

**1997**  
**ONTARIO**  
**ECONOMIC OUTLOOK**  
**AND FISCAL REVIEW**

The Honourable  
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## Introduction

Since its election 30 months ago, the Government has followed a straightforward and comprehensive plan to strengthen Ontario's economy and create jobs by:

- ◆ **Cutting Provincial Income Taxes:** When the Government came to office, Ontario tax rates were among the highest in North America. By January 1, 1998, three-quarters of the promised 30.2 per cent cut to personal income taxes will have been delivered. The tax cut is creating jobs.
- ◆ **Balancing the Budget:** The Government has reduced the deficit by half to \$5.6 billion this fiscal year from the \$11.3 billion projected deficit that the Province faced in June 1995.
- ◆ **Making Government Work for People:** The Government is providing the people of Ontario with better, more focused and efficient government for less. Non-priority government spending has been cut and the savings have been redirected into priority programs such as health, education and public safety.
- ◆ **Removing Government Barriers to Job Creation, Investment and Economic Growth:** Bureaucracy has been moved out of the way of private-sector initiative, sending a signal around the world that Ontario is open for business.

The plan is producing solid results. The economy is growing strongly — real growth this year is estimated to be 4.4 per cent. The dramatic improvements in business and consumer confidence have led to strong growth in business investment and consumer purchases of homes and automobiles. Most importantly, since June 1995, more than a quarter million net new private-sector jobs have been created, helping thousands of people leave the welfare rolls and break the cycle of dependency.

The first two sections of this Review outline the actions taken by the Government to deliver on its commitments and the positive results that are already being felt across the province. Section C outlines Ontario's strong economic outlook.

Of course, the job of building a strong, dynamic economy is an ongoing one. Section D of this Review describes four important economic policy challenges for Ontario:

- ◆ Reducing the Burden of Debt
- ◆ Keeping Interest Rates Low to Support Jobs and Growth
- ◆ Equipping Young People for the Future
- ◆ Building an Innovative Economy

While the Government has made good progress toward its goal of balancing Ontario's Budget, there is still much work to do to achieve a balanced budget in 2000-01. Eliminating the deficit is just the first step in solving our fiscal problems. Despite the Government's actions to date, the public debt in Ontario will be over \$117 billion once the deficit is eliminated.

## **A. Actions**

- ▶ Cut Taxes
- ▶ Make Government Work for People
- ▶ Remove Barriers to Job Creation, Investment and Economic Growth
- ▶ Balance the Budget

## **Action: Cut Taxes**

*“Reducing taxes stimulates consumer spending and investment, a direct boost to job creation.”*

*Common Sense Revolution, 1995.*

### **30 Tax Cuts in Two Years**

#### **1996 Budget: 10 Tax Cuts**

- ◆ Personal Income Tax Cut - Stage 1 (2 cuts)
- ◆ Employer Health Tax Cut - Stage 1
- ◆ Employer Health Tax Cut - Self-Employment Income - Stage 1
- ◆ Race Tracks Tax Rate Cut
- ◆ Retail Sales Tax Exemption for Call Centres
- ◆ Retail Sales Tax Exemption for Farm Building Materials
- ◆ Land Transfer Tax Refund for First-Time New Home-Buyers
- ◆ Ontario Film and Television Tax Credit
- ◆ Co-operative Education Tax Credit

#### **1997 Budget: 20 Tax Cuts**

- ◆ Personal Income Tax Cut - Stage 2 (2 cuts)
- ◆ Employer Health Tax Cut - Stage 2
- ◆ Employer Health Tax Cut - Self-Employment Income - Stage 2
- ◆ Enhanced Ontario Tax Reduction
- ◆ Ontario Child Care Tax Credit
- ◆ Extension of Land Transfer Tax Refund for First-Time New Home-Buyers
- ◆ Extension - Retail Sales Tax Exemption for Farm Building Materials
- ◆ Retail Sales Tax Exemption for Medical Research and Investigation Equipment
- ◆ Enhanced Ontario Film and Television Tax Credit
- ◆ Ontario Computer Animation and Special Effects Tax Credit
- ◆ Ontario Book Publishing Tax Credit
- ◆ Graduate Transitions Tax Credit
- ◆ Enhanced Co-operative Education Tax Credit
- ◆ Ontario Business-Research Institute Tax Credit
- ◆ Corporate Income Tax Add-Back Modification for Acquisition of Foreign Technology
- ◆ Elimination of Higher Non-Resident Rate of Land Transfer Tax
- ◆ Broadening Retail Sales Tax Relief for Research and Development
- ◆ Ontario New Technology Tax Incentive
- ◆ Capital Tax Deduction for Research and Development Expenditures



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**Action: Make Government Work for People**

*"We will cut the size of government. We will provide the people of Ontario with better for less."*

*Common Sense Revolution, 1995.*

**Streamlining the Public Sector**

- ◆ Reduce the number of MPPs by 21 per cent, from 130 to 103, in future provincial elections
- ◆ Reduce the number of local politicians by 12 per cent
- ◆ Create fewer and more efficient local governments and school boards that can deliver better services
- ◆ Introduce competition into the electric power sector
- ◆ Reduce government administration costs by \$300 million by 1997-98

**Delivering Better Service**

- ◆ Determine better ways to deliver government services, including partnerships with the private sector
- ◆ Make government more open and accountable by requiring public organizations to:
  - report the salaries of officials making \$100,000 or more
  - report financial activities in accordance with the recommendations of the Canadian Institute of Chartered Accountants
  - adopt policies that ensure the private sector has an open and fair opportunity to provide services to public-sector organizations
  - develop and publish ministry business plans setting out key objectives and reporting on performance

**Action: Remove Barriers to Job Creation, Investment and Economic Growth**

*“This will send a signal around the world that Ontario is open for business again.”*

*Common Sense Revolution, 1995.*

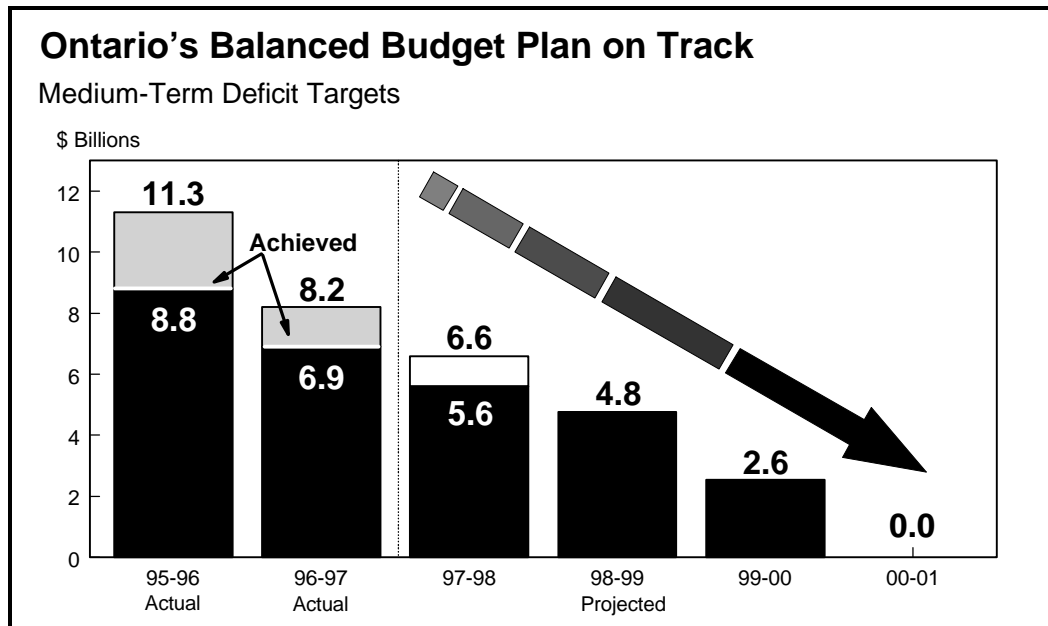
**Removing Barriers to Growth**

- ◆ Identified more than 1,000 regulations for elimination
- ◆ **Labour Markets**
  - Restored balance in labour relations
  - Repealed job quota legislation
  - Froze the minimum wage
  - Reformed Workers’ Compensation
- ◆ **Housing and Development**
  - New Tenant Protection Act
  - Reduced Development Charges
  - Revised the Building Code
  - New one-window approach for provincial land-use planning advice and approvals
  - Time limits for provincial land-use planning decisions reduced by 50 per cent or more
- ◆ **Environment and Resources**
  - Simplified approvals under Environmental Protection, Water Resources and Environmental Assessment Acts
  - Self-assurance for mine closure and clean-up costs
  - Reduced overlap and duplication in permits required by Forest Fires Prevention, Lakes and Rivers Improvement and Public Lands Acts
- ◆ **Industry Self-Management**
  - Several industries taking on responsibility for administering provincial regulations specific to their industries
  - New Agricorp Act will encourage client-responsive delivery of crop insurance and other safety net programs
- ◆ Eliminating the “equals” approach and other restrictions on loan and trust companies that hamper their lending to small businesses
- ◆ The Ontario Securities Commission has become a self-funding agency
- ◆ Ontario Hydro rates frozen for five years

**Action: Balance the Budget**

*"This plan will fully balance the budget within our first mandate."*

Common Sense Revolution, 1995.



- ◆ The Government has exceeded its deficit target in each of the first two years in office and is on track to better its 1997-98 deficit target.
- ◆ The focus is on priority programs that are being delivered in more efficient and less costly ways.



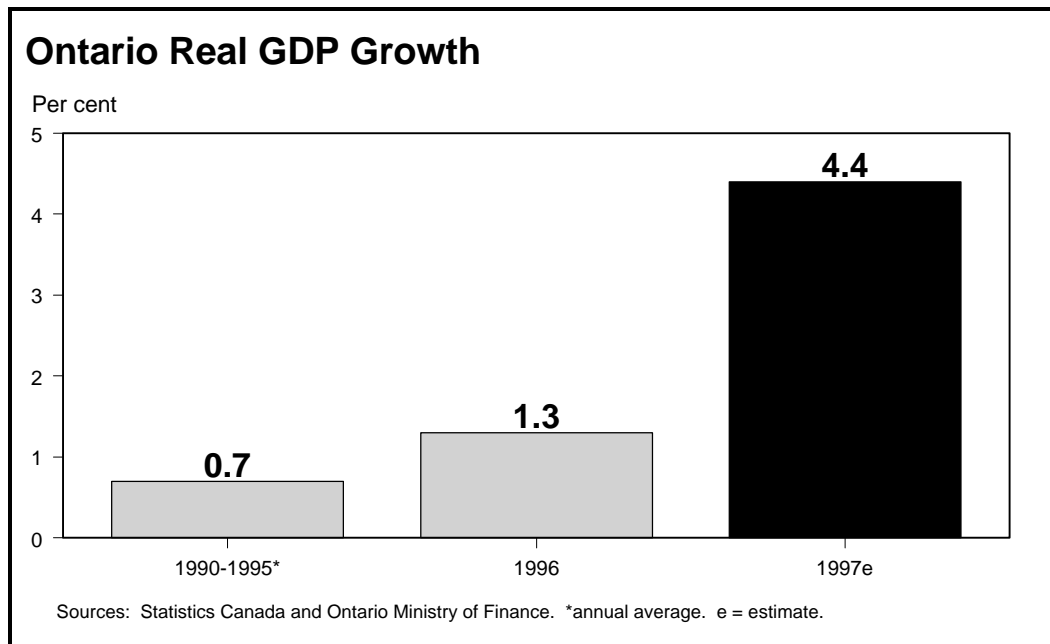
## **B. Results**

- ▶ Strong Economic Growth
- ▶ Confidence on the Rise
- ▶ Business Investment Surging
- ▶ More Jobs and Higher Incomes
- ▶ Welfare Cases Falling
- ▶ Housing is Booming
- ▶ Record Year for Ontario's Auto Sector
- ▶ Ontario is a Strong Global Competitor

## **Result: Strong Economic Growth**

*“Ontario's economy became red hot in 1997 and is likely to remain so through 1998...”*

*Bank of Montreal, 1997.*

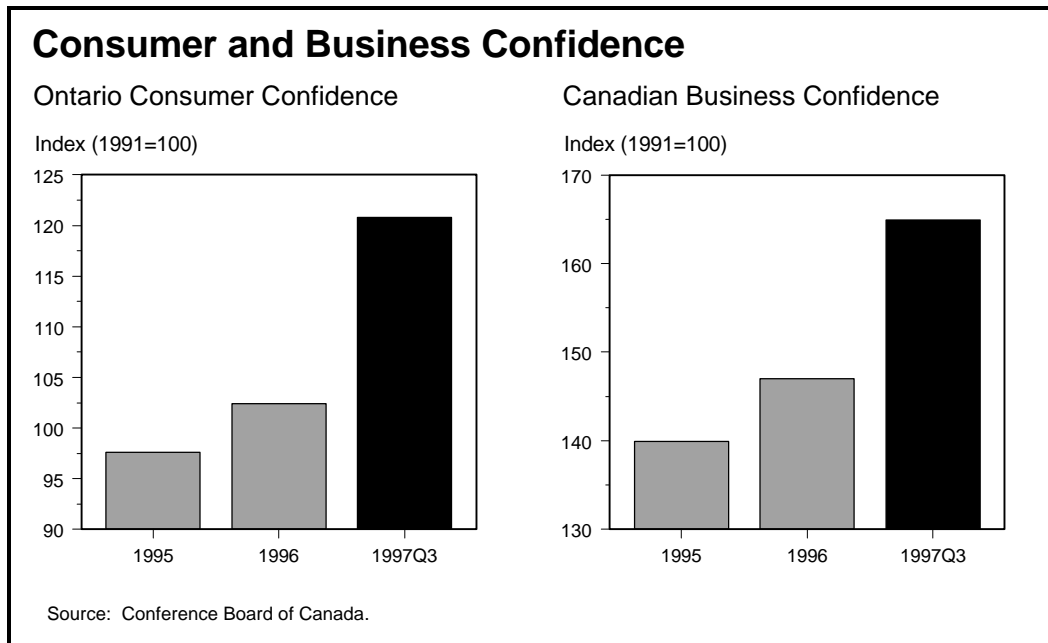


- ◆ The Ontario economy has turned the corner and is growing strongly. Sound economic and fiscal policies are contributing to renewed confidence. Real GDP rose by an estimated 4.4 per cent in 1997.
- ◆ Driven by healthy household and business demand, Ontario's economy turned in a robust performance in the first half of 1997, growing at annualized rates of 6.8 and 7.2 per cent in the first and second quarters respectively. Early evidence suggests that this solid growth has continued through the second half of the year.
- ◆ Ontario's strong 1997 economic performance has fortified consumer and business confidence. International investors increasingly recognize that Ontario is an excellent place to live and invest.

### **Result: Confidence on the Rise**

“Bolstered by a consistently increasing level of optimism, Ontario businesses are more optimistic than other regions....”

*Dun & Bradstreet Canada, 1997.*

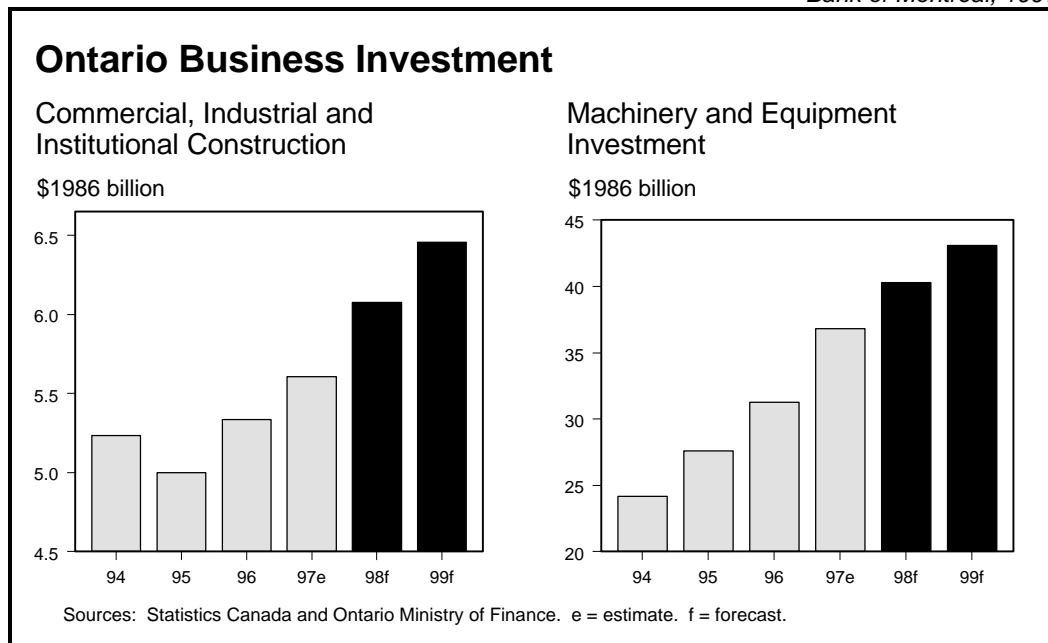


- ◆ Tax cuts, improving job prospects, continuing deregulation and progress toward a balanced budget have boosted confidence.
  - Consumer confidence has risen to its highest level in almost nine years, while business confidence has also swelled to record highs.
  - According to Conference Board’s latest survey of business confidence, 49.7 per cent of respondents identify Ontario as the province where they plan to invest the most.
  
- ◆ The surge in confidence has strengthened household spending and bolstered business investment.
  - A recent Angus Reid poll showed that three-quarters of Ontario consumers think this is a good time to purchase a “big-ticket” item.

## Result: Business Investment Surging

*“Given strong growth in their markets, Ontario businesses are now expanding their productive capacity....”*

*Bank of Montreal, 1997.*



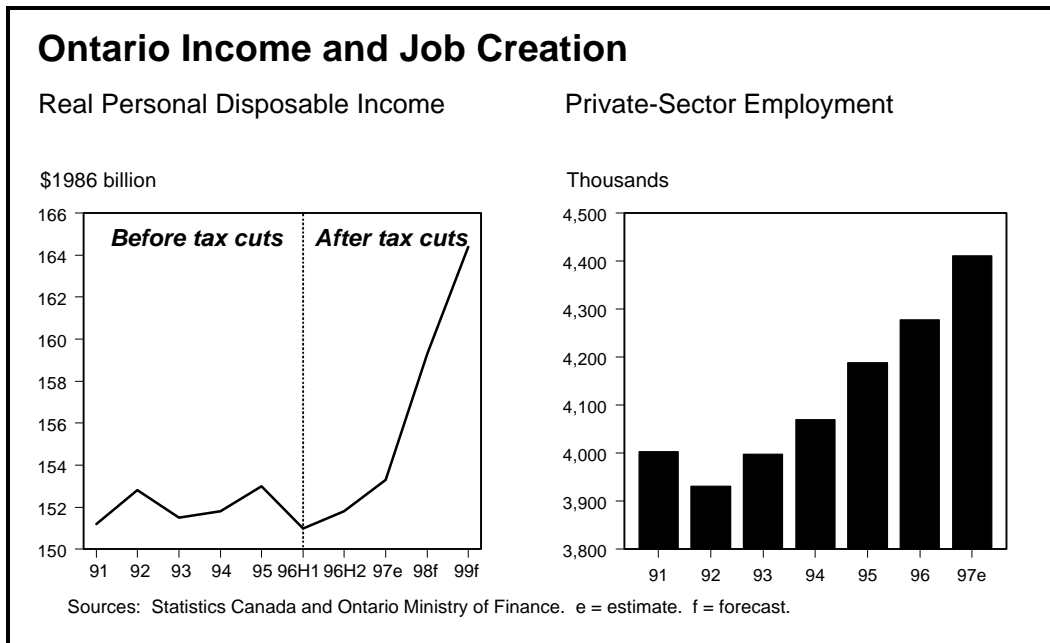
- ◆ Ontario’s strong competitive position and record business confidence are encouraging investment. Investment spending is rising sharply as firms adapt to globalization and freer trade.
- ◆ Ontario real business investment in machinery and equipment rose an average of 13.7 per cent per year in 1995 and 1996 and by a further 17.7 per cent in 1997.
- ◆ Real investment in commercial, industrial and institutional construction is also growing strongly, rising 6.7 per cent in 1996 and 5.1 per cent in 1997.
  - According to Royal LePage, the Toronto office vacancy rate fell to 10.4 per cent in the third quarter of 1997, from 14.6 per cent a year ago, leading to an increase in construction.
  - The value of commercial, industrial and institutional building permits issued in Ontario is up nearly 36 per cent so far this year.



