and global economies recover.

For 2010-11 Ontario's GDP growth is projected to be in line with Canada's and greater than any other G7 jurisdiction.

There are clear signs that the Ontario economy has stabilized and that recovery is taking shape.

Growth is expected to strengthen due to improving global demand, significant government actions to support jobs and the economy, and government policies to promote long term competitiveness and growth.

All major indicators in Ontario have improved from lows posted during the recession.

The Ministry of Finance is projecting real GDP growth of: 2.7 per cent in 2010, 3.2 per cent in 2011, 3.2 per cent in 2012 and 3.0 per cent in 2013, slightly below or in line with the private-sector average each year.

Due to the sharp decline in GDP resulting from the global recession, Ontario real GDP is expected to remain below its pre-recession peak until the first quarter of 2011.

Since employment growth tends to lag real GDP growth, it is expected to take somewhat longer for the Province to see the same level of employment as before the global recession.

For fiscal years 2009-10 to 2011-12, the Province's total funding requirements have decreased by a cumulative \$8.7 billion from forecasts included in the *Fall 2009 Ontario Economic Outlook and Fiscal Review*.

This decrease is primarily due to lower than forecasted deficits in those years.

The total funding requirement for 2009-10 has declined by \$6 billion since the *Fall 2009 Ontario Economic Outlook and Fiscal Review*, primarily due to the decline in the projected deficit.

This has allowed the Province to increase its cash balance, which will provide greater flexibility in meeting our funding requirements for 2010-11.

Diversification of borrowing sources will continue to be a primary objective in 2010-11.

Depending on market conditions, the Province plans to borrow at least 50 per cent in the domestic market.

As part of our domestic borrowing, in 2010-11 the Province will again be offering Ontario Savings Bonds to its residents.

In addition to the traditional variable-rate, step-up rate and 3-year fixed-rate bonds, we will be introducing 7-year and 10-year fixed-rate bonds. The longer fixed-rate terms will enable investors to earn a more competitive rate for the life of the bond.

I have outlined how the government plans to meet the fiscal and economic challenges of today, so that Ontario will continue to be strong and competitive tomorrow.

Through fiscal balance and economic strength, Ontario will attract investment and create jobs.

To meet the borrowing requirements, Ontario will be flexible, monitoring domestic and international markets, issuing bonds in different terms and currencies, and responding to investor preferences.

Thank You