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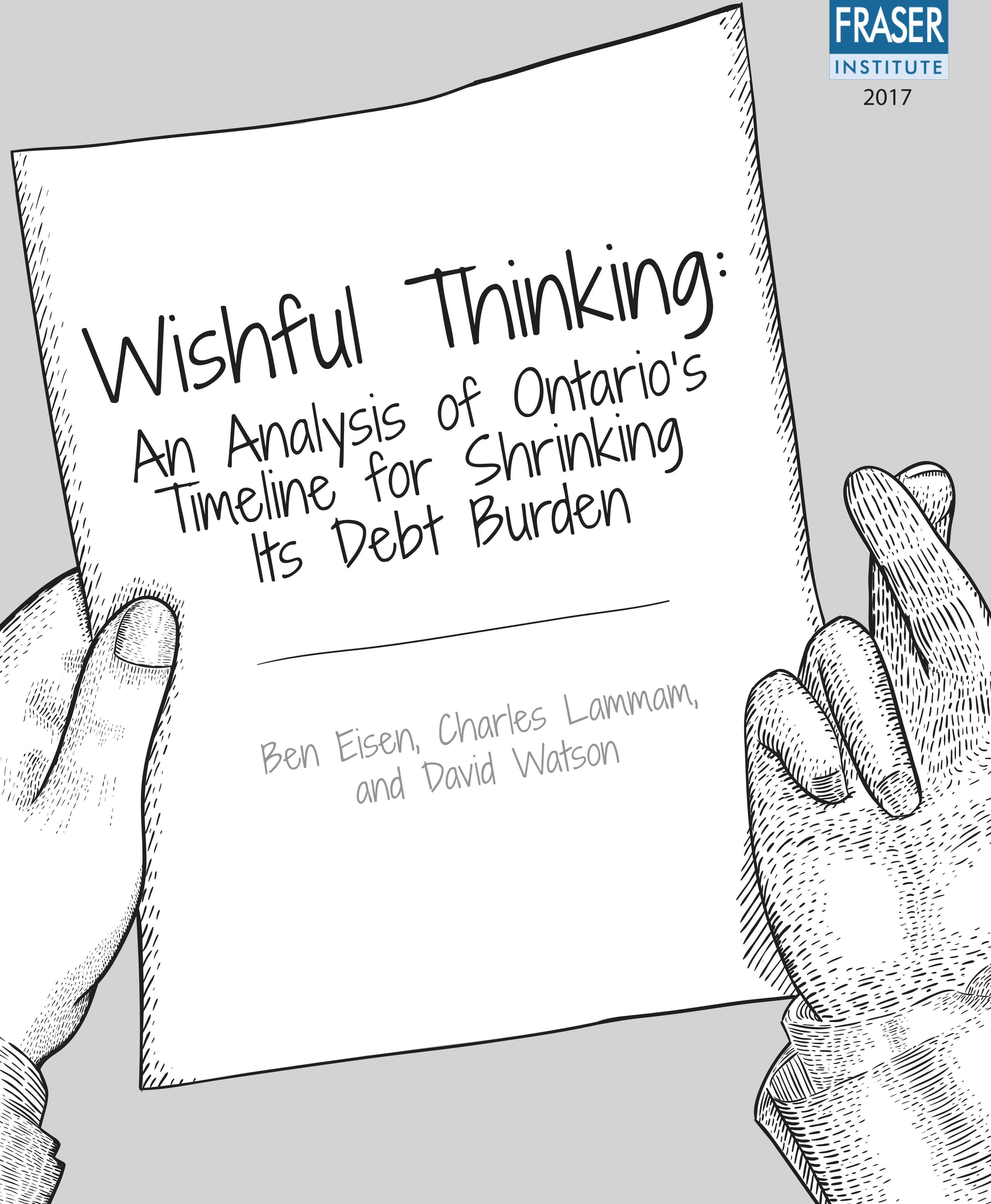

Wishful Thinking: An Analysis of Ontario's Timeline for Shrinking Its Debt Burden

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Executive Summary

Since 2007/08, Ontario's level of public debt has approximately doubled. As a result, the provincial debt-to-GDP ratio has climbed to historically high levels in recent years.

In its 2017 budget, Premier Wynne's government presented a timeline for reducing the province's debt-to-GDP ratio back to pre-recession levels—which is to say 26 to 27 percent—by 2029/30. This report analyzes the government's strategy and timeline.

We show that the government's selection of a target date so far into the future exposes the provincial economy to a number of costs and risks, including increased spending on debt service payments over time. What's more, we conclude that the government's timeline for achieving even this unambitious target date relies on several questionable assumptions and therefore is not entirely credible.

First, the government indicates there will be significant debt accumulation throughout the life of its current fiscal plan—the only period during which detailed revenue and expenditure estimates are available. The government calls for debt to increase, on average, by $11.4 billion per year over the next three years. This is down only very slightly from the pace of debt accumulation over the past three years—$11.6 billion per year.

Because the province plans to continue adding debt, it does not expect to make any meaningful progress in reducing its debt-to-GDP ratio in the near term. In fact, between the 2015/16 and 2020/21 fiscal years, the government's plan calls for this ratio to fall at an average annual rate of just 0.4 percentage points. At this rate, it would take approximately 25 more years to return to pre-recession debt-to-GDP levels.