## Result: More Jobs and Higher Incomes

*“Jobs! Jobs! Jobs! Employment has boomed in Ontario....”*

*The Conference Board of Canada, 1997.*

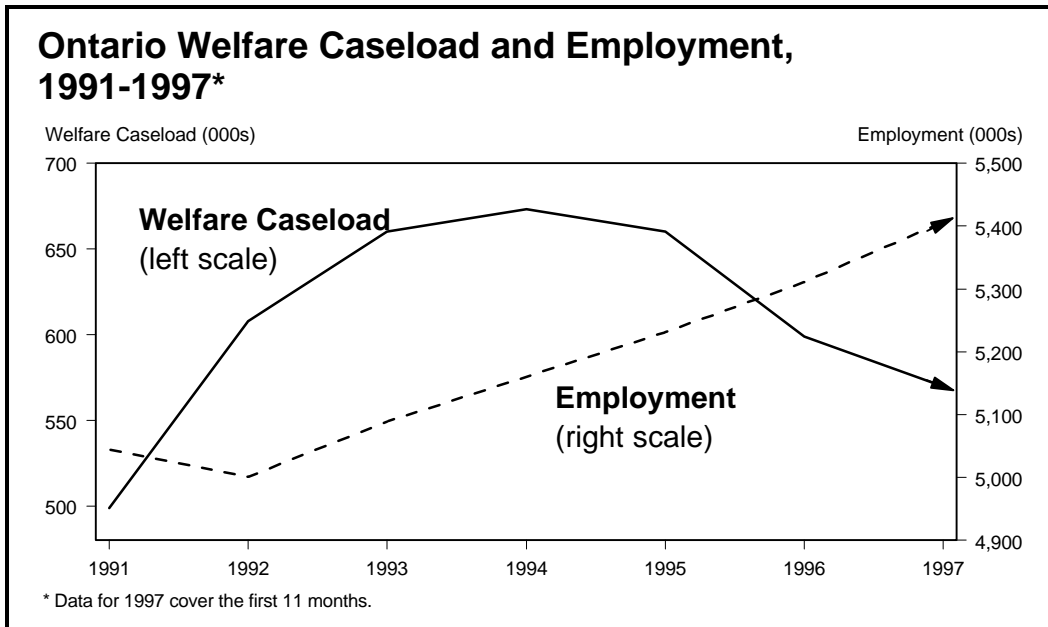


- ◆ Tax cuts, low interest rates and a renewed sense of competitiveness have significantly improved Ontario’s business climate. Stronger household and business demand have fuelled vibrant private-sector job creation.
  - Since June 1995, private-sector employment in Ontario has risen by 257,000 net new jobs.
  
- ◆ Tax cuts and strong job gains have translated into the strongest real personal disposable income growth for Ontario consumers since 1989. This has led to buoyant consumer spending. To date in 1997:
  - Unit auto sales in Ontario are up 17.5 per cent — the strongest gain in 12 years
  - Retail sales are up 6.4 per cent
  - Department store sales are up 11.9 per cent

## Result: Welfare Cases Falling

*"We want to open up new opportunities and restore hope for people by breaking the cycle of dependency...The best social assistance program ever created is a real job...."*

*Common Sense Revolution, 1995.*

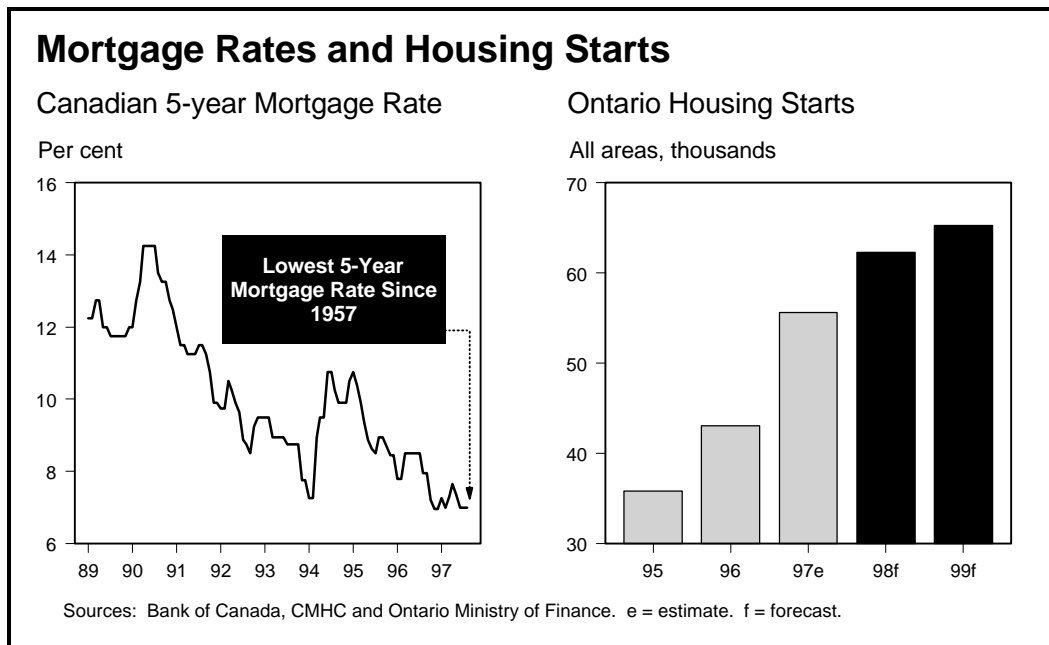


- ◆ Welfare reforms and a strengthening economy have dramatically reversed the upward trend in the caseload. In the past, the caseload rose regardless of economic conditions.
- ◆ The caseload declined by 19.4 per cent between June 1995 and November 1997. This is the lowest caseload since November 1991.
- ◆ The number of people depending on social assistance fell by 18.6 per cent or a quarter million between June 1995 and November 1997.
- ◆ Ontario Works is designed to help people on welfare get back to work. To date, municipalities representing over 90 per cent of the employable welfare caseload have implemented Ontario Works.

## Result: Housing is Booming

*“Ontario’s economy has shifted gears from job recovery mode to job growth...Jobs are a key ingredient in boosting housing demand, but combine jobs with affordable mortgage carrying costs, strength in home resales and moderate inventories of newly completed and unoccupied homes, and they suggest that housing starts should grow further.”*

*Canada Mortgage and Housing Corporation, 1997.*

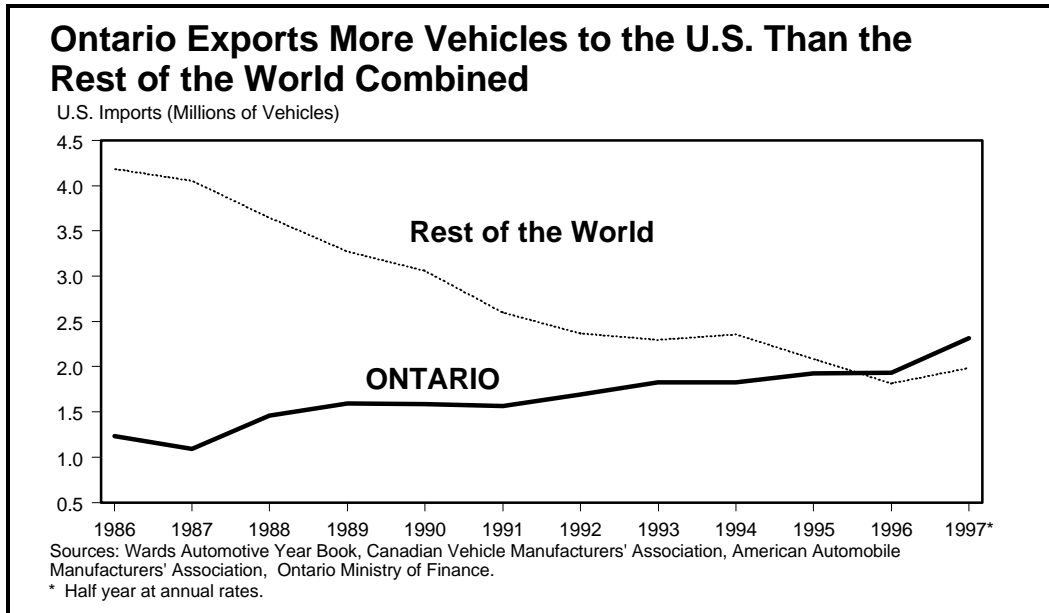


- ◆ Strong pent-up demand for housing and excellent housing affordability combined to make the housing sector the star of the economy in 1997.
- ◆ Housing starts are up 27.0 per cent so far in 1997, following an increase in 1996 of 20.2 per cent. Ontario’s rebate of the Land Transfer Tax to first-time buyers of new homes has contributed to this increase in construction.
- ◆ Ontario home resales rose 7.7 per cent over the first 10 months of 1997. So far this year, new home sales in the Toronto area have increased 41.9 per cent.
- ◆ Ontario’s population growth can sustain at least 70,000 additional housing units per year, suggesting that growth in the housing market will continue.

### **Result: Record Year for Ontario's Auto Sector**

*"Ontario is one of the best two or three spots anywhere in the world to manufacture motor vehicles and parts and has one of the best prospects for growth in manufacturing vehicles and parts anywhere in the world."*

*Dennis DesRosiers, Automotive Consultant, 1997.*

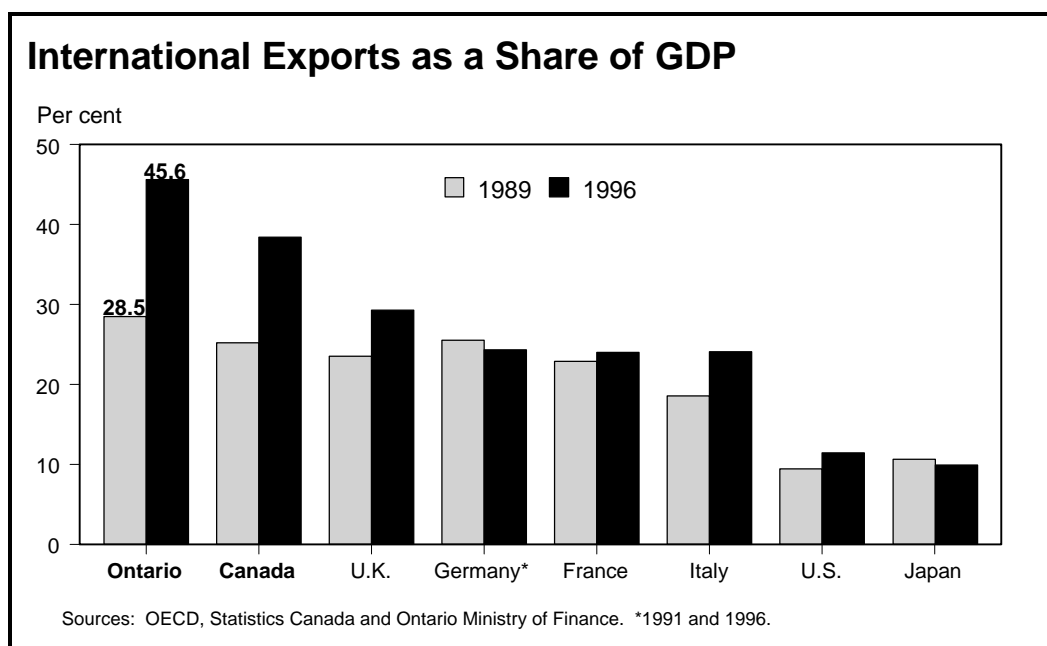


- ◆ Real output in Ontario's auto sector has grown at a strong 7.4 per cent annual rate over the 1992-96 period. With auto assemblers heading toward producing a record 2.5 million cars and light trucks in 1997 (exceeding the 1996 2.3 million record), real output is projected to increase by 7.8 per cent in 1997.
- ◆ Employment in Ontario's auto sector increased by 23,000 over the 1992-96 period to stand at a record 133,000 workers in 1996.
- ◆ Ontario's auto exports account for close to 14 per cent of the U.S. market, exceeding the rest of the world combined.

## **Result: Ontario is a Strong Global Competitor**

*“The province’s globally competitive position should ensure that manufacturing export growth remains relatively strong....”*

*Royal Bank, 1997.*



- ◆ Ontario’s export orientation has increased sharply since the Canada-U.S. Free Trade Agreement came into effect in 1989, rising from 28.5 per cent of GDP in 1989 to 45.6 per cent of GDP in 1996.
- ◆ Real Ontario exports have increased by an average 7.5 per cent between 1995 and 1997 and are expected to grow at an average 5.8 per cent over the next two years.
- ◆ Over the first nine months of 1997, Ontario merchandise exports rose 6.5 per cent from the same period a year earlier.
  - The gains are broadly based with auto exports up 8.0 per cent, consumer goods up 14.9 per cent, exports of industrial goods up 5.6 per cent, and machinery and equipment exports up 4.4 per cent.
- ◆ A highly competitive Ontario economy will continue to claim its share of an expanding world market.



## C. Economic Outlook

### Economic Outlook at a Glance

Per cent	1996	1997b	1997e	1998f	1999f
Real GDP growth	1.3	3.2	4.4	3.5	3.1
Employment (thousands)	5,311	5,396 to 5,437	5,410	Up to 5,602	Up to 5,772
Unemployment rate	9.1	8.4-8.7	8.5	7.8-8.2	7.6-8.0
CPI inflation	1.6	1.9	1.9	1.7	1.8

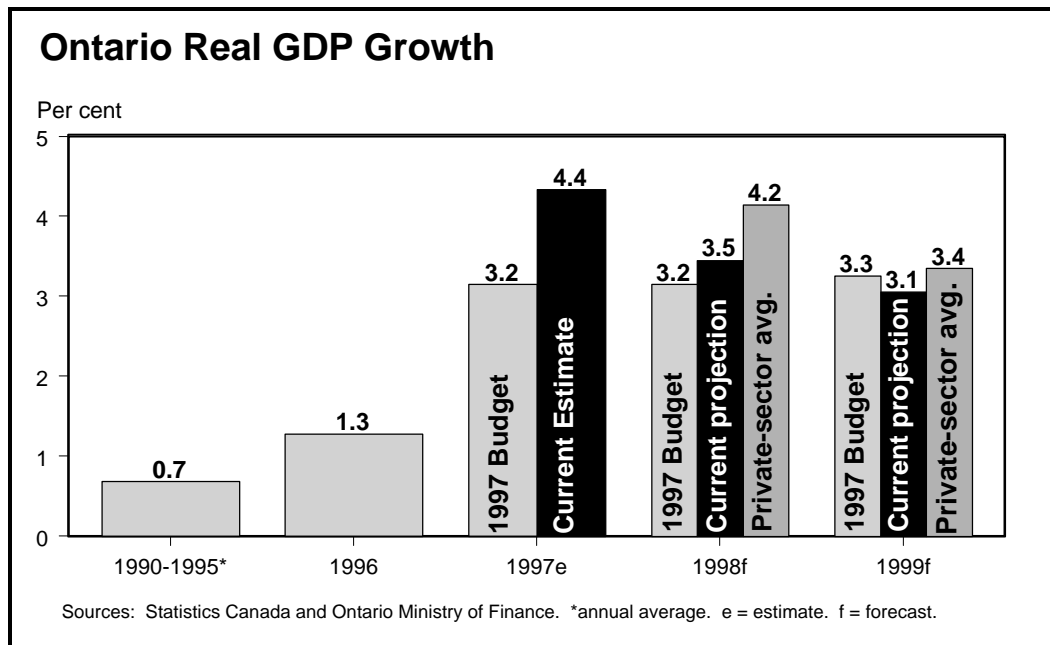
Sources: Statistics Canada and Ontario Ministry of Finance. b = 1997 Budget projection (May 1997).  
e = estimate. f = forecast.

**NOTE:** Real or inflation-adjusted data in this document are based on 1986 prices. On December 12, Statistics Canada issued revised historical estimates of Canada's national income and expenditures based on 1992 prices. This is an important change that provides new information on the structure and performance of the economy. The Ministry of Finance will take advantage of the new data to update the portrait of the Ontario economy presented in this document. This should be available by the end of February 1998.

## Sound Economic Policies Create an Environment That Supports Strong Growth, Investment and Job Creation

*“Ontario’s economy is expected to lead the rest of the country in terms of real domestic product growth in 1997 and 1998. The economy is being propelled forward by a thriving manufacturing sector, and strong growth in its construction and financial service sectors.”*

*DRI/McGraw-Hill, 1997.*



Growth is expected to be strong and broadly based over the next few years, as the long-term effects of reduced taxes, low interest rates and a highly competitive economy promote confidence and investment.

