
FOREWORD

When the McGuinty government came to office in 2003, it inherited a \$5.5 billion fiscal deficit, as well as significant deficits in health care, education and infrastructure.

Over the past three years, through its prudent and disciplined fiscal approach, the government has made progress in restoring Ontario's financial health, while making historic, long-term investments in health, education, infrastructure and a strong economy.

Ontario's economy is fundamentally strong and has shown great resilience in the face of adverse external economic forces that have been building in recent years. Consumer spending and business investment have experienced solid growth in the first half of 2006, and the unemployment rate has fallen to an average of 6.4 per cent – the lowest in five years. Since October 2003, Ontario has created 254,100 net new jobs.

However, Ontario's economy continues to be affected by external risks and pressures, notably high oil prices, a strong Canadian dollar and a weakening of the U.S. economy. These factors have caused Ontario's economy to grow more slowly than projected in the March 2006 Budget.

The government's fiscal prudence and investments to strengthen the economy since 2003 have prepared the province to weather this period of slower, short-term economic growth. Over the medium term, Ontario's growth is expected to strengthen significantly.

While Ontario's economic fundamentals remain strong, the government recognizes the need to introduce measures to boost jobs and growth in the short term. Building on current investments, the government is therefore committing additional resources to training and job services, infrastructure spending, and measures to promote interprovincial trade and Ontario tourism.

Slower economic growth has also had an impact on Ontario's fiscal outlook. While the 2006-07 deficit target remains unchanged from the \$1.9 billion deficit projection outlined in the First Quarter Ontario Finances (a deficit of \$0.9 billion if the reserve is not required), the medium-term fiscal outlook is now projecting deficits of \$2.2 billion in 2007-08 (a deficit of \$0.7 billion if the reserve is not required) and \$1.0 billion in 2008-09 (a surplus of \$0.5 billion if the reserve is not required).

The government remains committed to eliminating the deficit. It will therefore continue to be prudent and disciplined in its approach to managing the Province's finances, a key part of which includes keeping program spending under control.

Fair and equitable funding arrangements with the federal government are also critical to Ontario's ability to strengthen its economic advantage through investments in health, postsecondary education, infrastructure and training. At present, Ontarians receive less federal support in these areas than Canadians in other provinces and territories. The Ontario Government will therefore continue to press the federal government to honour the funding commitments it has already made and to take additional measures to treat Ontarians fairly.

Ontario's economic foundation remains strong. The government's prudent and disciplined approach, in addition to ongoing strategic investments in a well-educated and highly skilled population, a high-quality health care system, reliable, modern infrastructure and key economic sectors, will continue to strengthen the economy and ensure that the province is well positioned to manage both the challenges and opportunities ahead.