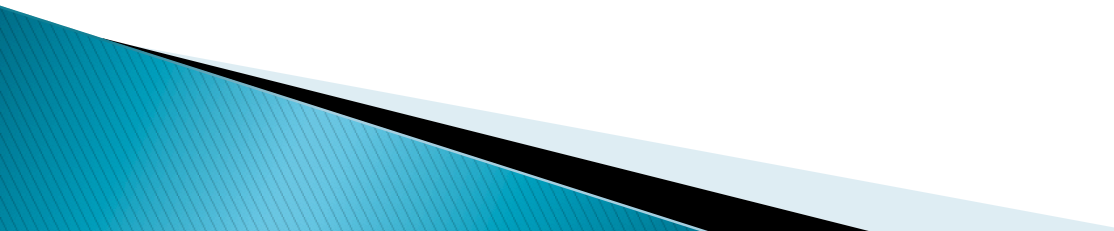


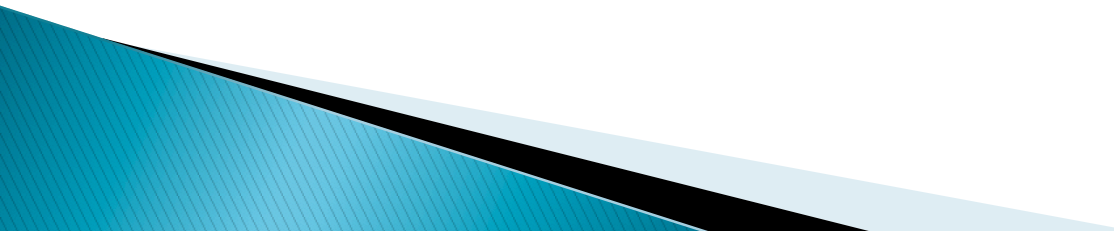
# *Avoiding a Debt Crisis: What Ontario Can Learn from Greece?*

Livio Di Matteo  
Economics, Lakehead University  
Fraser Institute Student Seminar on Public Policy Issues,  
Toronto, March 2, 2013

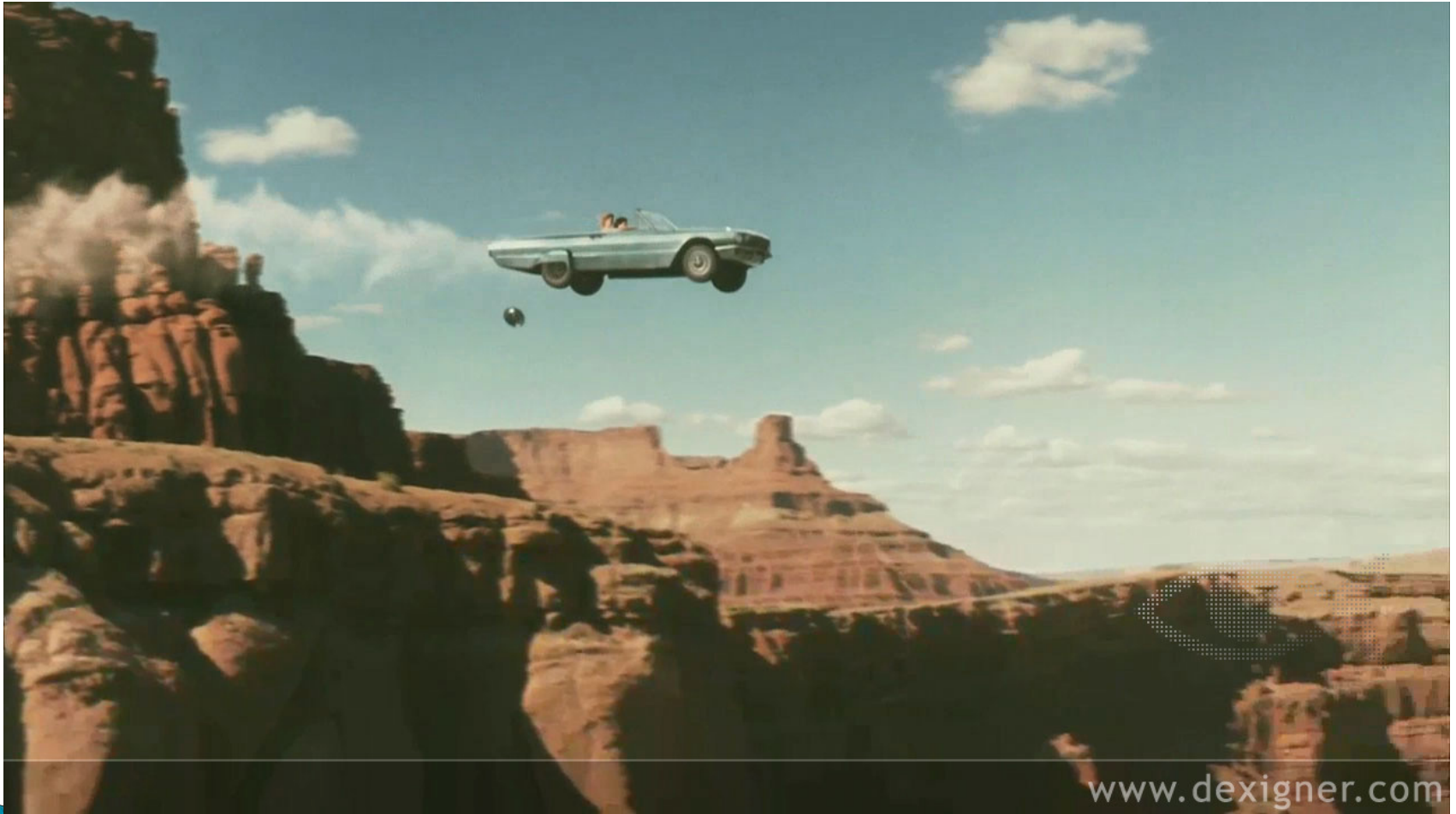
**“Even Greece, the poster child for  
rampant debt, carried an Ontario–  
style debt load as recently as  
1984”**