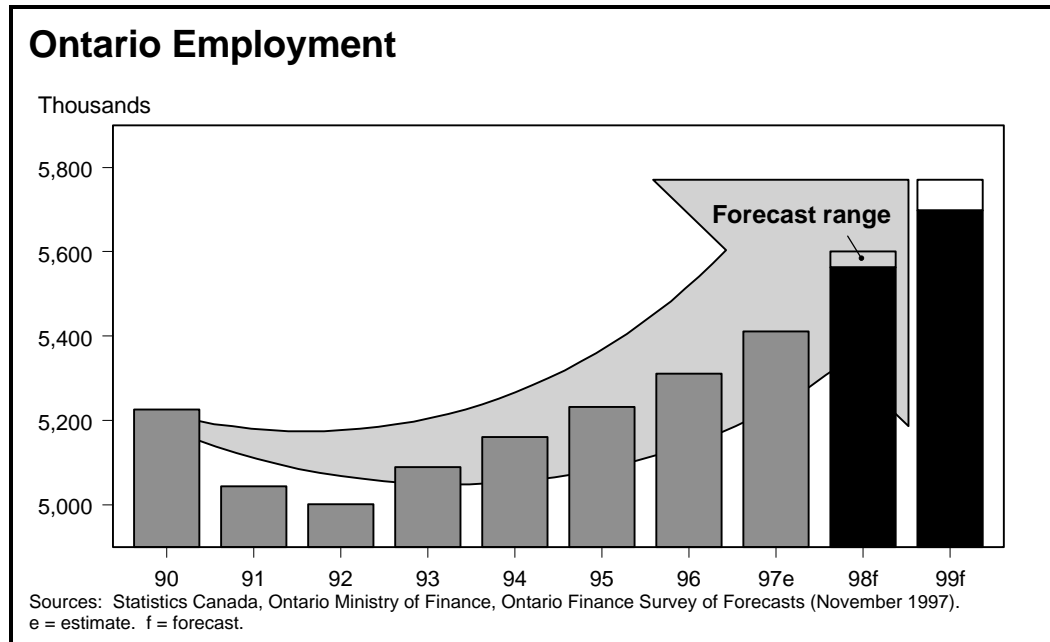
- ◆ The Ontario Government bases its plans on cautious and prudent assumptions about the economy to ensure targets can be met and goals achieved. The instability of financial institutions in Asia has increased the uncertainty surrounding the economic projection. To be cautious, Ontario Finance projects modest real growth of 3.5 per cent for 1998, 0.7 percentage points below the current private-sector average.
- ◆ Strong growth in 1997 and 1998 is likely to be met by tighter monetary policy, resulting in somewhat slower growth in 1999.



## Ontario Job Creation Accelerating

*“Although the current pace of job creation is robust, the Ontario economy has the capacity to sustain such gains in the near term.”*

*The Conference Board of Canada, 1997.*



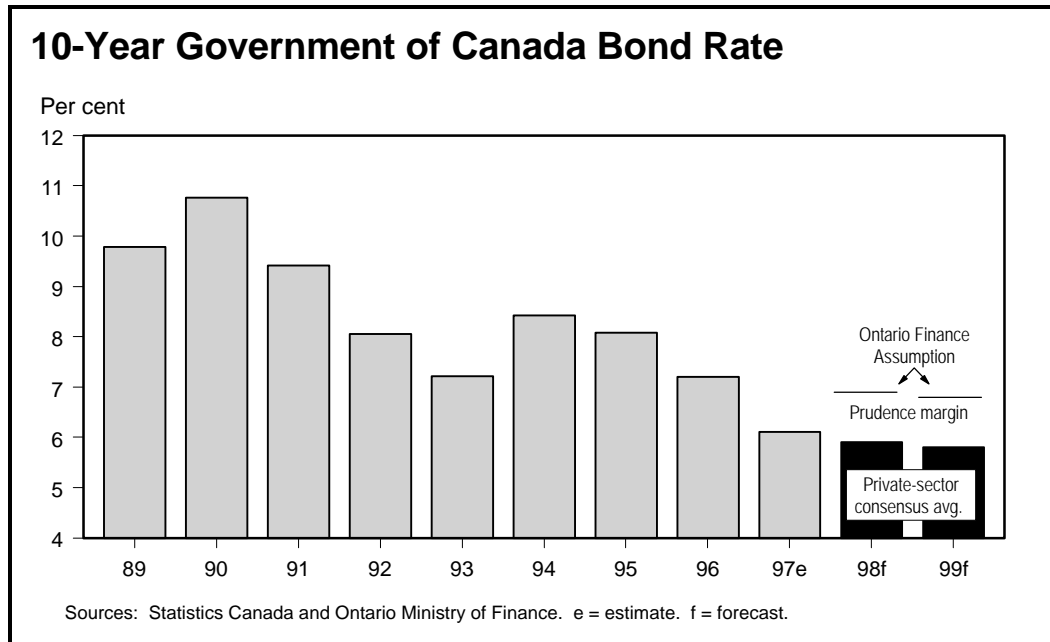
Lower taxes and the strong competitive position of Ontario producers are leading to accelerating private-sector employment growth.

- ◆ Increasing confidence and higher after-tax income have produced accelerating housing and consumer activity in Ontario, leading to strong job gains in construction, retail and leisure services.
- ◆ Knowledge- and technology-intensive industries such as financial, computer and other business services will continue to lead job creation.
- ◆ Ontario's auto sector will provide additional job growth, as recent plant expansions at Toyota and Honda and associated parts plants come on stream.

## Continuing Low Interest Rates Reflect Sound Fiscal Policy

*“The success of Canadian governments in reducing their deficits has been met with approval in financial markets, and has contributed to the current low and stable interest rate environment in Canada.”*

*Toronto Dominion Bank, 1997.*



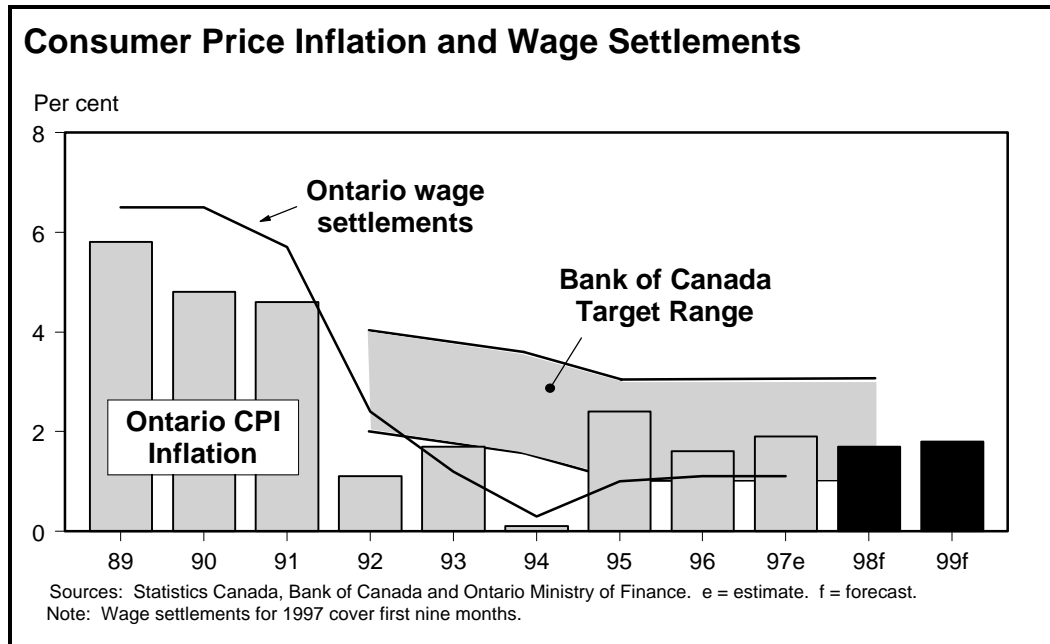
Sound fiscal policies and continued low inflation are delivering low interest rates, which are the best way to spur investment, growth and jobs.

- ◆ Interest rates are near historic lows, providing a powerful incentive for businesses to invest and for households to purchase big-ticket items like homes and cars.
- ◆ Financial markets have responded favourably to the great strides governments have made in reducing their deficits by pushing down interest rates to 30-year lows.
- ◆ To be prudent, Ontario's economic projection is based on interest rates that are 100 basis points above the private-sector average to ensure that Ontario's fiscal plan will be achieved.

## ***Inflation to Remain Low***

*“Even with these strong growth numbers in both output and employment, we expect inflation in both Ontario and Canada to remain low for the foreseeable future.”*

*University of Toronto, Institute for Policy Analysis, 1997.*



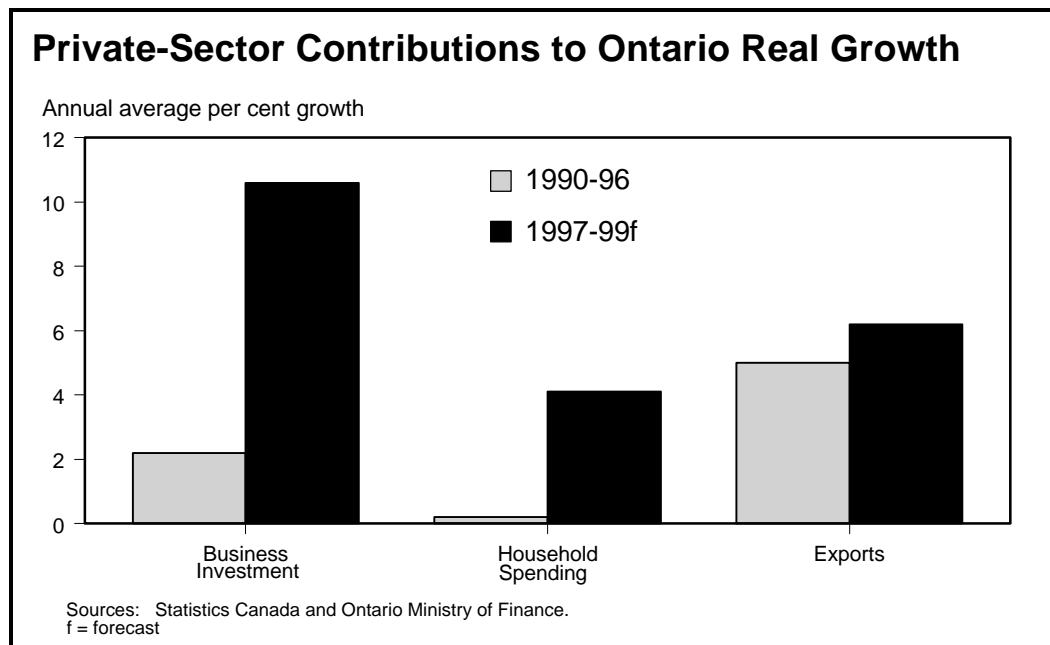
Continuing low inflation reflects the ongoing availability of under-utilized resources, intense international competition and rising productivity. A stronger Canadian dollar over the medium term will also help keep inflation low.

- ◆ Ontario consumer prices increased by an estimated 1.9 per cent in 1997.
- ◆ Despite a strengthening economy, inflation is projected to remain below two per cent over the next several years, well within the Bank of Canada’s current target band of one to three per cent.
- ◆ According to private-sector forecasters, Ontario inflation is expected to remain lower than in most G-7 nations through the end of the decade.

## ***Economic Prospects More Broadly Based and Secure***

*“Ontario’s economic engine is moving into higher gear...While exports will benefit from solid U.S. activity, the domestic economy also is revving up.”*

*Scotiabank, 1997.*



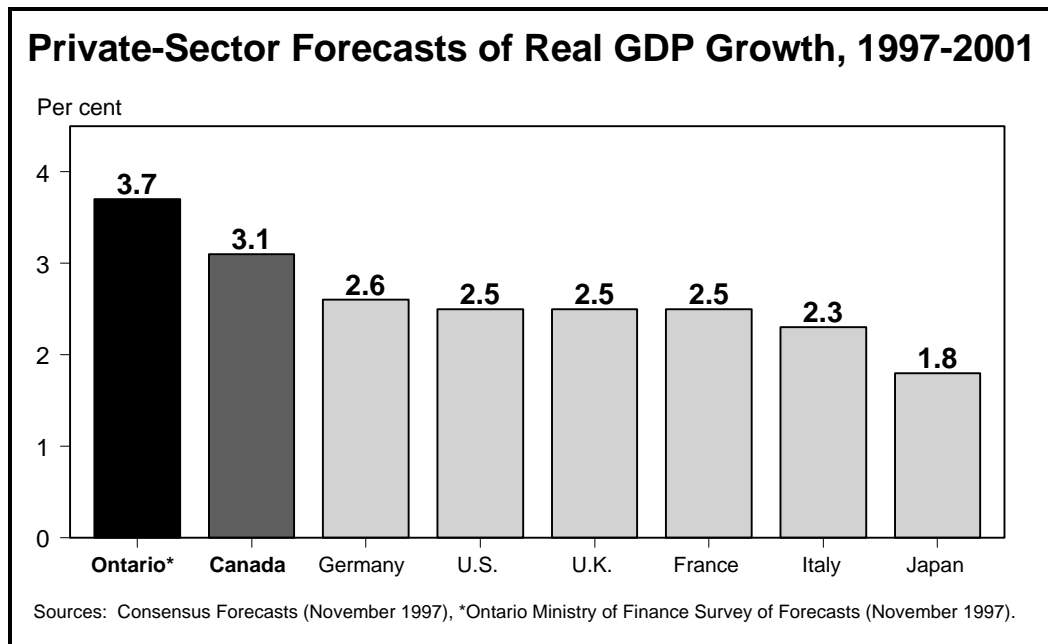
Exports have led economic growth over the past five years but consumers and businesses are starting to play the leading role.

- ◆ Business investment will grow at the fastest pace over the forecast period. This investment will ensure that Ontario business remains competitive in world markets.
- ◆ Household spending is expected to grow more strongly over the 1997-99 period as both personal consumption and residential construction will be stimulated by tax cuts, low interest rates and rising incomes.
- ◆ Faster growth in exports in the 1997-99 period is expected to be accompanied by an even stronger advance in imports as domestic demand accelerates.
- ◆ The recent financial market turmoil is leading to expectations of slower international growth in 1998, primarily in Asia. Depreciation of East Asian currencies will intensify international trade competition. These factors will tend to slow Ontario export growth.

## ***Economic Growth Will Outpace Canada and the Rest of the G-7***

*“Ontario is expected to top North American growth over 1997-2001.”*

*DRI/McGraw-Hill, 1997.*



Optimism that Ontario has moved into a period of strong and sustained growth is widely shared.

- ◆ Canada is the growth leader among the G-7 countries and Ontario leads Canada. Private-sector forecasters expect Ontario's real GDP growth rate to average 3.7 per cent over the 1997-2001 period, outpacing the growth projected for any of the G-7 countries.



## D. Four Key Economic Policy Challenges

A healthy, growing economy provides the underpinning for a balanced budget and high-quality public services. Four economic policy challenges are of particular importance to sustaining a high-growth, job-producing economy:

- ▶ **Reducing the Burden of Debt.**  
Although enormous progress has been made in reducing the deficit — or the amount that we must borrow each year — the size of Ontario's debt continues to grow. Each year Ontario pays interest on this debt, which is funded by government revenues that could be returned to Ontario taxpayers or used for priority programs. The policy challenge is to eliminate the deficit and to tackle the real economic problem of reducing the annual \$9 billion interest on the Province's debt.
- ▶ **Keeping Interest Rates Low to Support Jobs and Growth.**  
To keep Ontario on track and put Ontarians back to work it is important that the Bank of Canada maintain low interest rates. If the Bank of Canada misjudges the risk of inflation and raises interest rates excessively in response to false expectations, the Bank could derail the Ontario and Canadian economies by damaging consumer and business confidence. This would undermine the creation of new jobs and increase the difficulty of balancing government budgets.
- ▶ **Equipping Young People for the Future.**  
Increasingly, high-quality post-secondary education is a prerequisite to good jobs in growing sectors of the economy. The policy challenge facing Ontario is to enable young people to obtain the right skills for the kinds of jobs that will be available in the new economy.
- ▶ **Building an Innovative Economy.**  
Innovation is the key to creating competitive advantage for the province in the emerging knowledge- and technology-based economy. The better an economy is at innovation, the brighter the future for young and old alike. The challenge lies in establishing new partnerships between Ontario's high-growth innovative companies and its world-class universities and colleges.

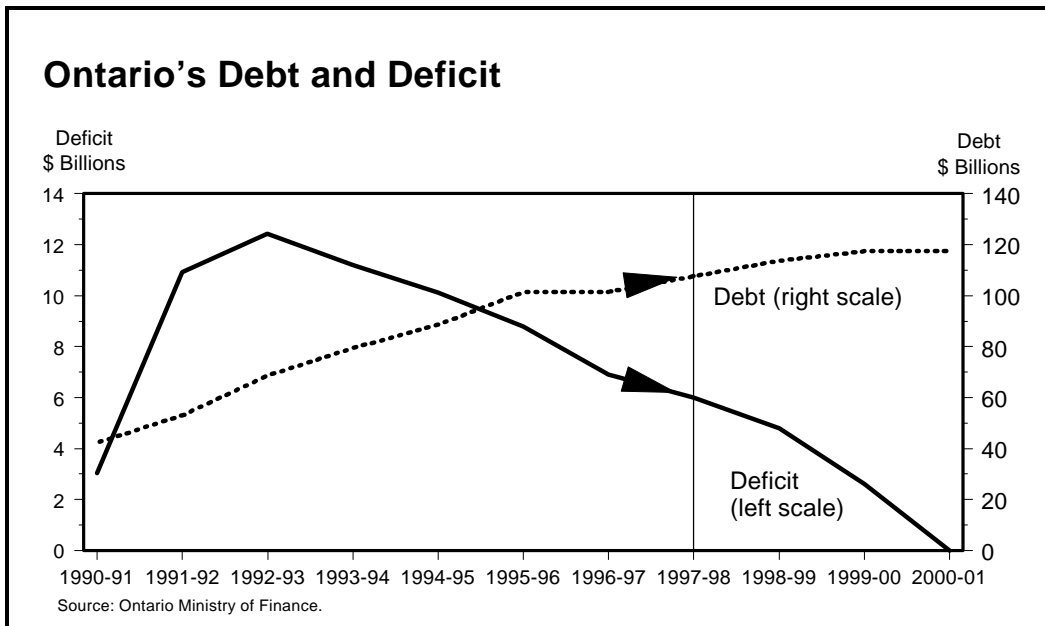
## Reducing the Burden of Debt:

### *Eliminating the Deficit is the First Priority*

The Ontario Government has made considerable progress toward meeting its commitment to balance the Budget by 2000-01.

The Ontario Budget deficit has been cut from a potential \$11.3 billion in 1995-96 to \$5.6 billion in 1997-98. The federal government expects to balance its Budget no later than 1998-99.

Ontarians, and all Canadians, can be justly proud of our success in reducing budget deficits.



- ◆ Servicing the debt costs more than \$9 billion per year and takes money out of the pocket of every Ontarian. Ontario's debt alone is equivalent to over \$9,400 for each and every person in this province.
- ◆ Until the deficit is eliminated, it will not be possible to start to reduce the mountain of public debt that the Government inherited.