The government projects it will achieve its much closer target date of 2029/30 only by assuming a rapid increase in the pace of debt reduction in the later years of its timeline—for which no revenue or expenditure plans are available. In fact, the government forecasts that the rate of reduction in the province's debt-to-GDP ratio will approximately triple in the final eight years of its timeline, rising to 1.1 percentage points annually.

Achieving this objective will require the government to essentially stop adding any new debt around 2021 and for the provincial economy to maintain sustained, robust economic growth throughout the following decade. This timeline relies upon two questionable assumptions.

First, it assumes the government will essentially stop adding debt around 2021. Given that it has added billions of dollars of debt every year since 2003 and it plans to continue doing so through the life of its current detailed fiscal plan, it would be naïve to accept this assumption at face value. In short, the government's refusal to curtail its reliance on substantial new debt to fund its activities raises questions about the credibility of its commitments to do so beginning several years from now.

Second, Ontario's economy is already eight years into an economic expansion. The government's plan assumes another twelve years of sustained and relatively robust economic growth.

If either of these assumptions does not come to pass, the government's target date will have to be pushed even further off into the future.

In addition to its analysis of Ontario's debt timeline, this report contrasts Ontario's fiscal strategy with the one being implemented in Quebec. Quebec has already stopped adding to its nominal debt burden and is therefore already in the process of making substantial annual progress in reducing its debt-to-GDP ratio.

Quebec's significant progress in just a short period shows that it is possible to quickly reduce a large debt-to-GDP burden such as the one both Quebec and Ontario face. Unlike Ontario's projections, Quebec's projections that it will continue to reduce its debt-to-GDP ratio are entirely credible since they are consistent with the province's recent performance.

The contrast with Quebec highlights the weaknesses of Ontario's timeline. Ontario's plan involves continued debt accumulation in the years ahead and relies on risky assumptions to offer forecasts of future debt-to-GDP reductions that, unfortunately, amount to little more than wishful thinking.

Introduction

Ontario's government debt has been rising for many years, and has been climbing especially quickly since 2007/08. Net debt (a measure that subtracts a jurisdiction's financial assets from its debt total) has approximately doubled over the past decade. As a share of the economy, the province's net debt now stands at 37.5 percent, up from 26.0 percent in 2007/08.

Over the past few years, Premier Wynne's government, by committing to the objective of reducing the debt-to-GDP ratio to pre-recession levels (26 to 27 percent of GDP), has implicitly recognized that the province's elevated debt-to-GDP ratio is a problem (Ontario Ministry of Finance, 2016).

Unfortunately, the Wynne government's stated commitment to reducing the provincial debt-to-GDP ratio has not been matched by action, or a detailed plan and timeline for achieving this goal. For this reason, in our testimony as part of a panel of expert witnesses, we encouraged the government to present a detailed plan for returning to pre-recession debt levels, complete with a timeline and benchmarks against which the government's budgetary performance in this area can be judged (Legislative Assembly of Ontario, 2017).

In its budget for fiscal year 2017/18, the provincial government responded to these requests by presenting a timeline for returning to pre-recession debt levels (Ontario Ministry of Finance, 2017). The target date established in the budget is 2029/30—more than 20 years after the recession of 2008/09.

This report analyzes the government's strategy and timeline for returning to pre-recession GDP levels and is organized as follows. The first section describes Ontario's debt-reduction plan, drawing attention to the sharp contrast between the slow pace of reduction expected in the immediate future and the rapid pace of reduction projected in the medium-to-distant future. The next section describes costs and risks of the government's plan, including its continued debt accumulation in the early years and the lengthy time horizon envisioned for a return to pre-recession debt levels, which leaves the province vulnerable to the effects of another economic shock. The penultimate section compares Ontario's debt reduction plan with the dramatically different approach of neighbouring Quebec, which plans meaningful debt reduction in the immediate future. The last section concludes.

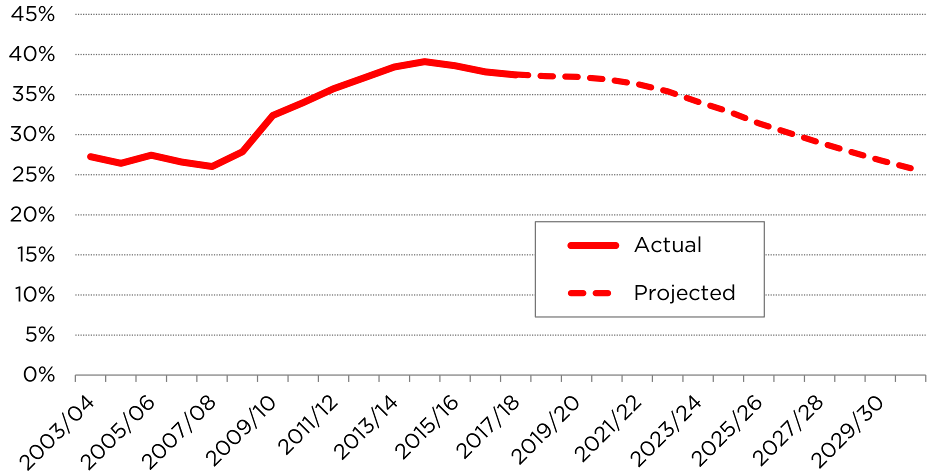
The Wynne Government's Timeline for Reducing Ontario's Debt Burden

Before discussing the Wynne government's timeline for reducing the debt burden as outlined in this year's budget, it is important to briefly explain why an elevated debt burden is problematic. A high level of public debt can cause a number of economic problems. First, the burden of servicing public debt absorbs scarce resources that become unavailable for other government priorities (Lammam, MacIntyre, Ren, and Hasan, 2017). For example, Ontario's provincial government currently spends more on debt service payments each year ($11.6 billion this year) than it does on the province's system of colleges and universities. A second problem with a high public debt level is that it places the burden of debt service and/or repayment on future generations, raising the spectre of future tax increases to service that debt, which discourages productive economic activity. Furthermore, much of the current debt has been contracted at historically low rates of interest but there is the risk of rapid increases in debt service costs associated with new borrowing should interest rates start to rise (Wen, 2016). And, of course, when taxes are raised to pay for past debts, they impose economic costs and dampen growth, thereby potentially reducing government revenues and affecting debt service and other government programs.

