Ontario’s Growing Debt a Concern, Auditor General Says

(TORONTO) Ontario’s debt continues to grow faster than the province’s economy, which could have negative implications for the province’s finances. The government should provide legislators and the public with a plan to manage debt in line with the government’s net-debt-to-GDP target of 27%, Auditor General Bonnie Lysyk says in her 2014 Annual Report.

“No matter which measure you use—total debt, net debt or accumulated deficit—this is a concern for the province for several reasons, including how much money will be available for providing services to Ontarians in future years after interest on debt is paid,” Lysyk said today following the release of her Report.

Lysyk recommends that the government work towards developing a long-term total debt reduction plan that is linked to meeting its target of reducing its net debt-to-GDP ratio to its pre-recession level of 27%.

In Chapter 2 of the 2014 Annual Report, Lysyk says Ontario’s net debt—the difference between the province’s liabilities and its financial assets—was more than $267 billion as of March 31, 2014. Net debt has been growing in recent years because of higher deficits (the difference between what a government spends in a year, and how much it takes in) and increased spending on infrastructure (the attached Exhibits Demonstrating Ontario’s Debt Burden shows the related trends).

Although the government projects that it will not have a deficit in 2017/18, until then, it will still need to borrow to finance annual deficits, fund infrastructure investments and re-finance existing debt.

“We project that by the time the annual deficit is eliminated in 2017/18, the net debt will stand at about $325 billion,” Lysyk said. “That’s about $23,000 for every single resident of Ontario.

“Ultimately, the question of how much debt the province should carry and the strategies the government could use to pay it down is one of government policy,” she added. “However, this should not prevent the government from providing information that promotes further understanding of the issue and clarifies the choices it is making or will make to address the province’s growing debt burden.”

Consequences of high debt include:

• the “crowding out” of other spending—by 2017/18 the government expects to spend nearly one out of nine dollars of revenue on servicing debt when in 2007/08, only one out of twelve dollars of revenue collected was required to service debt;

• greater vulnerability to a rise in interest rates, which have been at historically low levels over the past few years—should there be a spike in interest rates, the government would have considerably less flexibility to provide public services, because a much higher proportion of its revenue would ultimately be required to pay interest on the debt, as was the case a decade ago; and

• a possible downgrading of the province’s credit rating, which would lead to higher future borrowing costs.

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For more information and to view the full report, please visit www.auditor.on.ca
Exhibits Demonstrating Ontario’s Debt Burden

Ontario Growth of Total Debt and Net Debt, 2009/10 to 2017/18 ($ million)

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<thead>
<tr>
<th></th>
<th>Actual</th>
<th>Estimate</th>
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<tbody>
<tr>
<td>Total debt</td>
<td>212,122</td>
<td>236,629</td>
</tr>
<tr>
<td>Net debt</td>
<td>193,589</td>
<td>214,511</td>
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<tr>
<td>Accumulated deficit</td>
<td>130,957</td>
<td>144,573</td>
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Ontario Net-debt-to-GDP Ratio
Sources of data: Province of Ontario Annual Report and 2014 Ontario Budget

Ontario Ratio of Interest Expense to Revenues, 1999/2000–2017/18