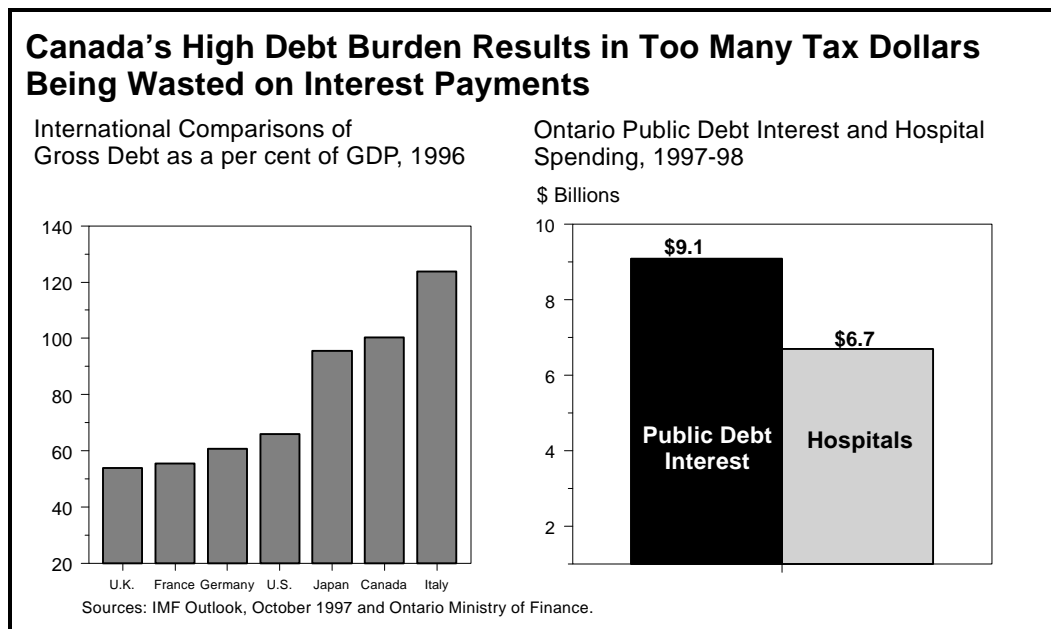


## Reducing the Burden of Debt:

### ***Canada and Ontario's Debt Problem Remains***

Canada's public-sector deficits are now the lowest among the major industrial nations. One of the key benefits of this success in reducing government borrowing is lower Canadian interest rates. Lower interest rates have made individual Canadians and businesses better off.

While new government borrowing has been reduced, the amount of debt outstanding is very large by international standards. The size of Canada's public debt relative to the size of our economy is greater than that of any of the other major industrial countries with the exception of Italy. Canadians pay a high price for this.

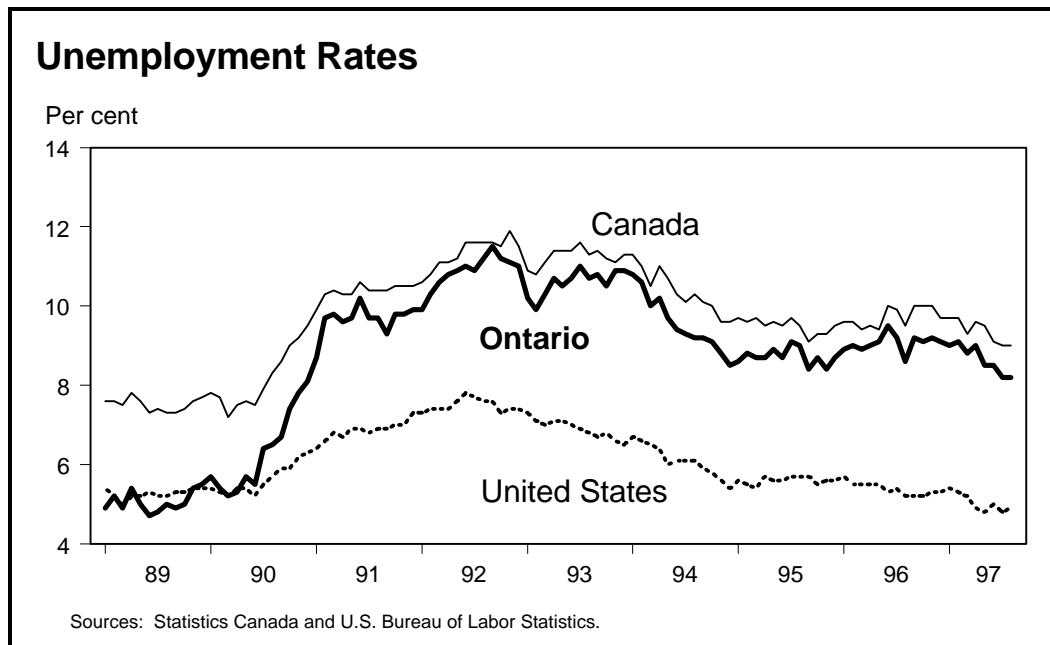


- ◆ This year Ontario will spend more to service its debt than the annual funding for hospitals.
- ◆ Ontarians will face important issues in the near future about the Province's debt. Once the Budget has been balanced, what is the right pace at which to pay down the debt?

## Keeping Interest Rates Low to Support Jobs and Growth:

### ***Continuing Low Interest Rates Are Needed to Assure a Return to Full Employment***

Recent strong economic growth has led the Bank of Canada to raise interest rates. While these small increases by themselves do not threaten the recovery, the Bank of Canada needs to be mindful of past experiences. In 1994, it raised interest rates excessively, pushing the economy into a downturn in 1995. The Bank of Canada should pursue a more balanced approach to unleash the economy's growth potential.

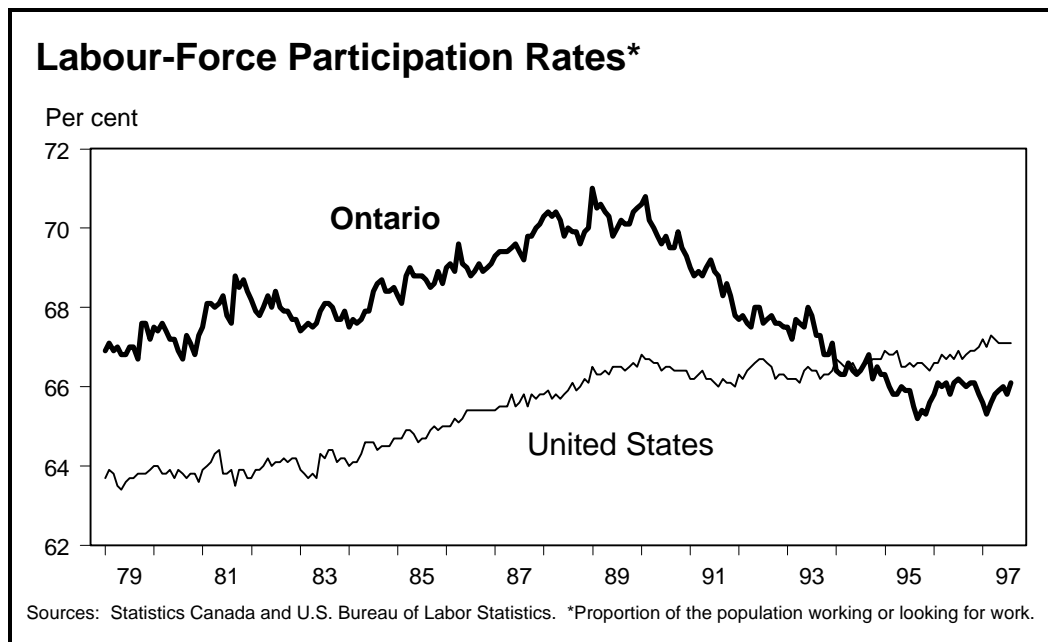


- ◆ In the late 1980s, Ontario's unemployment rate was about the same as in the United States, whereas it is now more than three percentage points higher. In fact, Ontario has the potential to match the reduction in unemployment seen in the United States. Most analysts believe that structural reforms have lowered the unemployment rate at which inflation would start to be a problem.
- ◆ A recent study by economists at Nesbitt Burns supports the view that Ontario's unemployment rate could dip to 5.5 per cent without an increase in the inflation rate.

## Keeping Interest Rates Low to Support Jobs and Growth:

### ***The Economy Has Room to Grow — Interest Rates Should Not Cut Off Growth Prematurely***

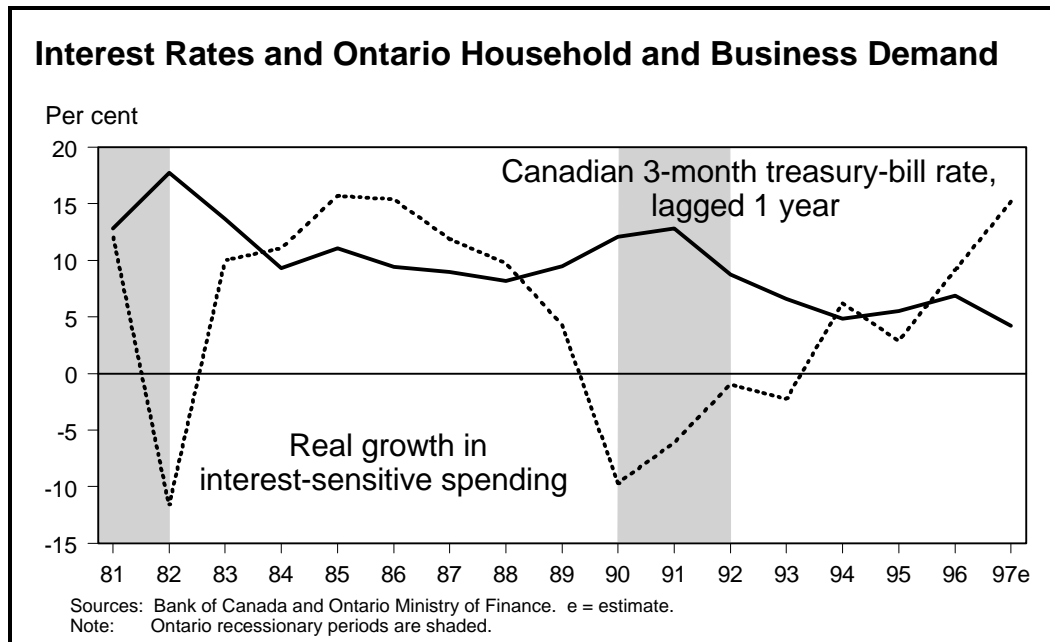
Given current conditions in the economy, the slowing of growth that most economists predict for 1999 is unnecessary. The economy could maintain strong growth without triggering a significant risk of inflation.



- ◆ More capital investment is needed to expand output and employment. This will be forthcoming if business decision-makers have confidence that growth will not be choked off prematurely.
- ◆ During the 1980s, Ontario's labour-force participation rate was about four percentage points higher than that of the United States. Following the 1990-92 recession, there was a very large drop in Ontario's rate, concentrated especially among young people.
- ◆ Ontario's tax cuts and labour market and social assistance reforms will encourage people to rejoin Ontario's labour force. Restoring Ontario's participation rate to 70 per cent would add about 350,000 workers to Ontario's labour force, further reducing inflationary pressures.

## Keeping Interest Rates Low to Support Jobs and Growth:

### *Past Slowdowns Have Resulted from Sharply Higher Interest Rates*



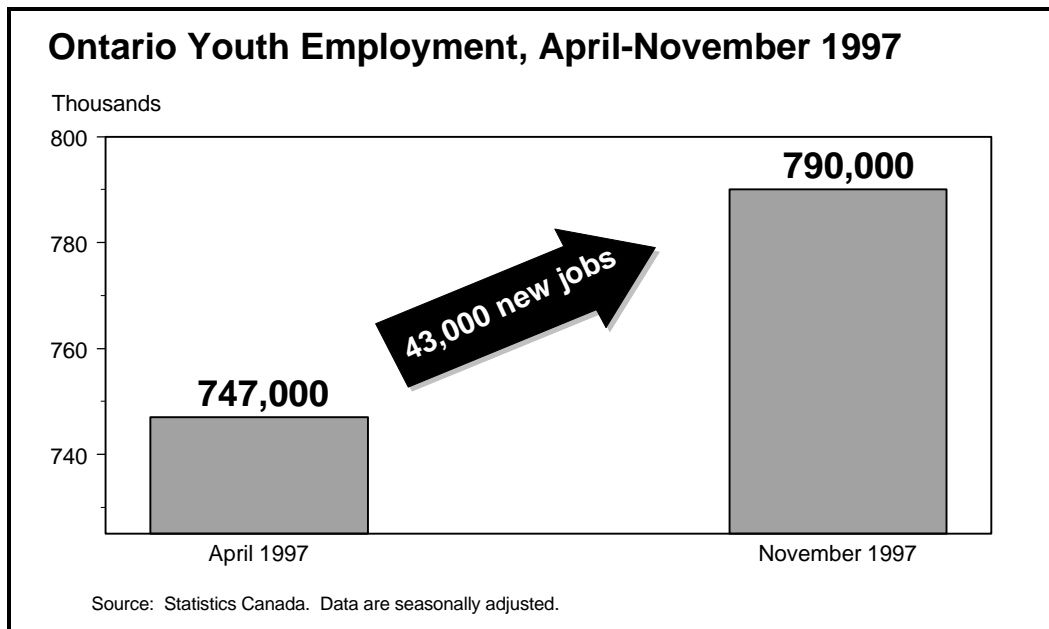
- ◆ The domestic economy has only recently begun to show signs of strength. A premature rise in interest rates could sharply curtail domestic demand — particularly in the interest-sensitive sectors of the economy such as business spending, housing and spending on big-ticket items such as cars and furniture.
- ◆ In addition to providing the conditions that permit healthy growth with sustained low inflation, the Bank of Canada plays a key role in maintaining confidence when financial markets become unsettled. While this may require short periods of higher interest rates, the Bank should permit interest rates to return as quickly as possible to levels that are appropriate to Canadian economic conditions.

## Equipping Young People for the Future:

### *Youth Employment Strengthens*

A strong economy is the essential foundation for job growth. In 1997, Ontario's vibrant economy began to pay off for youth. In the past seven months, youth aged 15 to 24 have gained 43,000 jobs, representing 44 per cent of Ontario's net job gains. In the same period, 100 per cent of Canada's new youth jobs were created in Ontario.

There are still too many young people in Ontario unemployed or underemployed in jobs with little chance of advancement. Youth were hard hit by the 1990s recession and, until recently, have lagged adults in job recovery. The number of youth who have never had a job has risen sharply. One in five youth has never worked, up from one in 11 a decade ago. Ontarians must help youth prepare to meet the needs of a changing and very competitive labour market.



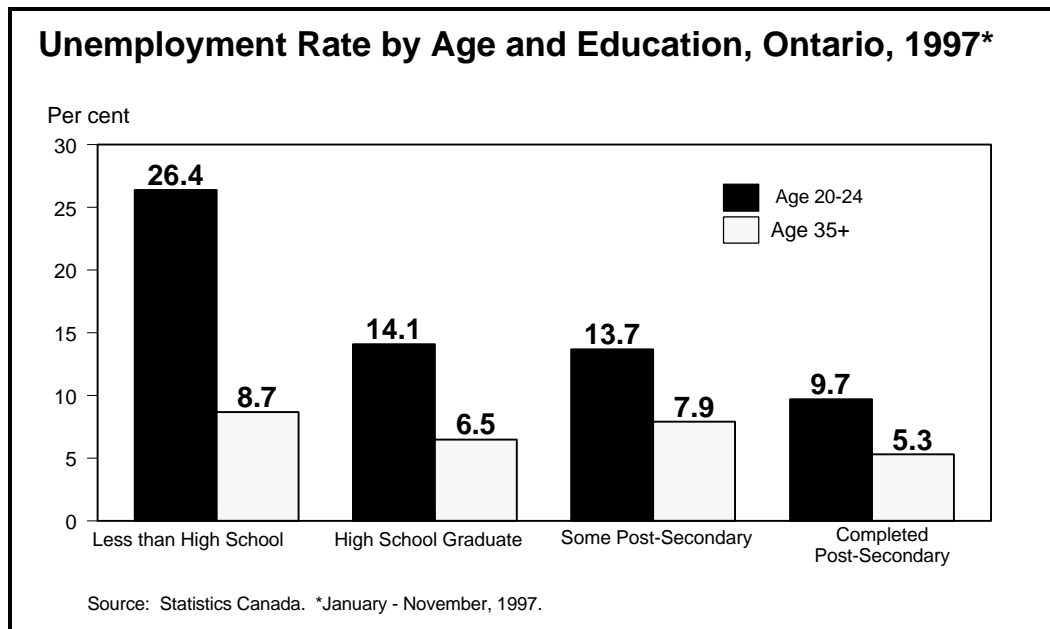
- ◆ Eighty-seven per cent of net new jobs created for youth in the past seven months have been full-time.
- ◆ Improved job prospects have helped raise the labour-force participation rate for youth aged 20 to 24 to 76 per cent, now close to the rate for adults aged 25 to 64 of 79 per cent. Teens continue to have low participation rates.

## Equipping Young People for the Future:

### *Education is the Key to Employment*

A high school diploma is no longer enough to ensure entry to a good job. Increasingly, post-secondary education is a prerequisite to good jobs in growing sectors of the economy such as manufacturing, communications, trade and business services.

Over the past decade, people with a post-secondary education accounted for all of the new jobs created in Ontario, on a net basis. Jobs requiring high levels of education and training will continue to grow fastest in the future.



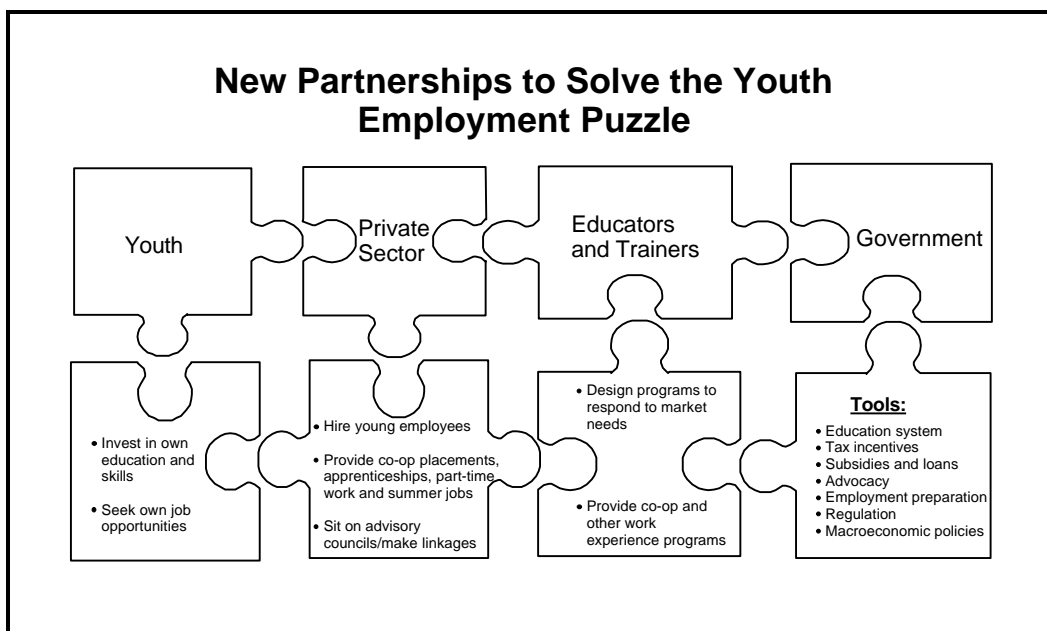
- ◆ Education is the key factor determining the risk of unemployment. Youths aged 20 to 24 with very little education have an unemployment rate nearly three times higher than youths with post-secondary credentials.
- ◆ Age and experience reduce unemployment rates for all levels of education.

## Equipping Young People for the Future:

### *Increasing Youth Employment*

A vibrant, growing economy will improve job prospects for youth. But we must also adapt the way we work and learn because youth today face a job market subject to rapid and deep structural and technological change. Youth without higher education and skills risk being left behind in the knowledge-based economy.

Ontarians must take measures to include all youth in the opportunities of the new economy. This will require new partnerships among all the players who have a stake in improving job prospects for youth.