Ontario's provincial government has recognized at least some of these problems associated with carrying a large debt burden and has repeatedly committed to the target of reducing the province's debt-to-GDP level from its current level of 37.5 percent back to its pre-recession level of 27 percent. The government's target of 27 percent is somewhat arbitrary, bears little economic significance, and lacks ambition. Consider, for example, that the net debt-to-GDP ratio in British Columbia is currently dramatically lower at 15.5 percent. But the point of this report is not to evaluate the target itself, only to examine whether the plan the government has set is likely to achieve its stated goal.

Until recently, the government declined to offer a timeline for achieving this objective. In its 2017 budget, however, it finally presented a timeline, which is described below.

Figure 1: Ontario Debt to-GDP-Ratio, 2003/04 – 2030/31 (%)



Source: Ontario Ministry of Finance, 2017.

Figure 1 shows how Ontario's debt-to-GDP ratio has evolved in recent years, as well as the government's forecast for bringing the ratio back to pre-recession levels by 2029/30. As the figure indicates, the rapid run-up in the province's debt-to-GDP ratio began in 2008/09.[1] Over an eight-year period starting in that year, the debt burden climbed quickly, peaking at 39.1 percent in 2014/15. In subsequent years, the ratio has begun to fall slightly, reaching 37.8 percent in 2016/17, and is projected to continue falling in the years ahead, slowly at first and then much more quickly during the 2020s (FAO, 2017).[2]

[1] While the run-up in provincial debt accelerated dramatically starting in 2008/09, Ontario's public finance problems in fact pre-date the 2008/09 recession. In the early 1990s, when these problems really began, the province's debt grew quickly in absolute terms and relative to the size of the economy. Following Premier Mike Harris's reforms in the mid-1990s, the province's debt-to-GDP ratio stabilized and began to fall slightly, before starting to increase quickly again starting in 2008/09.

[2] The province's auditor general has called into question the government's accounting method for calculating its debt burden. The government and auditor general disagree on public sector accounting standards for jointly sponsored pension plans. Under the auditor general's preferred accounting approach, both the province's fiscal balance and net debt burden appear slightly worse than they do in government documents. In this report, we rely primarily on government financial documents and therefore its accounting approach. This, however, should not be taken as an endorsement of the government's approach over the auditor general's preferred method.

Weaknesses and Risks in the Government's Plan

Continued debt accumulation and minimal debt-to-GDP progress planned for the near future

There are many weaknesses and risks in the government's "plan" for reducing the debt-to-GDP ratio. For starters, the asymmetry of the debt reduction plan is striking; while debt accumulation was rapid on the way up, the pace of debt reduction is much slower on the way back down. Specifically, during the seven years between 2007/08 and the debt-to-GDP peak in 2014/15, the province's debt-to-GDP ratio increased at an annual average rate of 1.9 percentage points.

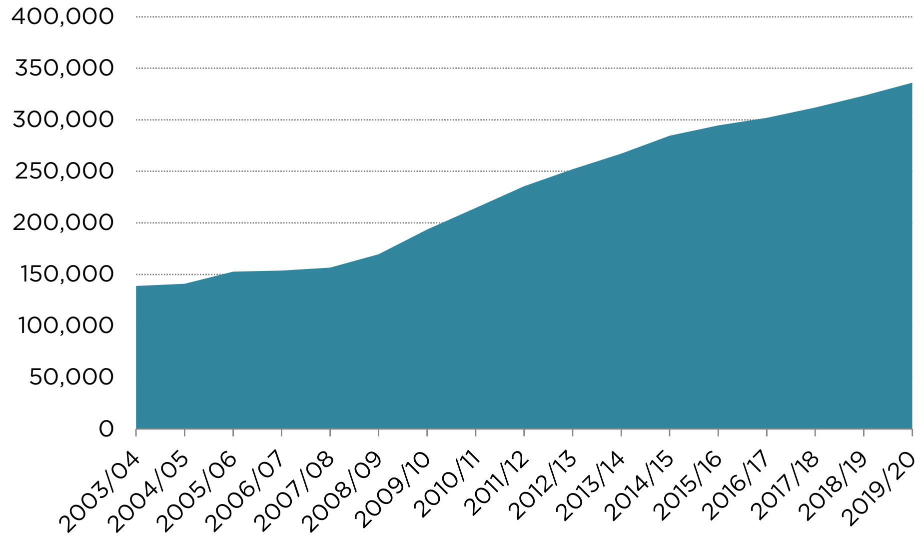
On the other hand, the pace of debt-to-GDP reduction on the path back to pre-recession debt levels is forecast to be much slower. Specifically, over the course of the 15-year period of projected decline, the provincial debt-to-GDP ratio is expected to fall at a pace of 0.9 percentage points per year.