Ontario's strategic investments in youth must be:

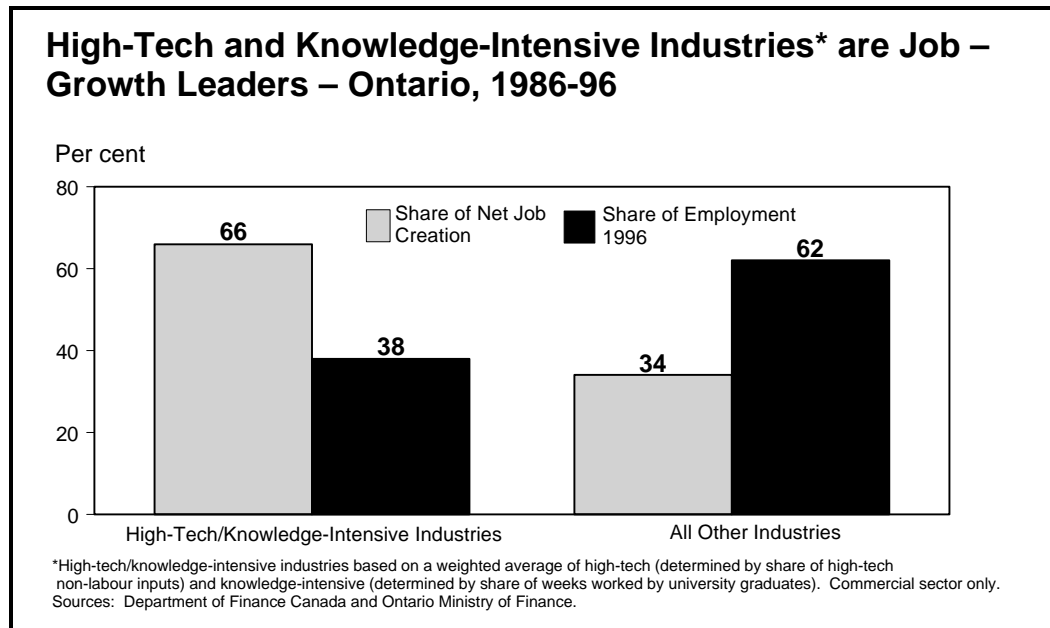
- ◆ Building education and skill levels;
- ◆ Creating strong pathways in the transition from school to work;
- ◆ Supporting meaningful work experience and job opportunities.

## Building an Innovative Economy:

### *Key to Growth and Job Creation*

Innovation is the cornerstone of high-income, job-creating economies.

Successful firms invest more in “soft” assets that lead to innovation. The fastest-growing firms generally invest more than twice as much in R&D, marketing and training as firms that grow more slowly, even though they invest about the same proportion of their sales in physical assets.



- ◆ The job creation payoffs from innovation and R&D are substantial. During the last 10 years, two of every three new jobs in Ontario were created in knowledge- and technology-based industries.

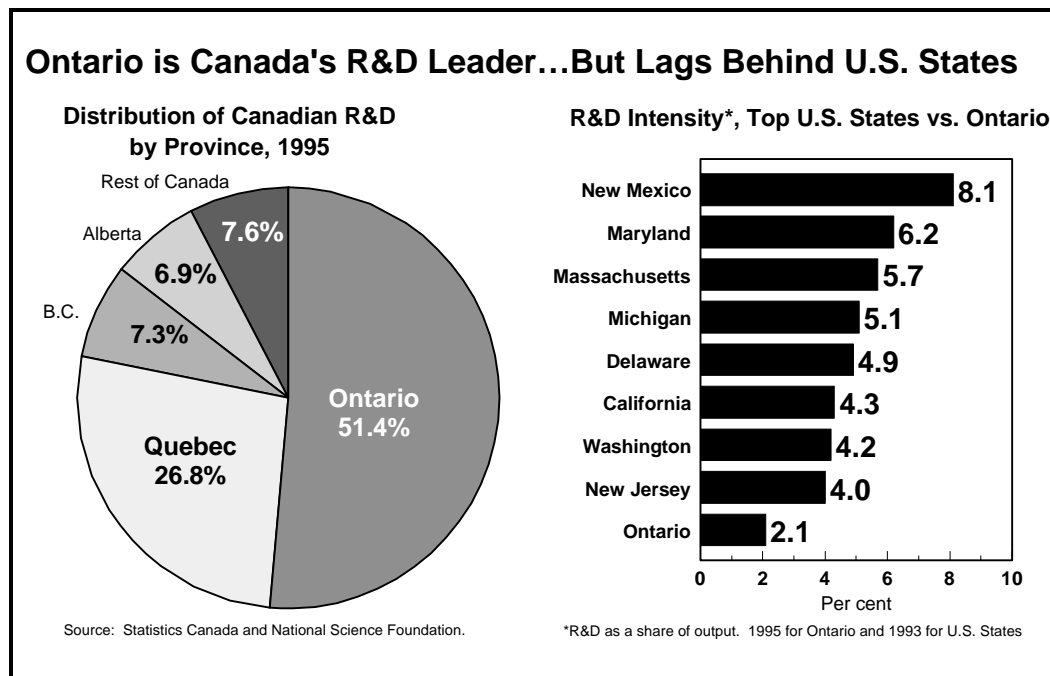


## Building an Innovative Economy:

### ***Ontario is Canada's R&D Leader***

Ontario is the most R&D-intensive economy in Canada, with a 2.1 per cent ratio of R&D to GDP.

According to a 1997 study by the Conference Board of Canada, Ontario ranks as the second most competitive jurisdiction among OECD countries for R&D performed by manufacturing firms.

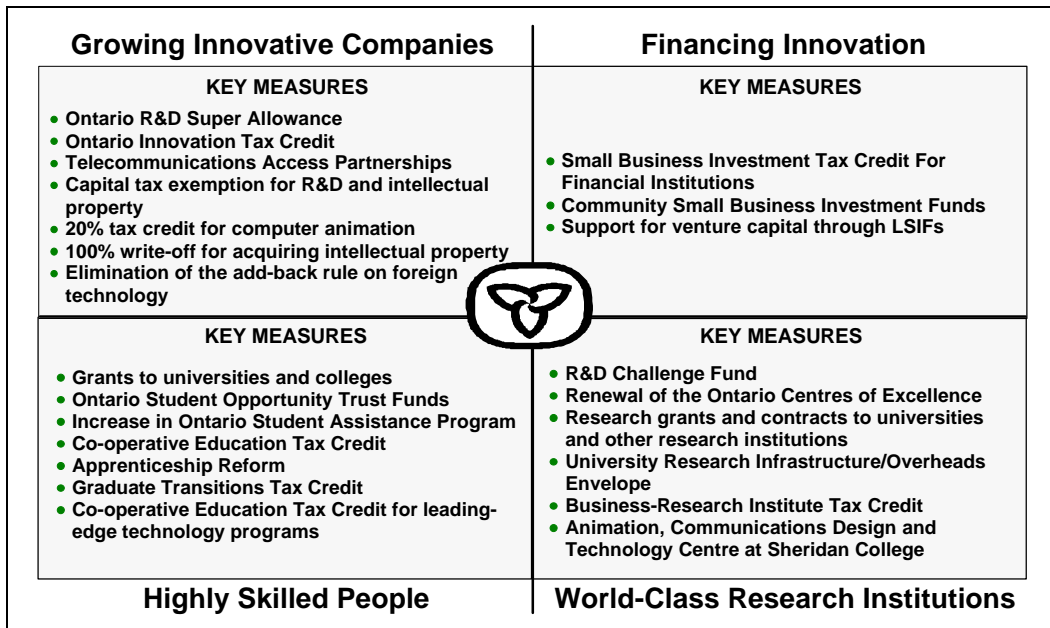


- ◆ Over half of Canadian R&D is performed in Ontario. In 1995, \$6.5 billion of R&D was carried out in Ontario, more than in the rest of Canada combined.
- ◆ Although it is Canada's most R&D-intensive province, Ontario lags the most R&D-intensive U.S. states. New Jersey, the eighth most R&D-intensive state in the United States, spends nearly two percentage points more of its output on R&D than Ontario.

## Building an Innovative Economy:

### *Policy Support for Innovation*

An innovative economy is built from productive relationships among successful companies, providers of financing, highly skilled people and world-class research institutions.



- ◆ Ontario has a wide variety of measures in place to support innovation.
- ◆ The Province has recently taken steps to strengthen university-industry partnerships — by creating a new \$3 billion R&D Challenge Fund, renewing the Ontario Centres of Excellence and introducing a new Ontario Business-Research Institute Tax Credit.

## **E. Ontario's Fiscal Plan**

## Introduction

When the Government assumed office in June 1995, Ontario was facing a serious fiscal situation. The potential deficit was projected at \$11.3 billion, a level only marginally lower than the 1992-93 recession-year peak of \$12.4 billion.

Ontario had recorded deficits of more than \$10 billion in each of the four previous years, despite significant tax increases. Debt had more than doubled in the period 1990 to 1995, and tripled in the 10 years after 1985-86. Ontario's AAA credit rating was lost in May 1991, and was further downgraded by Standard & Poor's in both 1992 and 1993, and by Moody's in 1994.

In the past two years the Government has taken firm action to restore confidence in Ontario's finances. This has been accomplished by cutting taxes, by getting control of runaway spending, and by putting in place a Balanced Budget Plan with clear targets to eliminate the deficit by 2000-01.

The Government has also introduced needed reforms to restructure public institutions and change the way public services are delivered in Ontario. This restructuring has been supported by Provincial reinvestments in priority areas such as health care, education and municipalities, ensuring that in the future, services will be provided in a more efficient and effective manner.

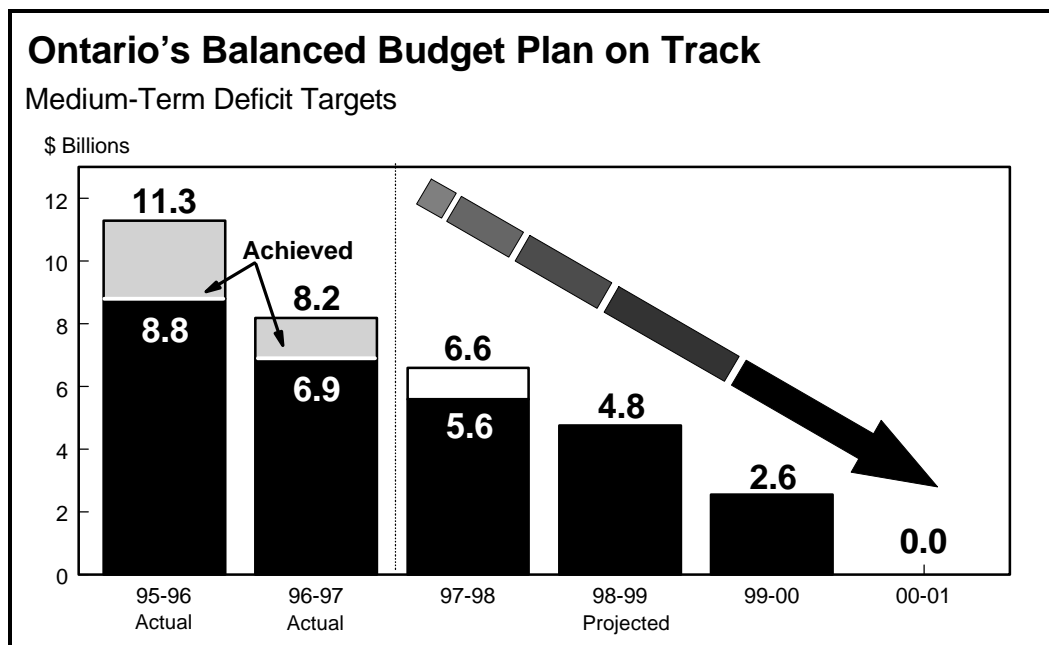
This section will:

- ◆ report on Ontario's recent fiscal performance;
- ◆ provide an update on the Province's 1997-98 fiscal outlook based on results for the second quarter ending September 30, incorporating measures announced in the 1997 Ontario Economic Outlook and Fiscal Review; and
- ◆ review Ontario's debt management plan.

## Restoring Ontario's Finances

### *A Clear and Workable Plan*

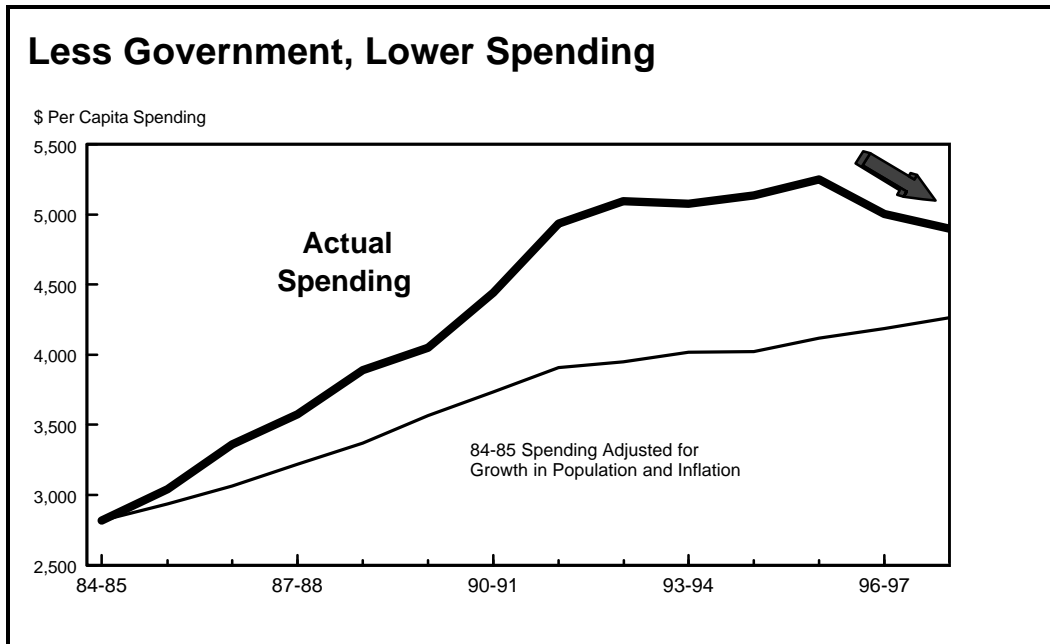
The Balanced Budget Plan introduced in the November 1995 Fiscal and Economic Statement set out annual deficit targets for the Province, culminating in a balanced budget in 2000-01. The Government has exceeded its deficit targets in each of the first two years of the Plan and is on track to better its 1997-98 target.



- ◆ As of September 30, the second-quarter forecast for the 1997-98 deficit is \$5.6 billion, \$988 million lower than the 1997 Budget forecast of \$6.6 billion.
- ◆ Last year, the 1996-97 deficit was \$6.9 billion, \$1,275 million below the 1996 Budget target of \$8.2 billion.
- ◆ In 1995-96, the deficit at \$8.8 billion, was \$508 million lower than the \$9.3 billion target included in the November 1995 Statement, and well below the \$11.3 billion potential deficit facing the Government upon assuming office.

### ***Controlling Spending***

Since assuming office the Government has taken firm action to control spending. Between 1984-85 and 1995-96, Provincial spending per person almost doubled, growing much faster than the rate of inflation. With the measures taken to control spending since June 1995, the Government has reversed this trend.

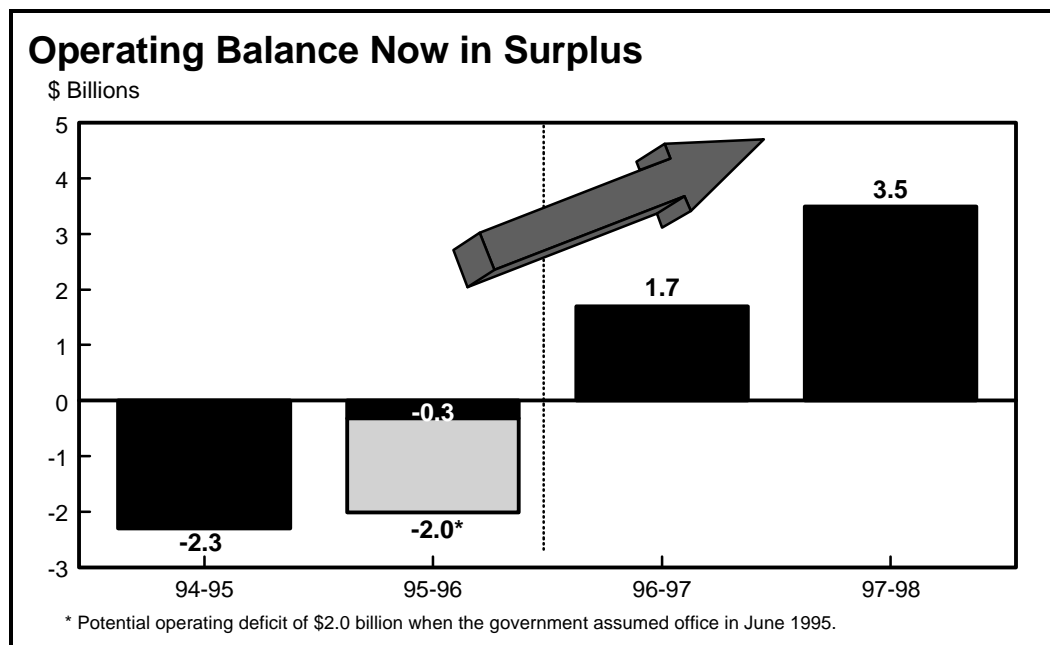


- ◆ Government spending has been reduced in each of the past two years. Spending per person in 1997-98 will fall to \$4,899, a decline of 2.1 per cent from 1996-97.
- ◆ Spending per person this year is down 6.7 per cent from the high of \$5,251 recorded in 1995-96.

### ***Achieving an Operating Surplus***

When the Budget is balanced in 2000-01, Ontario's total spending will match revenue inflows. Working toward this objective, the Government has already achieved a significant fiscal milestone by recording an operating surplus last year.