As a result of this asymmetry, the government's own forecast suggests it will take twice as long to bring its ratio back down to pre-recession debt levels as it did to increase the ratio from pre-recession levels to its post-recession peak. Indeed, when the government's target date of 2029/30 arrives, the province will be 20 years removed from the end of the 2008/09 recession that precipitated the rapid run-up in debt the province is now attempting to address.

There are a number of problems and risks associated with the government's plan. The first and most important problem is that it calls for substantial, sustained debt accumulation over the next several years, which will make it impossible to begin making meaningful progress on the provincial debt-to-GDP ratio in the near term.

Specifically, despite balancing the budget, the provincial government expects to add significant new net debt to its books over the next three years. It may seem counterintuitive that Ontario can add debt despite tabling a "balanced" budget this year. However, this does happen

Figure 2: Ontario Nominal Debt ($ Millions) FY 2003-2019



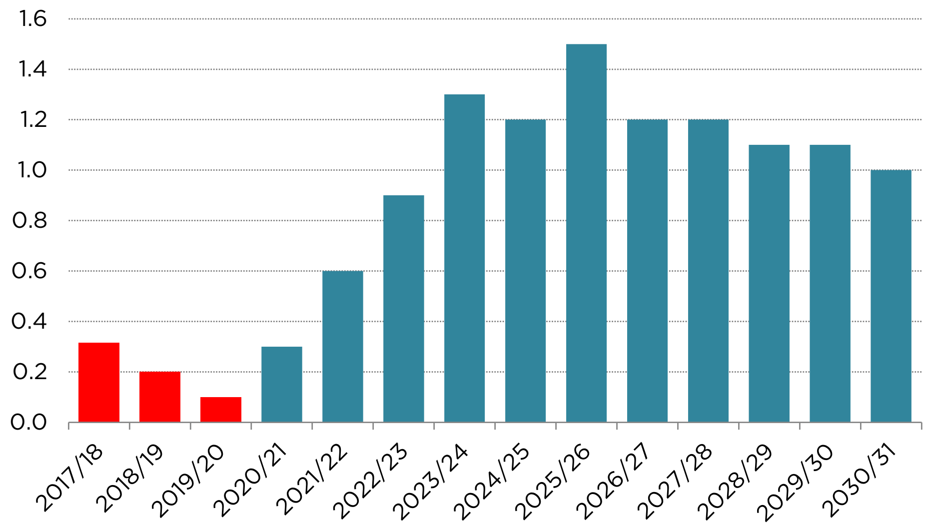
Sources: Canada, Department of Finance, 2016; Ontario Ministry of Finance, 2017.

frequently because of government accounting methods, which do not fully count outlays on capital expenditures in the operating budget for the year in which the money is spent. Instead, the costs are spread out over time. A balanced operating budget means the government is collecting enough money to cover day-to-day expenditures, such as the salaries of government employees, regular programs, and debt service payments (Eisen et al., 2017). However, governments can still continue to rack up significant debt despite a balanced operating budget, and that's what's happening in Ontario.

Ontario's fiscal plan calls for provincial net debt to increase at an average rate of $11.4 billion annually over the next three years. By comparison, during the past three fiscal years, Ontario added an average of approximately $11.6 billion in new debt annually. This means that not only is Ontario continuing to add debt, it is not even planning to meaningfully slow its pace of debt accumulation in the next few years (Eisen et al., 2017). Figure 2 shows the growth of Ontario's debt burden in nominal terms since 2003, and illustrates the fact that the government forecasts continued nominal debt growth through to the end of its current fiscal plan.

As a result of this continued addition to the province's nominal debt burden, the government expects to make almost no progress in reducing

Figure 3: Ontario Planned Reduction in Debt-to-GDP Ratio (Percentage Points)



Sources: Ontario Ministry of Finance, 2017; calculations by authors.

its debt-to-GDP ratio during its current fiscal plan—the only period for which detailed spending and revenue forecasts are available. Instead, the timeline leaves almost all of the work to the distant future and provides no details or explanation about how, exactly, the faster reductions envisioned will be achieved then.

Figure 3 illustrates the asymmetry by presenting the planned reduction in Ontario's debt-to-GDP ratio in percentage points for every year between now and 2029/30. As figure 2 shows, the pace of projected reduction is very slow (0.3 percentage points annually or less) through to the end of the current fiscal plan presented in the budget, which runs until 2019/20. Only then, once the fiscal plan ends and detailed estimates on revenue and expenditures are no longer presented, does the pace of debt reduction begin to gather steam.

It is reasonable to ask precisely how this hoped-for future escalation in the pace of debt-to-GDP reduction will be achieved. To do so would require a pronounced slowdown in the pace of nominal provincial debt accumulation, or a very rapid increase in GDP growth, or some combination thereof. For example, between 2017/18 and 2019/20, the nominal rate of growth of net debt is forecast to average 3.6 percent, while that for nominal GDP is expected to average 4.2 percent. As figure 2 showed, this will not be sufficient to make meaningful reductions in the provincial debt-to-GDP ratio.

The direction of the provincial debt-to-GDP ratio in a given year is shaped by interest rates, the level of economic growth, and the amount of debt accumulated in that year. For meaningful progress to occur, the economy must grow significantly faster than the province's store of debt. As we have seen, the government's own fiscal plan suggests this will not occur in the near future.