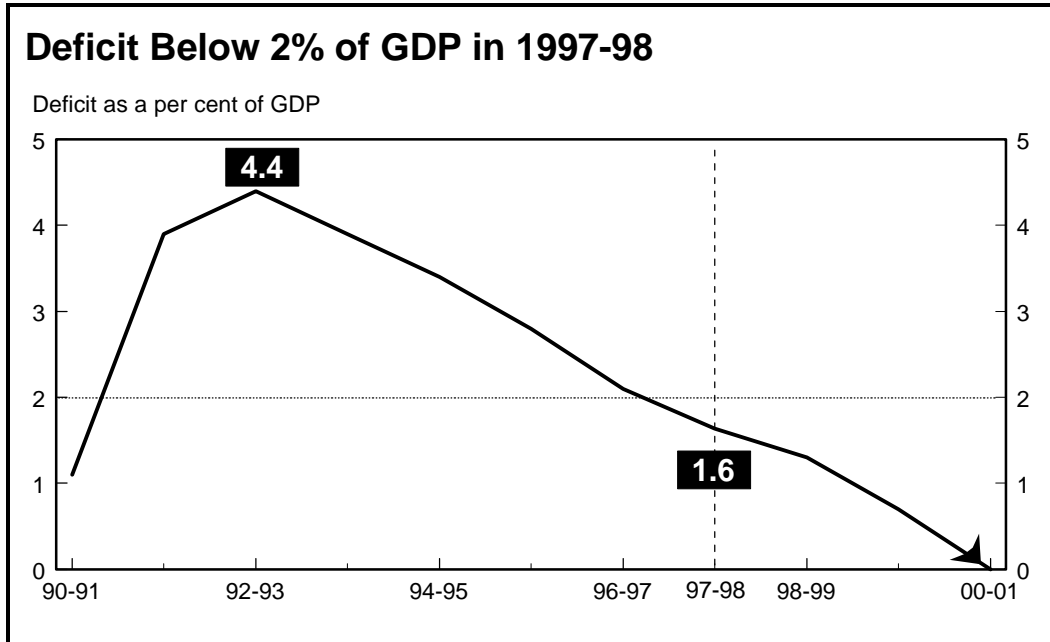
The operating balance is an important fiscal measure used by the federal government. It is calculated as the difference between total government revenue and total spending on all programs, not including public debt interest. By achieving an operating surplus, the Government is no longer borrowing money to pay for ongoing programs.



- ◆ Ontario's operating surplus will grow from \$1.7 billion in 1996-97 to \$3.5 billion in 1997-98.
- ◆ The operating surplus achieved in 1996-97 was the first for the Province since 1990-91.

### ***Deficit Below Two Per Cent of GDP***

Ontario's deficit as a share of the economy is a further indicator of the significant improvement in Ontario's finances in recent years. This year, Ontario's deficit as a share of Gross Domestic Product (GDP) will decline to below two per cent.



- ◆ In the early 1990s, Ontario's deficit peaked at 4.4 per cent of GDP. In 1997-98, the ratio will decline to an estimated 1.6 per cent.



## 1997-98 Fiscal Outlook: Second-Quarter Update

### *1997-98 Fiscal Plan to be Overachieved*

Ontario is on track to overachieve its deficit target for the third consecutive year. The 1997-98 deficit outlook at \$5,592 million, as forecast for the second quarter ending on September 30, is \$988 million lower than the 1997 Budget forecast of \$6,580 million.

### 1997-98 Fiscal Performance (\$ Millions)

	Budget Plan	Current Outlook*	In-Year Change
<b>Revenue</b>	48,400	50,300	1,900
<b>Expense</b>			
Programs	41,780	42,517	737
Restructuring and Other Charges	610	1,510	900
Total Program Expense	42,390	44,027	1,637
Capital	2,750	2,779	29
Public Debt Interest	9,190	9,086	(104)
Total Expense	54,330	55,892	1,562
Reserve	650	0	(650)
<b>Deficit</b>	<b>6,580</b>	<b>5,592</b>	<b>(988)</b>

\* Second-quarter results as at September 30th

- ◆ In keeping with the Government's emphasis on prudent fiscal planning, and to ensure that sufficient funding is available to support the significant restructuring taking place in the province, the provision for Restructuring and Other Charges has been increased by \$900 million to \$1,510 million.
- ◆ The second-quarter fiscal outlook also incorporates adjustments to reflect local services realignment transition measures taken to ensure that there are no interruptions in services, and to allow municipalities to prepare to take on new administrative responsibilities. These adjustments have increased 1997-98 revenues by \$580 million, and expenses by \$577 million.
- ◆ The 1997 Budget Plan also included a \$650 million reserve to protect the fiscal plan against unforeseen risks such as potential unexpected and adverse changes in the economic outlook. Based on the strong performance of the Ontario economy this year, the reserve will not be needed and has been applied to deficit reduction.

### ***Investing in the Future***

While the Government has overachieved on its deficit targets in the past two years and expects to do the same in 1997-98, it has also made significant investments to promote restructuring efforts. Restructuring charges in 1995-96 totalled \$854 million and \$2,430 million in 1996-97.

Given the continued large-scale restructuring taking place in the Province, the Government, as part of its prudent approach to fiscal planning, has increased its provision for potential Restructuring and Other Charges to \$1,510 million this year, up from \$610 million in the 1997 Budget.

This increased provision for 1997-98 Restructuring and Other Charges will ensure sufficient funding is available to cover potential restructuring charges and other necessary investments that may arise from the Government's efforts to ensure the efficient and effective delivery of public services.

Approved Restructuring and Other Charges totalling \$252 million were announced this quarter. This includes \$137 million in operating funds which have been reallocated from the Municipal Capital and Operating Restructuring Fund for the creation of the Special Circumstances Fund and the Special Transition Fund. A provision of \$785 million remains unallocated.

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#### **1997-98 Restructuring and Other Charges (\$ Millions)**

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##### **Changes This Quarter**

Special Circumstances Fund	77	
Special Transition Fund	75	
Municipal Restructuring Fund	50	
Highway Transfers	50	
Municipal Capital and Operating Restructuring Fund: Operating -- Reallocated	(137)	
Unallocated	<u>785</u>	
Increased Provision this Quarter		900

##### **Previously Announced in Budget**

Hospital Restructuring		450
Municipal Capital and Operating Restructuring Fund: Operating		137
Municipal Capital and Operating Restructuring Fund: Housing		23

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<b>Total Provision for Restructuring and Other Charges</b>		<b>1,510</b>
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- ◆ A Special Circumstances Fund of \$77 million will be used to recognize unique circumstances faced by some municipalities, including small, rural and northern municipalities, as part of local services realignment.
  - ◆ A two-year \$150 million Special Transition Fund has been established to assist municipalities during the transitional phase of local services realignment. The 1997-98 allocation is \$75 million.
  - ◆ \$50 million has been allocated to the Municipal Restructuring Fund for specific restructuring initiatives in municipalities.
  - ◆ In addition to previously announced funding, \$50 million will be provided to municipalities for the transfer of highways that primarily serve local needs.
  - ◆ The \$785 million unallocated portion of the provision for Restructuring and Other Charges will be expensed and reported in Ontario Finances as further restructuring decisions are made by the Government over the course of this year.
  - ◆ As part of a \$2.7 billion plan to restructure community-based health care, the 1997 Ontario Budget provided \$450 million for 1997-98 to implement the Health Services Restructuring Commission's recommendations. These restructuring charges include labour adjustment, renovations, and decommissioning and consolidation costs.
  - ◆ The Budget Plan provided \$137 million in operating funding this year for the Municipal Capital and Operating Restructuring Fund (MCORF). These funds have been reallocated as part of the creation of the Special Circumstances Fund and the Special Transition Fund.
  - ◆ A total of \$23 million was provided in the Budget Plan for MCORF for non-profit and co-operative housing. Over the past two years, a total of \$173 million has been provided to assist non-profit and co-op housing providers in dealing with local services realignment.

### ***Working with Municipalities***

The goal of the local services realignment process is to reduce waste and duplication, improve accountability and provide better government services at a lower cost to Ontario taxpayers. Provincial and municipal services are being realigned in order to provide the best possible services at the lowest possible cost.

Responsibility for a number of programs will be transferred to municipalities as of January 1, 1998. Until municipalities have had time to take over the full management of these services, the Province will incur transitional expenditures to deliver these programs on their behalf. The legislation transferring responsibility for these expenditures to municipalities provides for the recovery of the transitional expenditure by the Province.

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#### **Local Services Realignment Transitional Measures: 1997-98 Impact on Fiscal Plan (\$ Millions)**

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##### **Changes This Quarter:**

Social Housing	216	
Social Assistance	199	
Public and Emergency Health Services*	106	
Property Assessment	21	
Other Programs	35	
	<hr/>	
Total Increase in Expenditures		577
Reimbursement of Expenditures from Municipalities	(564)	
Continued Administration of Provincial Offences Act	(16)	
	<hr/>	
Total Increase in Revenue		(580)

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#### **Net Impact on Deficit (3)**

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\* Of this amount, \$56 million is a contingency provision for Public Health, which will be funded by municipalities as of January 1, 1998.

- ◆ The Province will continue to provide non-profit housing and Ontario Housing Corporation (OHC) operating subsidies and payments for the final quarter of 1997-98 totalling \$213 million, and capital grants to the OHC of \$3 million.
- ◆ The Province will provide \$199 million to deliver the municipal share of Social Assistance and Child Care services under the new cost-sharing arrangements.

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- ◆ Provincial expense is increased by \$106 million for Public and Emergency Health Services, which will be transferred to municipalities. In cases where services are already delivered by municipalities, this is a contingency provision as these services will also be funded by municipalities as of January 1, 1998.
  - ◆ Provincial expense will increase by \$21 million as a result of the Province continuing to deliver Property Assessment services, which will be transferred to municipalities.
  - ◆ The Province will also continue to deliver a number of smaller programs, including support for GO Transit and administration of the Provincial Offences Act, increasing expense by \$35 million.
  - ◆ Provincial revenues will increase by \$580 million, including \$564 million for reimbursements of expenditures from municipalities for these programs, and \$16 million in increased Fines and Penalties due to continued administration of the Provincial Offences Act.

### ***In-year Revenue Changes***

The current outlook of \$50,300 million is \$1,900 million above the \$48,400 million projection presented in the 1997 Budget and the First Quarter Ontario Finances. Most of the increase is a result of a \$1,500 million increase in the tax revenue outlook, partially offset by lower transfers from the Government of Canada. This tax revenue gain is due to the strength of the economy in 1997 and the prudent nature of the Budget revenue projections. The revised revenue outlook continues to be cautious, given the strong underlying momentum of the Ontario economy.

The legislation transferring responsibility for a number of programs to municipalities provides for the recovery of transitional expenditures by the Province. Accordingly, revenues are higher by \$580 million as a result of local services realignment transition measures. Reimbursement of expenditure from municipalities accounts for \$564 million of this revenue increase. Local services realignment transition has also increased Fines and Penalties by \$16 million while the Province continues to administer the Provincial Offences Act.

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### **1997-98 Revenue Changes Since Budget (\$ Millions)**

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#### **Changes This Quarter:**

#### **Taxation**

Personal Income Tax	1,140	
Retail Sales Tax	200	
Corporations Tax	100	
Land Transfer Tax	60	
	<hr/>	
<b>Total Taxation</b>		<b>1,500</b>

#### **Government of Canada**

Canada Health and Social Transfer	(245)	
Other Federal Transfers	10	
	<hr/>	
<b>Total Government of Canada</b>		<b>(235)</b>

#### **Other Revenue**

Local Services Realignment - Reimbursement of Expenditure	564	
Vehicle and Driver Registration Fees	55	
Fines and Penalties	16	
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<b>Total Other Revenue</b>		<b>635</b>

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<b>Total In-Year Revenue Changes</b>		<b>1,900</b>
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- ◆ Personal Income Tax (PIT) revenue is \$1,140 million above the Budget projection due to stronger 1997 economic growth and an increase in the estimate of 1996 PIT assessments, based on interim tax return processing information.
  - ◆ The Retail Sales Tax projection has increased by \$200 million over the Budget forecast as a result of growing domestic demand. The forecast for retail trade growth in 1997 has been revised upward from 4.0 per cent to 6.4 per cent.
  - ◆ As a result of the strength of 1997 corporate profits, the Corporations Tax outlook has been increased by \$100 million.
  - ◆ The continued strong performance of the resale housing market boosted the projection for Land Transfer Tax by \$60 million.
  - ◆ Revenue from the Government of Canada is \$235 million below the Budget Plan. This decrease is primarily due to lower Canada Health and Social Transfer (CHST) payments as a result of the increase in the Personal Income Tax outlook and federal data revisions to Ontario's total CHST entitlement and corporate taxable income.
  - ◆ Other revenue has been boosted by the inclusion of \$564 million for the reimbursement of the Province by municipalities for services delivered by the Province on their behalf during local services realignment transition.
  - ◆ In accordance with the 1996-97 Public Accounts, Vehicle and Driver Registration Fees are now reported on a gross basis, including commissions paid to private licence issuers. As a result, the forecast of these Fees is increased by \$55 million.
  - ◆ Fines and Penalties are \$16 million higher to reflect transition measures related to local services realignment, as the Province continues to administer the Provincial Offences Act.

### ***In-year Operating Expense Changes***

The current operating expense outlook has increased by \$1,533 million from the 1997 Budget Plan and \$1,538 million from first-quarter results to \$53,113 million, mainly due to an increased provision for 1997-98 Restructuring and Other Charges and transitional local services realignment expense.

#### **1997-98 Operating Expense Changes Since Budget (\$ Millions)**

##### **Changes This Quarter:**

Restructuring and Other Charges — Increase in Provision	900
Local Services Realignment Transition Measures — Operating	559
Broader Public Sector Proxy Pay Equity	140
Community Reinvestment Fund	75
Commissions paid to private licence operators	55
OPS/OPSEU Pension expense — Revised Estimate	36
Special Opportunity Grants	17
Increase in Education Other Programs	14
Alcohol and Gaming Commission — Amalgamation Costs	13
Teachers' Pension Plan — Revised Estimate	(190)
Legal Aid — Increase in 1996-97 Liability	(39)
Public Debt Interest — Lower Interest Rates	(72)
All Other Changes (Net)	30
<b>Net Changes Reported in First Quarter Ontario Finances (e.g., extra forest firefighting, PDI savings)</b>	<b>(5)</b>
<b>Total In-Year Operating Expense Changes</b>	<b>1,533</b>

- ◆ In recognition of the extent of restructuring taking place in the Province, the provision for Restructuring and Other Charges is being increased by \$900 million to \$1,510 million this quarter from the 1997 Budget Plan of \$610 million.
- ◆ Local services realignment transition measures increased operating expense by \$559 million. The Province will be reimbursed by municipalities for delivering these programs on their behalf in the final quarter of 1997-98.
- ◆ The Government will spend an additional \$140 million this year for one-time retroactive pay equity costs for agencies using proxy comparisons.



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- ◆ The Community Reinvestment Fund was increased by \$75 million to \$217 million for 1997-98. In total, \$570 million will be available to municipalities in 1998 from the Community Reinvestment Fund.
  - ◆ In keeping with the 1996-97 Public Accounts, commissions paid to private licence operators are now reported on a gross revenue and expense basis rather than netted off licence revenue, increasing expense by \$55 million.
  - ◆ Public Service and OPSEU Pension Plan expense increased \$36 million due to more current financial information available from the pension plans.
  - ◆ Special Opportunity Grants for students with disabilities increased \$17 million. This expense is offset by revenue from the federal government.
  - ◆ Education Other programs are up \$14 million due to a decrease in the 1996-97 year-end liability.
  - ◆ The amalgamation of the Liquor Licence Board and the Gaming Control Commission into one head office and several regional offices increased operating expense and one-time accommodation costs for the Alcohol and Gaming Commission by \$13 million.
  - ◆ Savings of \$190 million in the Teachers' Pension Plan were based on more current information reflecting higher investment earnings.
  - ◆ Savings of \$39 million in the Legal Aid Plan are the result of an increase in the 1996-97 year-end liability.
  - ◆ Additional public debt interest savings of \$72 million from first-quarter results and \$104 million from the 1997 Budget Plan, were realized to date as a result of interest rates remaining below the cautious Budget forecast assumptions.

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### ***In-year Capital Expense Changes***

The current capital expense outlook has increased by \$29 million from the 1997 Budget Plan and first-quarter results to \$2,779 million.

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#### **1997-98 Capital Expense Changes Since Budget (\$ Millions)**

##### **Changes This Quarter:**

Local Services Realignment Transition Measures -- Capital	18
Developmental Services -- Facility Development	11
<b>Total In-Year Capital Expense Changes</b>	<b>29</b>

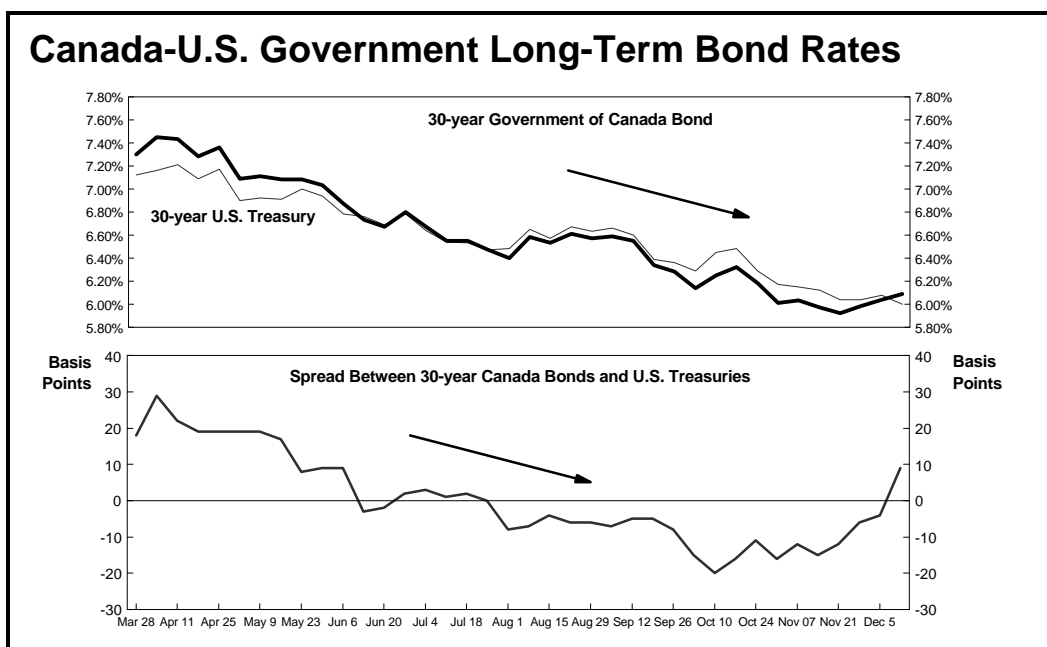
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- ◆ Provincial capital expense increased \$18 million as a result of local services realignment transitional measures. Capital transfers to GO Transit increased \$15 million and transfers to the OHC increased \$3 million. The Province will be reimbursed by municipalities for these expenses in the current fiscal year.
- ◆ An increase of \$11 million was provided to community agencies on a one-time basis by the Ministry of Community and Social Services to fund the purchase and renovation of community-based residences to facilitate the transfer of developmental service clients out of large institutional settings.

## Ontario's Debt Management Plan

### ***Favourable Capital Markets Conditions Continue in 1997-98***

Overall, conditions in bond markets have been favourable this year. Inflation has remained subdued despite stronger-than-anticipated economic growth in North America, and governments in both Canada and the United States have significantly bettered their deficit targets. Consequently, long-term interest rates are at levels not seen since the early 1960s.



- ◆ Interest rates are lower than expected by private-sector forecasters and significantly lower than the 1997 Budget assumption.
- ◆ 30-year Canadian bond rates have been lower than 30-year U.S. Treasury bonds for the first time on a sustained basis.
- ◆ This year, Ontario borrowed at the lowest 10- and 30-year rates since re-entering public markets in 1991.
  - The Province is taking advantage of this favourable environment to secure long-term, cost-effective funding.

### **1997-98 Borrowing Program**

The Province continues to enjoy positive investor reception and attractively priced access to capital markets worldwide.

#### **Financial Summary**

#### **Borrowing Completed as of December 11, 1997**

**(\$ Billions)**

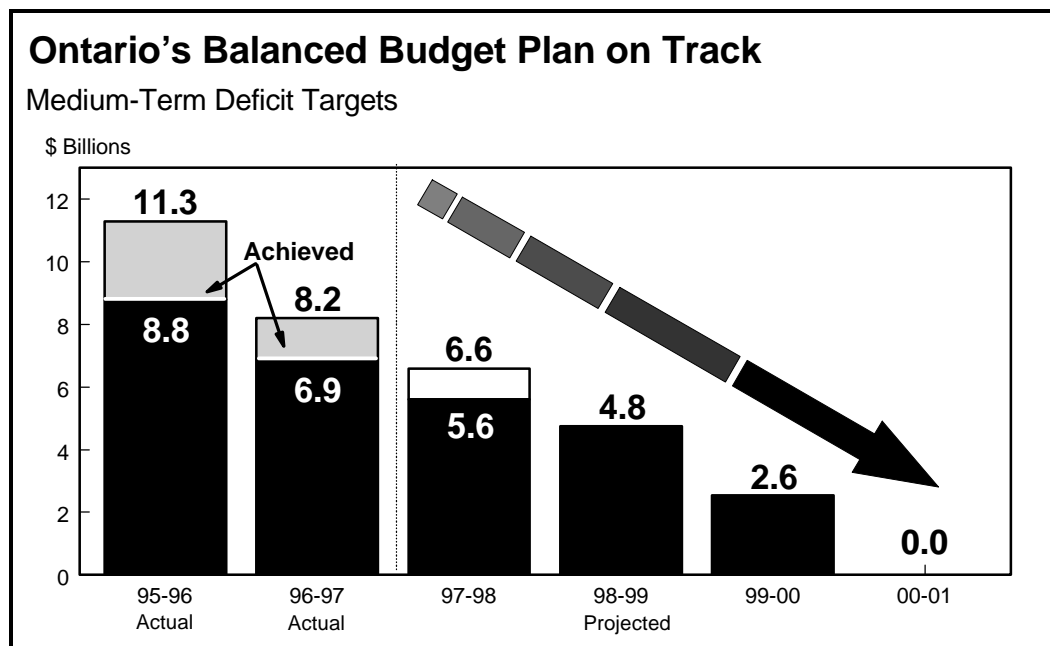
	<b>1997-98 Budget Plan</b>	<b>1997-98 Outlook</b>
Cash Requirements	9.2	8.5
Maturities	5.4	5.4
Borrowing on Behalf of Agencies	0.6	0.6
<b>Total Financing Requirements</b>	<b>15.2</b>	<b>14.5</b>
<b>Financed by:</b>		
Decrease in Liquid Reserves	3.0	3.0
Other Sources	0.1	0.1
Increase in Short-Term Borrowing	1.5	1.0
Long-Term Borrowing Planned	9.9	2.6
Long-Term Borrowing Completed	0.7	7.8
<b>Total Financing Requirements</b>	<b>15.2</b>	<b>14.5</b>

- ◆ Total financing requirements have declined from \$15.2 billion to \$14.5 billion, or \$0.7 billion (\$712 million), due to the decline in the deficit.
- ◆ Total proceeds from borrowing done to date this fiscal year are \$7.8 billion. Over 80 per cent of Ontario's long-term borrowing, or \$6.4 billion, was raised from the Canadian domestic market. This includes over \$1.5 billion from the third successful Ontario Savings Bond campaign.
- ◆ The Province also issued a French Franc Eurobond for \$715 million, as well as four Japanese Yen issues, for a total of \$713 million.
- ◆ The domestic market will remain the core source of funding for the Province. Foreign markets will be accessed when cost-effective borrowing opportunities arise.
- ◆ As a result of the Government's Balanced Budget Plan, the growth in Ontario's debt will stop in 2000-01 at \$117 billion.

## Conclusion

Confidence in Ontario's finances is being restored. The Government's Balanced Budget Plan sets out clear targets and a plan for achieving a zero deficit. In the first two years of the Plan, deficit targets have been met and, in fact, overachieved, and the Government is on track to once again better its target in 1997-98.

Ontario's fiscal environment is now one of stability and continuous improvement. The Government's commitment to the Balanced Budget Plan is yielding tangible results and will ensure that necessary programs and services are affordable and available for future generations.





## **Appendices**





## **Financial Tables and Graphs**

<b>Statement of Financial Transactions</b>					<b>Table E1</b>
<b>(\$ Millions)</b>					
	<b>Actual 1993-94</b>	<b>Actual 1994-95</b>	<b>Actual 1995-96</b>	<b>Actual 1996-97</b>	<b>Outlook* 1997-98</b>
<b>Revenue</b>	43,674	46,039	49,473	49,450	50,300
<b>Expense</b>					
Programs	44,195	44,505	45,309	42,581	42,517
Restructuring and Other Charges			854	2,430	1,510
Total Program Expense	44,195	44,505	46,163	45,011	44,027
Capital	3,552	3,831	3,635	2,737	2,779
Public Debt Interest	7,129	7,832	8,475	8,607	9,086
Total Expense	54,876	56,168	58,273	56,355	55,892
Reserve	-	-	-	-	-
<b>Deficit</b>	<b>11,202</b>	<b>10,129</b>	<b>8,800</b>	<b>6,905</b>	<b>5,592</b>

\* Second Quarter results as at September 30<sup>th</sup>, and incorporating measures announced in the 1997 Ontario Economic Outlook and Fiscal Review

<b>Ontario Opportunities Fund</b>		<b>Table E2</b>
<b>(\$ Millions)</b>		
		<b>1996-97</b>
Provincial Purposes Debt at April 1, 1996		101,396
Add: Borrowing requirements to finance projected deficit of \$8,180 million and investments in agencies	7,131	
Decrease in liquid reserves	<u>(5,741)</u>	
Increase in debt:		1,390
Debt before Ontario Opportunities Fund		102,786
Less:		
<b>Ontario Opportunities Fund</b>		
Over-achievement in 1996-97 deficit target (including proceeds from major asset sales and contributions from Ontarians*)	<u>1,275</u>	
Fund Balance Applied to Debt Reduction		(1,275)
Provincial Purpose Debt at March 31, 1997		101,511

\* There were no major asset sales in 1996-97. Contributions from Ontarians amounted to \$7,770 in 1996-97.

<b>Revenue (\$ Millions)</b>	<b>Table E3</b>				
	<b>Actual 1993-94</b>	<b>Actual 1994-95</b>	<b>Actual 1995-96</b>	<b>Actual 1996-97</b>	<b>Outlook 1997-98</b>
<b>Taxation Revenue</b>					
Personal Income Tax	14,723	14,758	15,633	16,357	15,630
Retail Sales Tax	8,124	9,090	9,424	9,964	10,590
Corporations Tax	3,447	4,557	5,174	5,852	6,550
Employer Health Tax	2,665	2,640	2,695	2,772	2,640
Gasoline Tax	1,907	1,939	1,944	1,951	1,970
Fuel Tax	460	495	500	540	545
Tobacco Tax	724	322	337	356	415
Land Transfer Tax	321	372	342	444	510
Mining Profits Tax	85	86	71	54	60
Race Tracks Tax	76	84	92	46	10
Preferred Share Dividends Tax	59	56	65	73	60
Other Taxation	68	60	39	57	25
	<b>32,659</b>	<b>34,459</b>	<b>36,316</b>	<b>38,466</b>	<b>39,005</b>
<b>Government of Canada</b>					
Canada Health and Social Transfer	-	-	-	4,814	3,960
Established Programs Financing	3,790	4,059	3,820	-	-
Canada Assistance Plan	2,399	2,577	2,508	-	-
Fiscal Stabilization	227	184	367	-	-
National Training Act	76	75	55	37	-
Bilingualism Development	70	65	62	44	48
Young Offenders	59	82	61	59	59
Vocational Rehabilitation	65	61	63	65	64
Canada-Ontario Infrastructure Works	-	159	350	142	201
Social Housing	-	-	384	341	476
Other	385	345	210	276	252
	<b>7,071</b>	<b>7,607</b>	<b>7,880</b>	<b>5,778</b>	<b>5,060</b>
<b>Income from Government Enterprises</b>					
Ontario Lottery Corporation	602	631	651	654	785
Liquor Control Board of Ontario	599	637	667	701	730
Ontario Casino Corporation	-	316	422	594	740
Ontario Housing Corporation	(277)	(273)	-	-	-
GO Transit	(136)	(166)	-	-	-
Other	(23)	(77)	(10)	10	65
	<b>765</b>	<b>1,068</b>	<b>1,730</b>	<b>1,959</b>	<b>2,320</b>
<b>Other Revenue</b>					
Vehicle/Driver Registration Fees	695	751	736	816	860
Other Fees and Licences	663	686	631	624	625
Liquor Licence Board of Ontario Revenues	522	532	530	520	525
Royalties	239	223	263	264	225
Sales and Rentals	486	98	497	543	445
Fines and Penalties	141	163	143	157	106
Local Services Realignment- Reimbursement of Expenditure	-	-	-	-	564
Miscellaneous	433	452	747	323	565
	<b>3,179</b>	<b>2,905</b>	<b>3,547</b>	<b>3,247</b>	<b>3,915</b>
<b>Total Revenue</b>	<b>43,674</b>	<b>46,039</b>	<b>49,473</b>	<b>49,450</b>	<b>50,300</b>

<b>Operating Expense</b>					<b>Table E4</b>
<b>(\$ Millions)</b>					
<b>Ministry</b>	<b>Actual 1993-94</b>	<b>Actual 1994-95</b>	<b>Actual 1995-96</b>	<b>Actual 1996-97</b>	<b>Outlook 1997-98</b>
Agriculture, Food and Rural Affairs	474	383	400	412	405
Crop Insurance Claims	59	26	20	62	45
Attorney General	827	830	1,085	638	645
Board of Internal Economy	137	135	206	124	114
Citizenship, Culture and Recreation	370	408	363	302	283
Community and Social Services	9,165	9,364	8,816	7,965	8,063
Consumer and Commercial Relations	175	150	140	123	108
Economic Development, Trade and Tourism	416	463	385	245	207
Education and Training	8,691	8,357	8,390	8,075	7,766
Teachers' Pension Plan	467	643	812	683	555
Energy, Science and Technology*	16	14	13	11	11
Environment*	374	258	226	146	139
Executive Offices	13	10	13	13	13
Finance - Own Account	636	425	701	435	466
Public Debt Interest	7,129	7,832	8,475	8,607	9,086
Community Reinvestment Fund	-	-	-	-	217
Restructuring and Other Charges - Unallocated	-	-	-	-	785
Special Transition Fund	-	-	-	-	75
Special Circumstances Fund	-	-	-	-	77
Health	17,375	17,599	17,607	17,760	17,951
Health Care Restructuring	-	-	-	970	450
Intergovernmental Affairs	7	6	5	4	4
Labour	180	135	135	103	106
Management Board Secretariat	116	823	554	712	361
Public Service/OPSEU Pension Plan	737	682	685	94	181
Contingency Fund	-	-	-	-	467
Employee Severance	-	-	400	438	-
Municipal Affairs and Housing	1,559	1,487	2,421	2,456	2,240
Municipal Capital and Operating Restructuring Fund	-	-	-	150	23
Municipal Restructuring Fund	-	-	-	-	50
Native Affairs Secretariat	14	16	16	17	10
Natural Resources	502	478	519	417	415
Northern Development and Mines	83	54	66	52	42
Office of Francophone Affairs	3	3	2	2	2
Office Responsible for Women's Issues	23	22	18	14	20
Solicitor General and Correctional Services	1,168	1,136	1,111	1,159	1,098
Transportation	608	598	1,054	879	783
Restructuring/ Municipal Capital and Operating Restructuring Fund	-	-	-	550	50
Year-End Savings	-	-	-	-	(200)
<b>Total Operating Expense</b>	<b>51,324</b>	<b>52,337</b>	<b>54,638</b>	<b>53,618</b>	<b>53,113</b>

\* Interim allocation pending ministry restructuring which is currently underway

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**Capital Expense** **Table E5**  
**(\$ Millions)**


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<b>Ministry</b>	<b>Actual 1993-94</b>	<b>Actual 1994-95</b>	<b>Actual 1995-96</b>	<b>Actual 1996-97</b>	<b>Outlook 1997-98</b>
Agriculture, Food and Rural Affairs	13	12	5	-	-
Attorney General	3	4	-	20	53
Citizenship, Culture and Recreation	28	42	29	9	4
Community and Social Services	77	72	14	116	31
Economic Development, Trade and Tourism	113	117	113	11	-
Education and Training	432	421	559	199	450
Environment	162	271	238	225	154
Municipal Capital and Operating Restructuring Fund	-	-	-	-	40
Finance	3	3	1	18	-
Health	309	249	168	175	242
Management Board Secretariat	169	260	272	152	46
Municipal Affairs and Housing	96	310	628	313	311
Native Affairs Secretariat	15	17	9	13	12
Natural Resources	95	54	47	33	25
Northern Development and Mines	208	240	163	168	193
Solicitor General and Correctional Services	5	2	2	6	13
Transportation	1,824	1,757	1,387	1,279	1,205
<b>Total Capital Expense</b>	<b>3,552</b>	<b>3,831</b>	<b>3,635</b>	<b>2,737</b>	<b>2,779</b>

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**Ten-Year Review of Selected Financial and Economic Statistics**  
**(\$ Millions)**

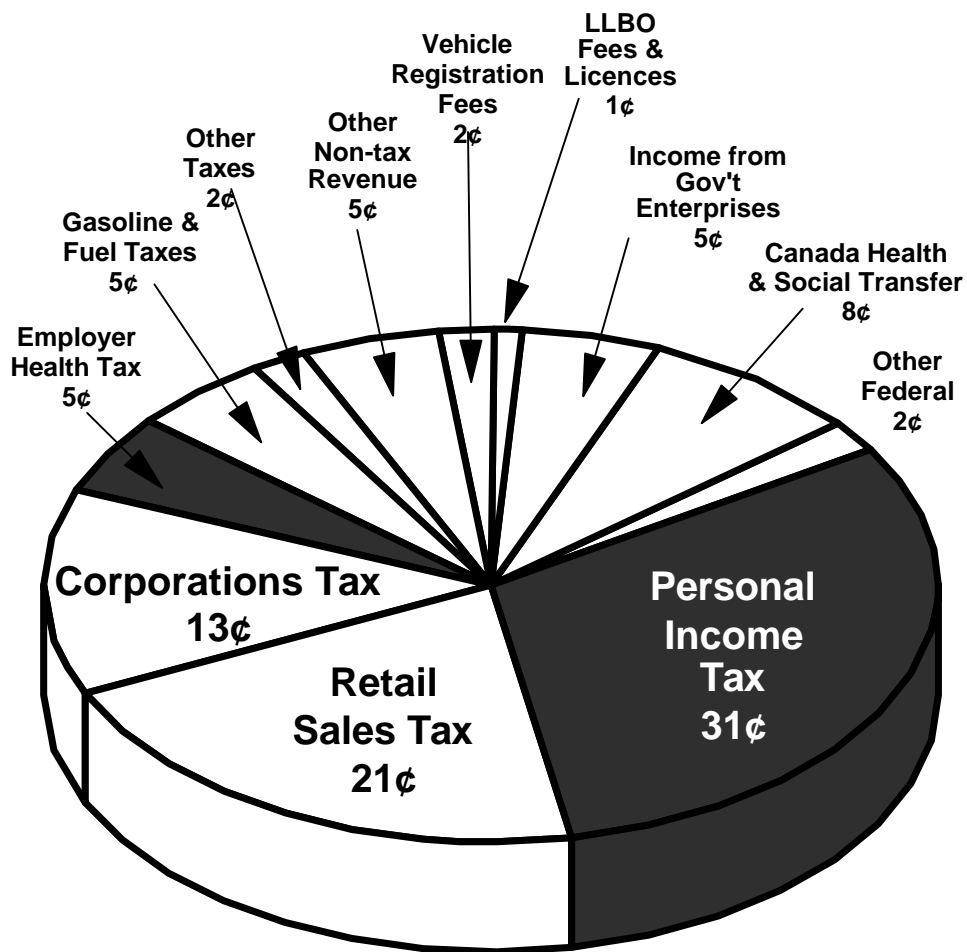

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	<b>Modified Cash Basis</b>		
	<b>1988-89</b>	<b>1989-90</b>	<b>1990-91</b>
<b>Financial Transactions</b>			
Revenue	36,991	41,225	42,892
Expense			
Programs	31,435	33,926	38,924
Restructuring and Other Charges	-	-	-
Total Program Expense	31,435	33,926	38,924
Capital	3,268	3,392	3,221
Public Debt Interest	3,767	3,817	3,776
Total Expense	38,470	41,135	45,921
Reserve	-	-	-
<b>Deficit/(Surplus)</b>	<b>1,479</b>	<b>(90)</b>	<b>3,029</b>
<b>Provincial Purpose Debt</b>	<b>39,014</b>	<b>39,256</b>	<b>42,257</b>
Gross Domestic Product (GDP)			
at Market Prices	253,143	276,073	277,508
Personal Income	206,780	226,707	239,036
Population - July (000s)	9,884	10,151	10,341
Total Debt per Capita (dollars)	3,947	3,867	4,086
Personal Income per Capita (dollars)	20,921	22,333	23,115
Total Expense as a per cent of GDP	15.2	14.9	16.5
Public Debt Interest as a per cent of Revenue	10.2	9.3	8.8
Total Debt as a per cent of GDP	15.4	14.2	15.2
Cumulative Net Borrowing for Ontario Hydro			
U.S.	5,692	5,150	5,049
C.P.P.	2,097	2,748	2,748
Contingent Liability (mainly Ontario Hydro)	20,559	21,490	26,009

Table E6

1991-92	1992-93	PSAAB Basis					Outlook 1997-98
		1993-94	1994-95	1995-96	Actual 1996-97		
40,753	41,807	43,674	46,039	49,473	49,450	50,300	
43,613	45,350	44,195	44,505	45,309	42,581	42,517	
-	-	-	-	854	2,430	1,510	
43,613	45,350	44,195	44,505	46,163	45,011	44,027	
3,874	3,592	3,552	3,831	3,635	2,737	2,779	
4,196	5,293	7,129	7,832	8,475	8,607	9,086	
51,683	54,235	54,876	56,168	58,273	56,355	55,892	
-	-	-	-	-	-	-	
<b>10,930</b>	<b>12,428</b>	<b>11,202</b>	<b>10,129</b>	<b>8,800</b>	<b>6,905</b>	<b>5,592</b>	
<b>53,083</b>	<b>68,607</b>	<b>79,439</b>	<b>88,580</b>	<b>101,396</b>	<b>101,511</b>	<b>107,559</b>	
278,463	282,803	288,569	300,827	314,077	323,027	341,348	
245,763	250,928	253,217	256,841	265,088	269,031	277,790	
10,471	10,647	10,814	10,937	11,098	11,258	11,408	
5,070	6,444	7,346	8,099	9,136	9,017	9,428	
23,471	23,568	23,416	23,484	23,886	23,897	24,350	
18.6	19.2	19.0	18.7	18.6	17.4	16.4	
10.3	12.7	16.3	17.0	17.1	17.4	18.1	
19.1	24.3	27.5	29.4	32.3	31.4	31.5	
4,185	3,969	1,789	1,087	1,060	392	N/A	
2,748	2,748	2,748	2,748	2,748	2,748	N/A	
30,369	34,657	34,008	33,782	31,590	31,786	N/A	