Further, there's reason to be skeptical about the timeline's implied suggestion that in its later years, a substantial gap will open between the rate of economic growth and the rate of debt accumulation. To achieve the much more rapid pace of debt-to-GDP reduction of over one percentage point annually envisioned starting in the early-2020s, the province would need to essentially stop adding new debt altogether year over year, and maintain a nominal GDP growth rate of approximately 4 percent or higher.[3] For context, annual nominal GDP growth in Ontario has averaged 3.5 percent between 2003 and 2016.

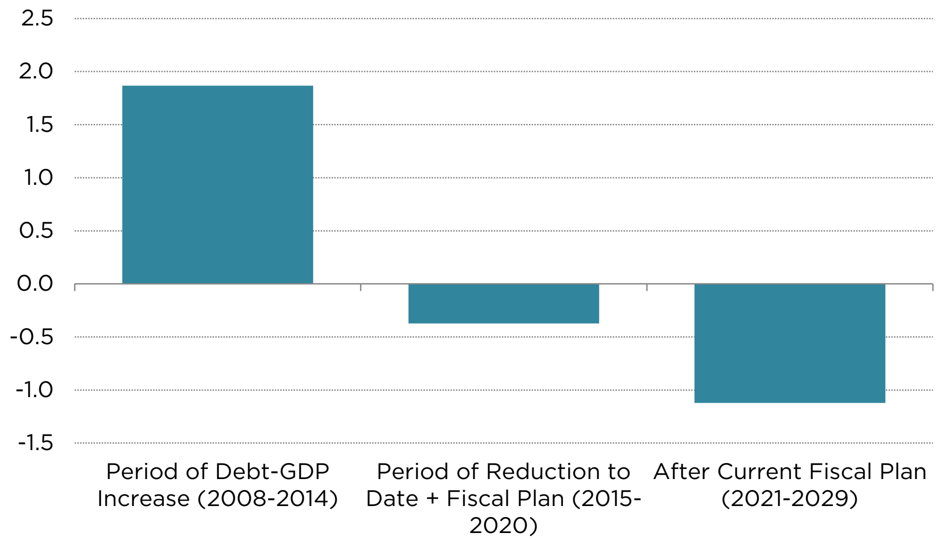
Given that the province has added billions of dollars in new debt almost every year since 2003, it is an open question as to exactly how the current government plans to finally end its reliance on public debt to finance its operations and capital expenditures starting in the early 2020s.

Of course, it is possible that the government could stop adding to its debt burden around 2022 as the fiscal plan implies, but it has not yet demonstrated how it will achieve this objective. On the contrary, it is difficult to square this forecast with Ontario's ambitious capital spending plan, which calls for $190 billion in capital spending over a 13-year period beginning in 2014-15. The province's long-term capital spending plan will still be in the process of being implemented in the mid-2020s, a period during which the province's timeline calls for a rapid acceleration in the pace of debt-to-GDP reduction.

Perhaps the government plans to achieve its goal of nearly ceasing debt accumulation by curtailing its planned infrastructure spending. Or perhaps the government plans to run large operating budget surpluses to offset high capital expenditures. However, the spending restraint that would be required to do so will be made more difficult by cost pressures arising from an aging population and the resulting pressure on health care costs (Barua et al., 2016). The Financial Accountability Office (FAO) has identified a number of additional costs that will make it more difficult for the government to maintain a balanced budget, let alone run large surplus-

[3] For example, to achieve the 1.5 percentage point reduction envisioned in 2025/26 would require no additional debt to be added that year and robust economic growth of approximately 4.8 percent in nominal terms.

Figure 4: Average Annual Change in Ontario's Debt-to-GDP Ratio (percentage points)



Sources: Ontario Ministry of Finance, 2017; calculations by authors.

es in the medium-term. These include rising debt interest costs, reduced equalization payments, new child care commitments, and the government's "Fair Hydro Plan" (FAO, 2017).

While there are ways to curtail debt accumulation to achieve the envisioned debt-to-GDP ratio reductions, none will be easy, and the government has not given any indication of the strategy it has in mind. Given this reality, along with the government's track record on debt accumulation, the unlikely possibility that annual nominal GDP growth at rates above 4 percent can be maintained indefinitely, and its plan to continue adding new debt in the next three years at about the same pace as it has in the last three, there is good reason to be skeptical about the promises that debt accumulation will essentially stop and the debt-to-GDP ratio will begin to fall quickly starting about five years from now.

Figure 4 graphically illustrates the asymmetry of the government's fiscal plan along with the fact that the government's forecasts of debt reduction in the distant future are not consistent with its performance thus far—nor with detailed plans for the short-term. Between 2015/16 and 2020/21, the government's plan calls for an average reduction of 0.4 percentage points annually in the debt-to-GDP ratio. At this pace, it would take the government another 25 years to return to its pre-recession debt-to-GDP levels, twice as long as the government projects.

The government, however, projects that it will reach its objective much faster—by 2029/30. It forecasts this by projecting that in the nine years after the end of its current fiscal plan, the pace of reduction will increase dramatically to 1.1 percentage points a year. As figure 3 shows, the pace of debt-to-GDP reduction needs to increase rapidly—and well beyond what has occurred in recent years in order to meet the target date.

As noted, in the absence of extraordinarily rapid and sustained economic growth, achieving this objective will require the government to essentially stop adding debt altogether in the middle years of its timeline. Of course this is possible, but given the government's heavy reliance on debt to finance operations and capital spending over the past 15 years, it would be naïve to take this projection on faith in the absence of a clear plan as to how it will be achieved.

Simply put, the government's plan for continued debt accumulation in the years immediately ahead make it impossible to make real progress towards its objective of pre-recession debt-to-GDP levels. Therefore, the distant 2029/30 target date can only be achieved by forecast reductions after 2020, which amount to little more than wishful thinking since they are not consistent with the government's track record or short-term plan—and because the government has presented no strategy yet that shows how the target will be achieved.

Maintaining elevated debt levels means increased debt service costs for Ontarians

Ontario's debt-to-GDP ratio will, by the government's own reckoning, remain very close to its current level for several more years. Maintaining an elevated debt burden—and continuing to add substantial debt each year—will extend the period during which Ontario taxpayers will be required to service that added debt. If the government were to set and achieve a timelier target by which it would begin to slow the pace of debt accumulation, it could reduce its debt service obligations relative to provincial revenue and generate a fiscal dividend—in other words, free up resources for other priorities.

Debt service charges are currently among the largest and fastest growing expenses in Ontario's budget, consuming a growing share of provincial revenue. In fact, Ontario currently spends more on debt interest payments ($11.6 billion this year) than it does on the province's colleges and universities. Maintaining an elevated debt-to-GDP ratio over a lengthy period requires more money be spent on interest payments than would be the case if the debt burden shrank more quickly. And all this is occurring in an environment where government borrowing costs (interest rates) are at historical lows. If interest rates revert to their normal levels over the next decade, potentially even more tax dollars could be spent on interest payments than is currently projected.

The long time horizon exposes Ontario's economy to major fiscal risks if another downturn occurs

Another major risk inherent in the government's timeline is that it extends the period during which the province is vulnerable to another fiscal shock that could raise debt. Historically, Ontario's economy experiences a recession at least once a decade. Ontario is already eight full years into the current economic expansion, and it would not be merely optimistic, but unrealistic, to assume that another 12 years will pass without another recession. And yet, the government's timeline appears to make exactly this assumption; it relies on continuous—and in fact, robust—economic growth throughout the next decade.

If it were to set the target date earlier, the government would leave itself less vulnerable to unanticipated fiscal shocks. Because the province expects very little debt-to-GDP reduction over the next several years, if a recession does arrive sooner rather than later, the fiscal shock would occur while the province is still only a few percentage points removed from its post-recession peak. Under this circumstance, even a mild recession could push the province's debt-to-GDP ratio back up above its pre-recession peak, further delaying a return to pre-recession debt levels.

A Tale of Two Provinces: Comparing Ontario's Debt Reduction Strategy to Quebec's

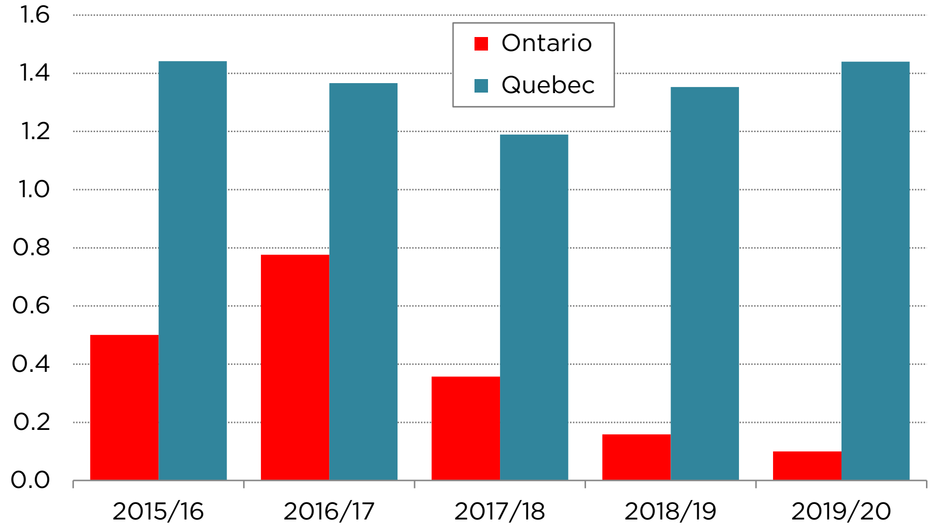
As noted, the government's timeline for bringing its debt-to-GDP ratio back to pre-recession levels is vulnerable to several substantial risks, nearly all of them stemming from the long timeline, which puts any significant progress off well into the future. The government is delaying the tough decisions that are needed today to slow the pace of debt accumulation in the province, which leaves the province exposed to these risks. For those concerned about the provincial debt burden, there is little comfort to be gained from a timeline that delivers almost no progress on debt-to-GDP reduction for several years to come, and puts off any large reductions for many years, thus delaying the return of provincial debt to pre-recession levels until 20 years after the end of the 2008/09 recession.

The shortcomings of Ontario's fiscal plan contrast starkly with the plan currently being implemented in Quebec. That province is already reducing its debt-to-GDP ratio substantially. Quebec is a useful comparator because it is Canada's second largest province after Ontario and provides a real-world example of a government pursuing a different approach—and showing early signs of success in doing so.