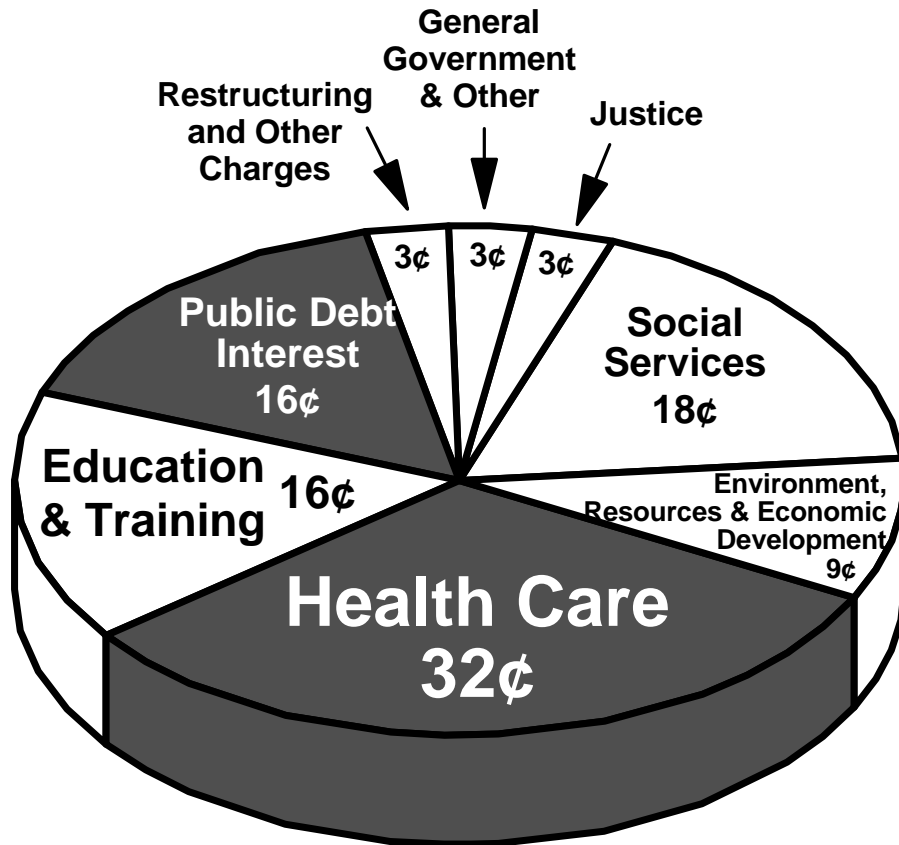
## The Budget Dollar: Revenue 1997-98



\* As at September 30th

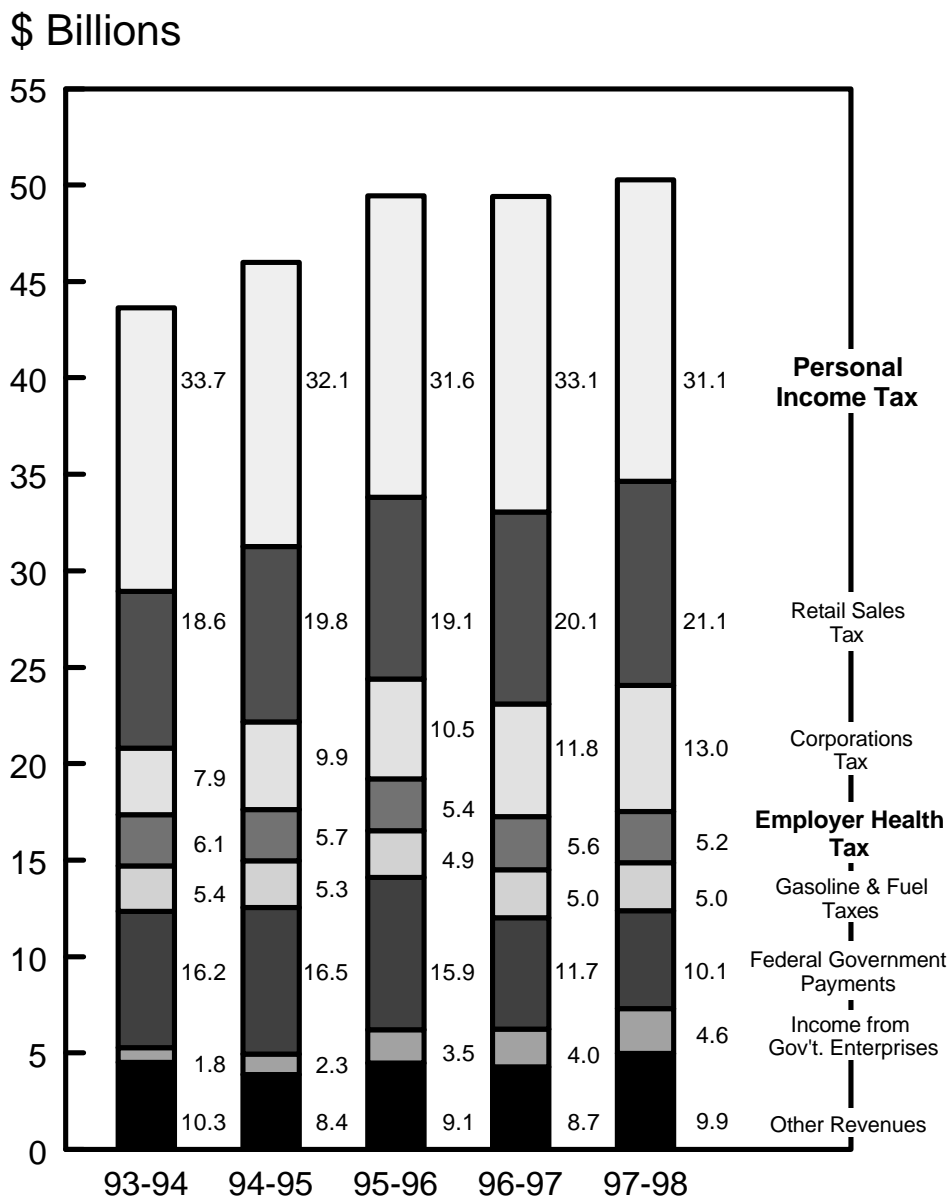


## The Budget Dollar: Total Expense 1997-98



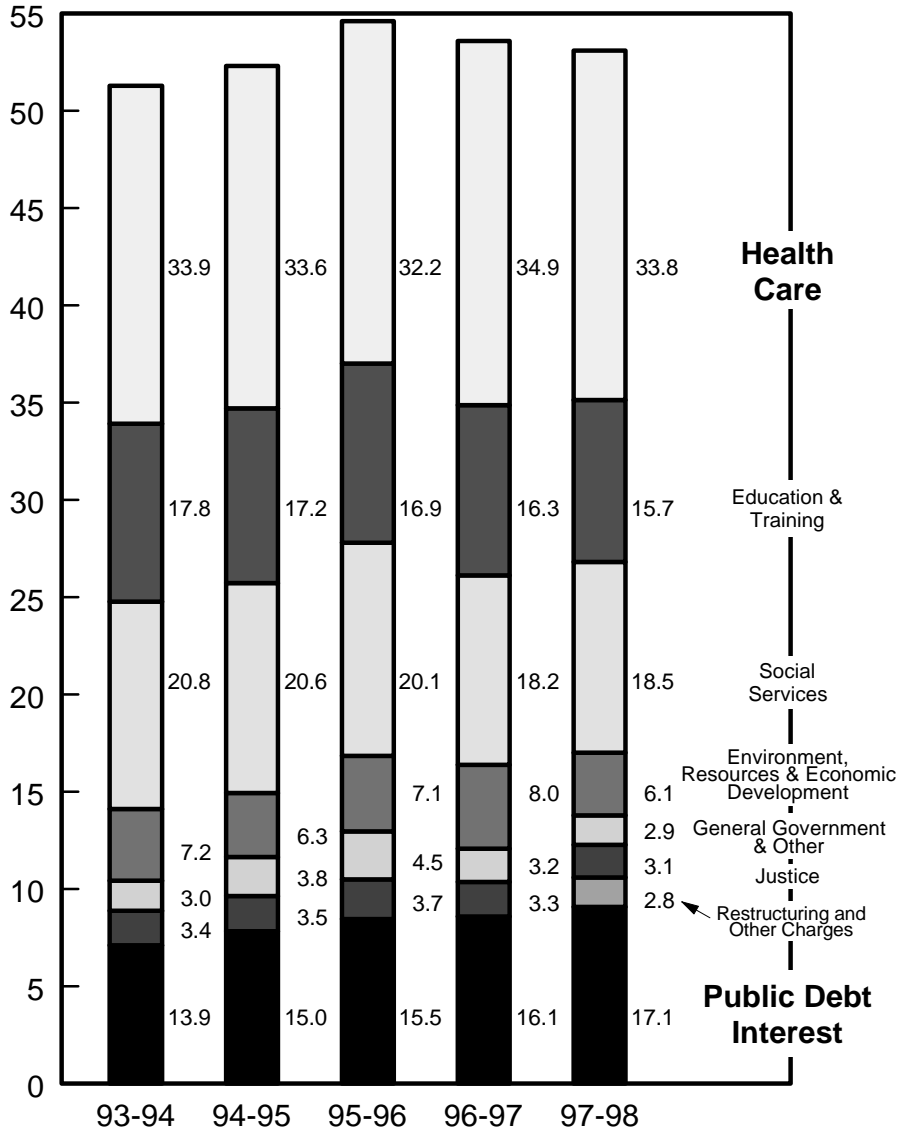
\* As at September 30th

## Revenue Sources By Category: Per Cent of Total 1993-94 to 1997-98



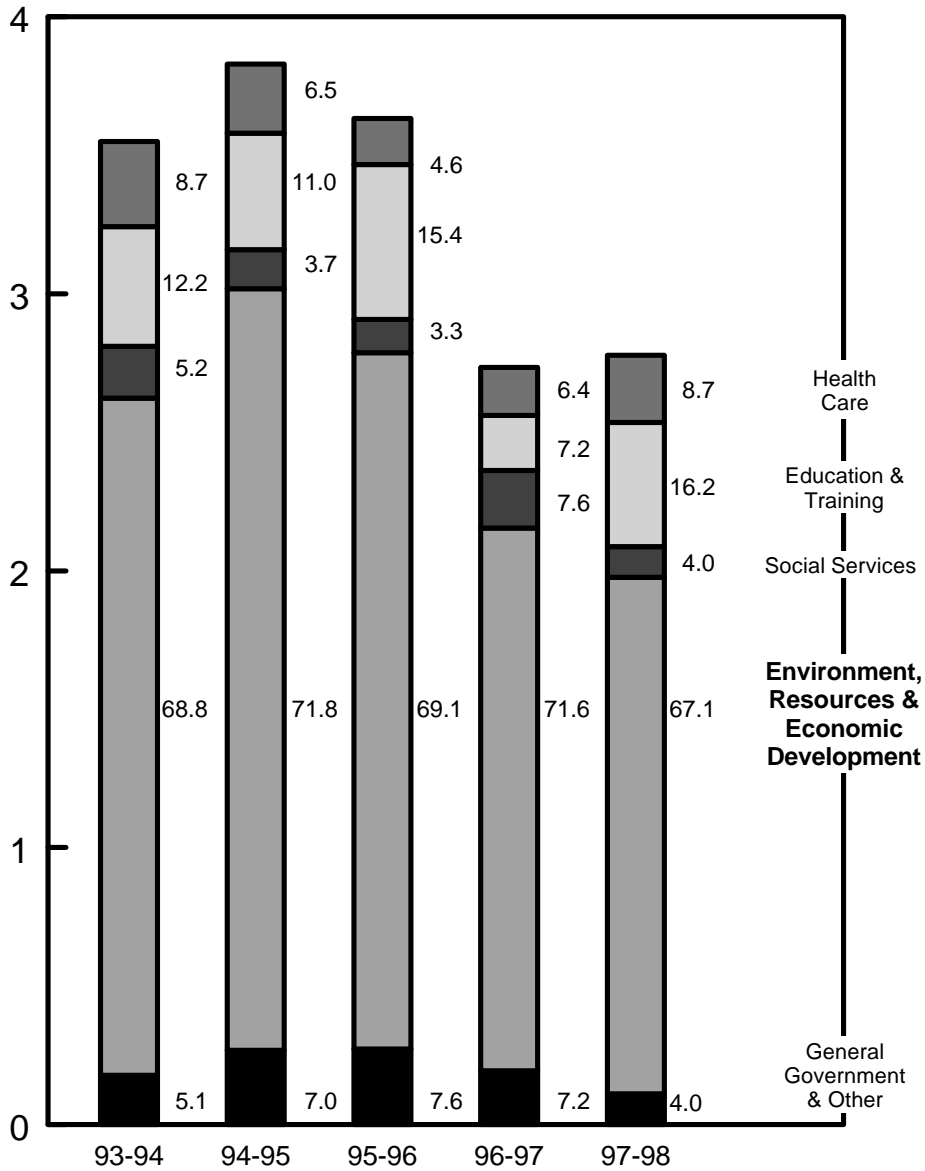
## Operating Expense by Category Per Cent of Total 1993-94 to 1997-98

\$ Billions

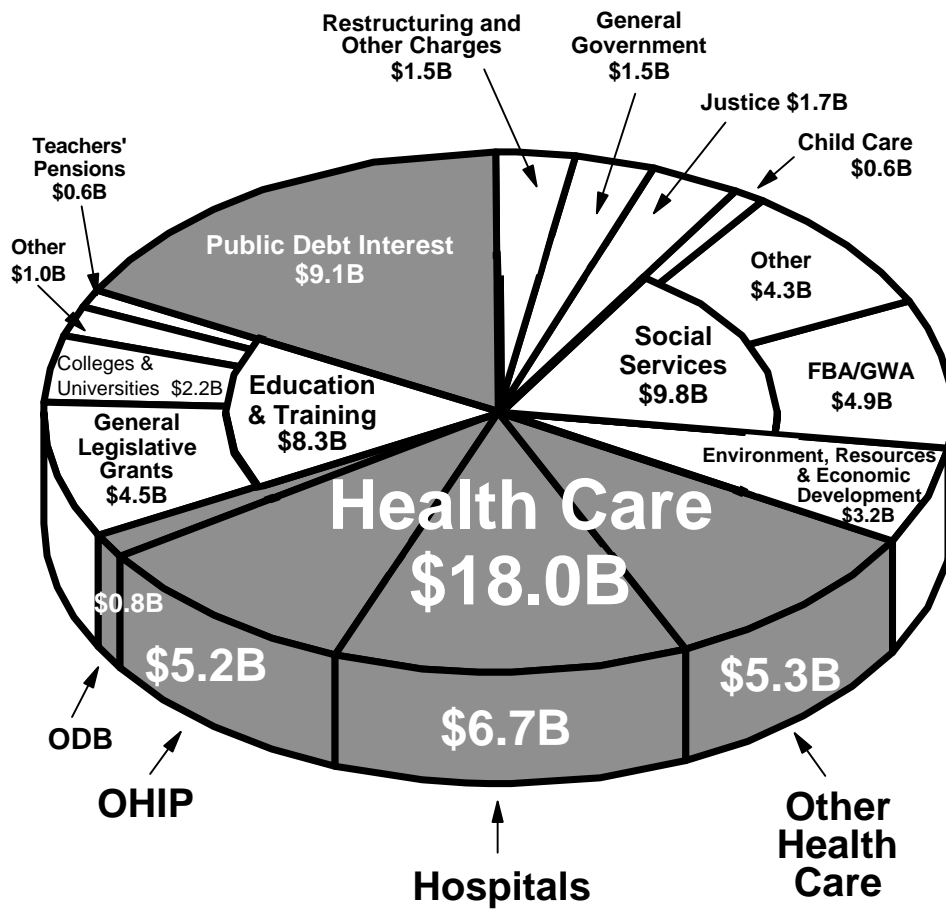


## Capital Expense by Category Per Cent of Total 1993-94 to 1997-98

\$ Billions

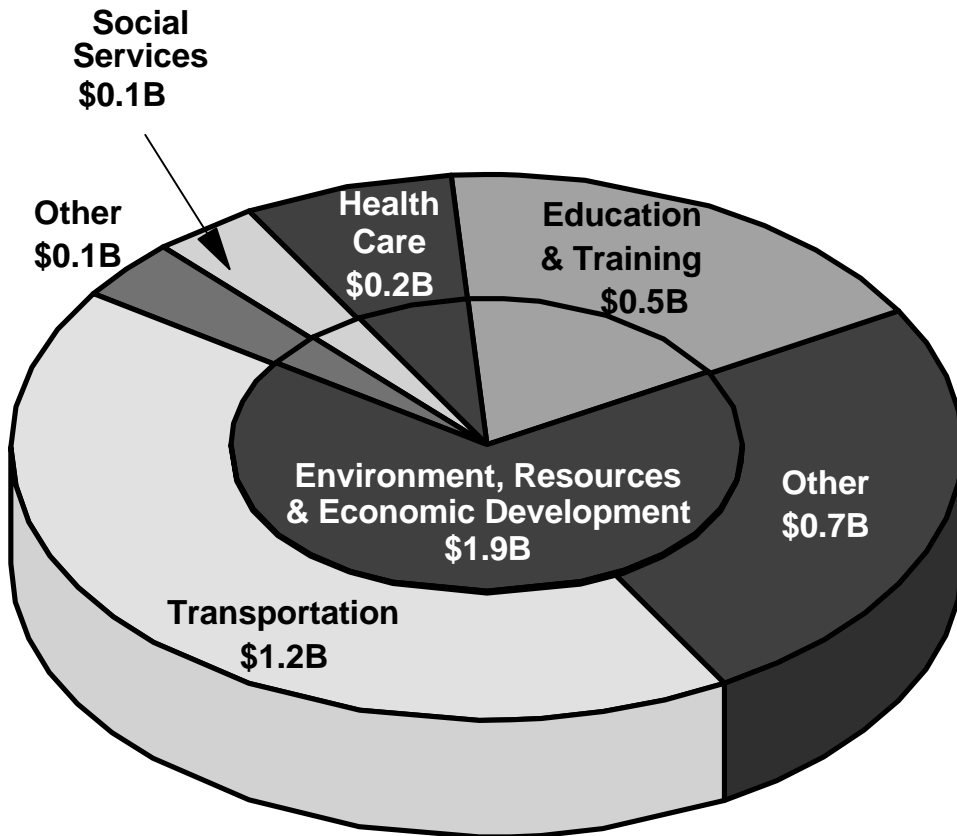


## 1997-98 Operating Expense by Sector (\$ Billion)



\* As at September 30th

## 1997-98 Capital Expense by Sector (\$ Billion)



\* As at September 30th