Like Ontario, Quebec was also hit hard by the 2008 economic recession. In the years immediately following the crisis, it too suffered significant fiscal damage that needed to be repaired. Between 2008/09 and 2014/15, following the recession, Quebec ran seven consecutive budget deficits, although those deficits were smaller than those run in Ontario (Lammam, Ren, and MacIntyre, 2017). The province entered the recession with a debt-to-GDP ratio of 40.7 percent in 2007/08—much higher than Ontario's at the time—and saw that figure increase to a peak of 50.9 percent by 2012/13.

Quebec has made substantially more progress in shrinking its debt burden in recent years than has Ontario. Quebec returned to a budget balance in 2015/16, two years ahead of Ontario, and unlike Ontario has stopped adding net debt to its books altogether. In fact, since 2012, Quebec has added just $6 billion to its net debt (as compared to approximately

Figure 5: Reduction in Net Debt-to-GDP Ratio, 2015/16 – 2019/20 (percentage points)



Sources: Ontario Ministry of Finance, 2017; Gouvernement du Québec, 2017; calculations by authors.

$60 billion in Ontario). Quebec has added virtually no debt at all since 2014/15, and forecasts that its nominal net debt burden will actually fall by a little more than $1 billion between 2016/17 and 2021/22.

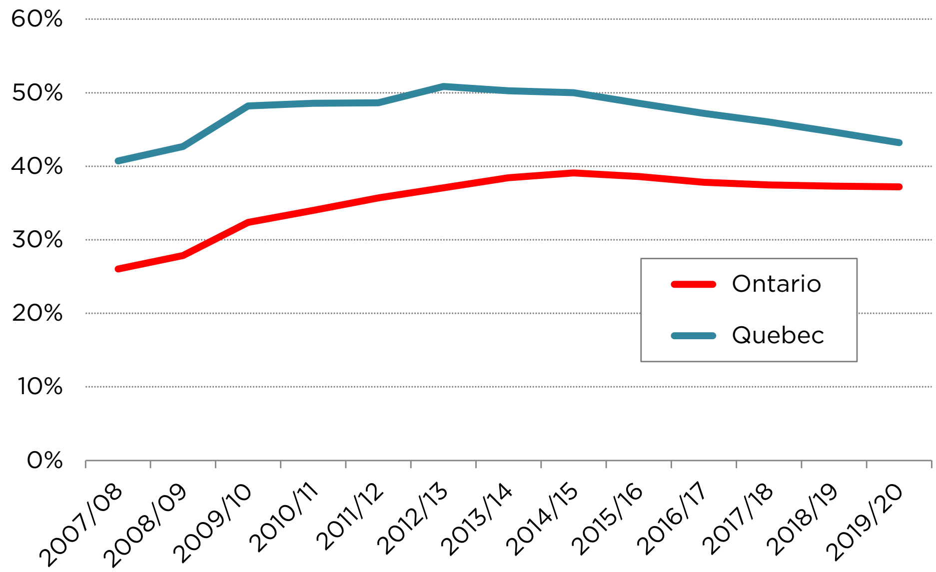
As a result, Quebec is making significant headway in reducing its dangerously high debt-to-GDP ratio. Figure 5 shows the contrast between the two province's plans to reduce their debt-to-GDP ratios by comparing the achieved and forecast annual reductions in their debt-to-GDP ratios between 2015/16 and the end of Ontario's fiscal plan.[4]

Over the course of its current fiscal plan (2015-2019), Quebec expects to shrink its debt-to-GDP ratio at an average annual rate of 1.4 percentage points. This target is entirely credible; it closely matches the province's fiscal performance in recent years.

Historically Quebec has been Canada's most indebted province. Its rapid and dramatic turnaround clearly shows that it is possible for provinces to make substantial fiscal progress in a relatively brief period.

[4] Quebec's fiscal plan goes two years further into the future than Ontario's, during which it projects similar debt-to-GDP reductions.

Figure 6: Debt-to-GDP Ratios in Ontario and Quebec



Sources: Ontario Ministry of Finance, 2017; Gouvernement du Québec, 2017; calculations by authors.

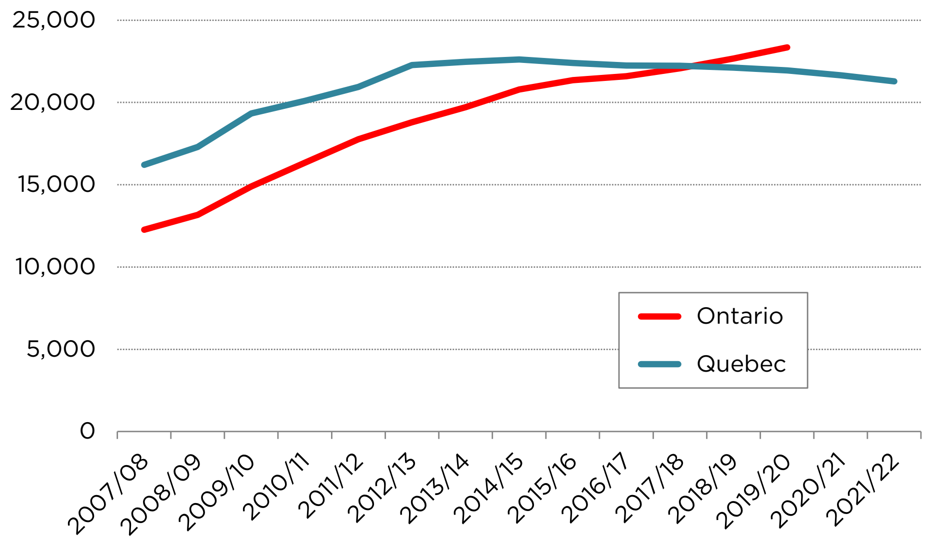
Due to a slower pace of debt accumulation during the recession and a faster rate of reduction in its aftermath, Quebec expects to return to its pre-recession debt-to-GDP level (40 percent) in fiscal year 2021/22, eight years before Ontario. Furthermore, it is on a trajectory to make continued progress in the following years.

Quebec entered and exited the 2008/09 recession a more heavily indebted province (relative to GDP) than Ontario. However, as figure 6 shows, because of the rapid progress Quebec has made in reducing its debt burden relative to Ontario, the gap between the two provinces is shrinking rapidly.

Figure 6 indicates that prior to the 2008/09 recession, Quebec's debt-to-GDP ratio was approximately 14.7 percentage points larger than Ontario's. This gap held roughly constant until 2013/14, at which point it began to narrow. In 2017/18, the gap between the two provinces has shrunk to 8.6 percentage points, a little bit more than half as large as it was a decade ago. Over the next two years, the gap is expected to shrink further, reaching just 6 percentage points in 2019/20.

In short, Quebec has a clearer and better plan than Ontario to reduce its debt burden relative to GDP. Ontario has yet to begin making

Figure 7: Net Debt per Capita in Ontario and Quebec, 2007/08 to End of Fiscal Plans



Sources: Ontario Ministry of Finance, 2017; Gouvernement du Québec, 2017; calculations by authors.

significant progress in reducing its ratio of debt to GDP. The result is that the gap between the two provinces in their respective debt burdens has narrowed quickly. Quebec is already enjoying one of the benefits of a falling debt burden: the share of its budget going to interest payments on the debt has fallen from 11.4 to 10.0 percent over the past two years, and is projected to decline another percentage point by 2022.

The story is similar for the net debt load per capita for the two provinces—Quebec's continued population growth and a debt burden that is not growing ensures that it is making substantial progress. On the other hand, Ontario's per-capita debt load is expected to continue growing throughout the remainder of its fiscal plan.

As figure 7 shows, prior to the recession, Quebec's per capita debt (approximately $16,500) was substantially larger than Ontario's (approximately $12,500). This gap held more or less constant until 2012, when Quebec's per-capita debt began to shrink while Ontario's continued to grow. As a result, this year Ontario's per-capita debt load is expected to approximately equal Quebec's, and will exceed it next year, according to the fiscal plans from both provinces.

The turn of events is striking, particularly given Quebec's long-held reputation as an exemplar of poor fiscal management. Quebec is making strides to change its reputation, but it will take time to undo the effects of decades worth of deficits and debt accumulation. Given Quebec's reputation in this area, it will perhaps come as a surprise to many to learn that as of the end of next year, each Ontarian will be responsible for more provincial government debt than their counterparts in Quebec.

Conclusion

In the months leading up to Ontario's 2017 budget, we repeatedly urged the provincial government to present a timeline for achieving its stated objective of returning the public debt-to-GDP ratio to pre-recession levels. Indeed, the government has presented a timeline with this budget.

Unfortunately, the plan and timeline the government has presented is not really a plan at all. Instead, it is little more than an exercise in wishful thinking. It exposes the province's economy and finances to significant risks. It does not call for a return to pre-recession debt levels until 2029/30, fully 20 years after the end of the recession that contributed to the big run-up in debt. Furthermore, the plan calls for almost no reduction in the debt-to-GDP ratio in the immediate future. Instead it relies on forecasts of dramatically accelerated progress in the middle of the 2020s. This reliance is despite the fact that an aging population will be a significant source of additional pressure on health care spending during the 2020s.

Since the government has not provided revenue and spending forecasts, and has not yet demonstrated a willingness or ability to stop adding substantial new debt each year, it would be naïve to accept as a foregone conclusion that this acceleration will occur.

As a result of the continued debt accumulation and lengthy timeline for returning to pre-recession debt-to-GDP levels, the province's finances are at risk, particularly over the long-term, from a recession or fiscal shock. Such an event could drive the debt-to-GDP ratio above its post-recession peak and would almost certainly push the government's target date even further off into the future.

Ontario's debt plan contrasts starkly with Quebec's current strategy, which is already significantly reducing the province's debt-to-GDP ratio. Quebec has stopped adding debt to its books, so economic growth is pushing its debt-to-GDP ratio down relatively quickly. The province is therefore much closer to returning to its pre-recession debt levels than Ontario is. What's more, while Ontario has always carried less debt than Quebec, this historical gap is shrinking quickly. Quebec's per capita debt is poised to be below Ontario's in the next fiscal year.

Ontario's government now has a vague timeline for returning the province to pre-recession debt levels. Unfortunately, the government's lack of progress to date and its timid plan for minimal reductions in the near future raise concerns about whether it will meet its target date. To clearly demonstrate the existence of a workable strategy, the government must begin to substantially shrink its debt-to-GDP ratio, as is already happening in neighbouring Quebec, and outline a clear plan for sustaining this path in the years ahead.

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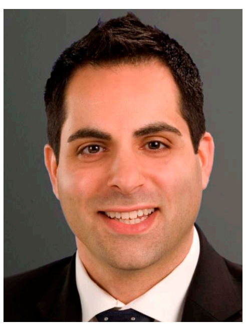

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