# Comparing Ontario and Greece

- ▶ Comparing the fiscal situations of Ontario and Greece is comparing apples with oranges.
  - ▶ Comparing Ontario with Greece is a valuable exercise because it allows for an illustration of what some of the consequences could be if Ontario fails to address its debt situation.
  - ▶ Ontario and Greece are both travelling the debt highway.
- 

# This is not how we want to exit the debt highway...



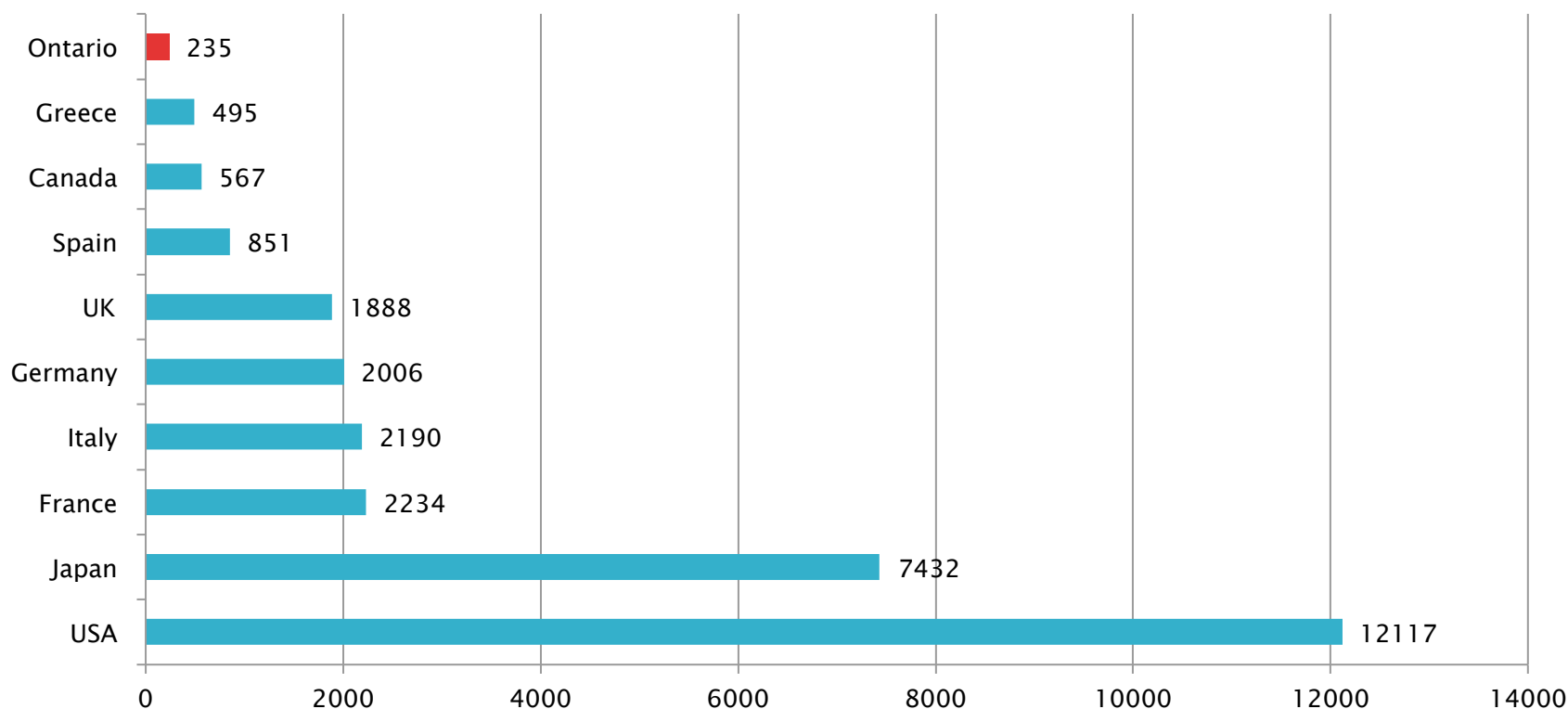


# Comparators and Context



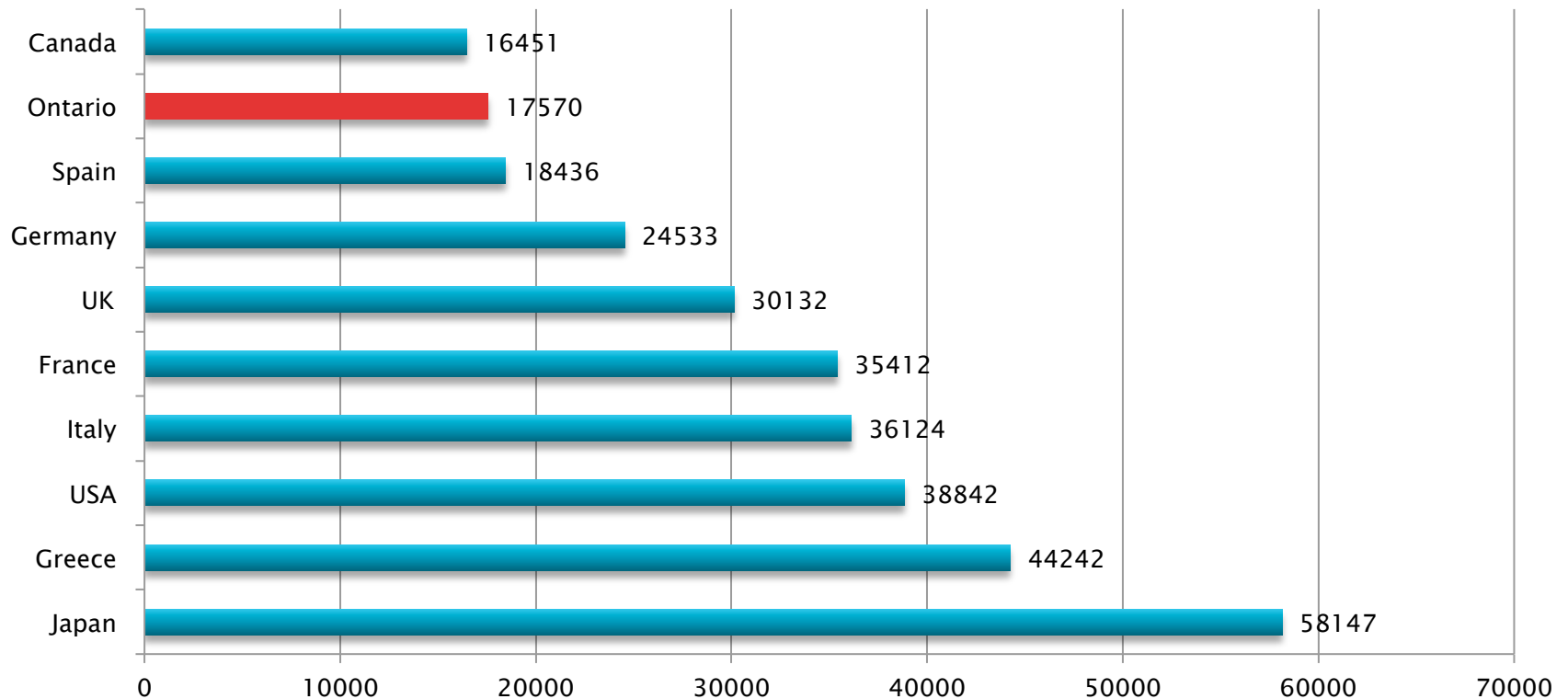
# The International Picture

**Total Net Public Debt (\$US bbl) in 2011 for Selected Jurisdictions (Source: IMF World Outlook Database)**

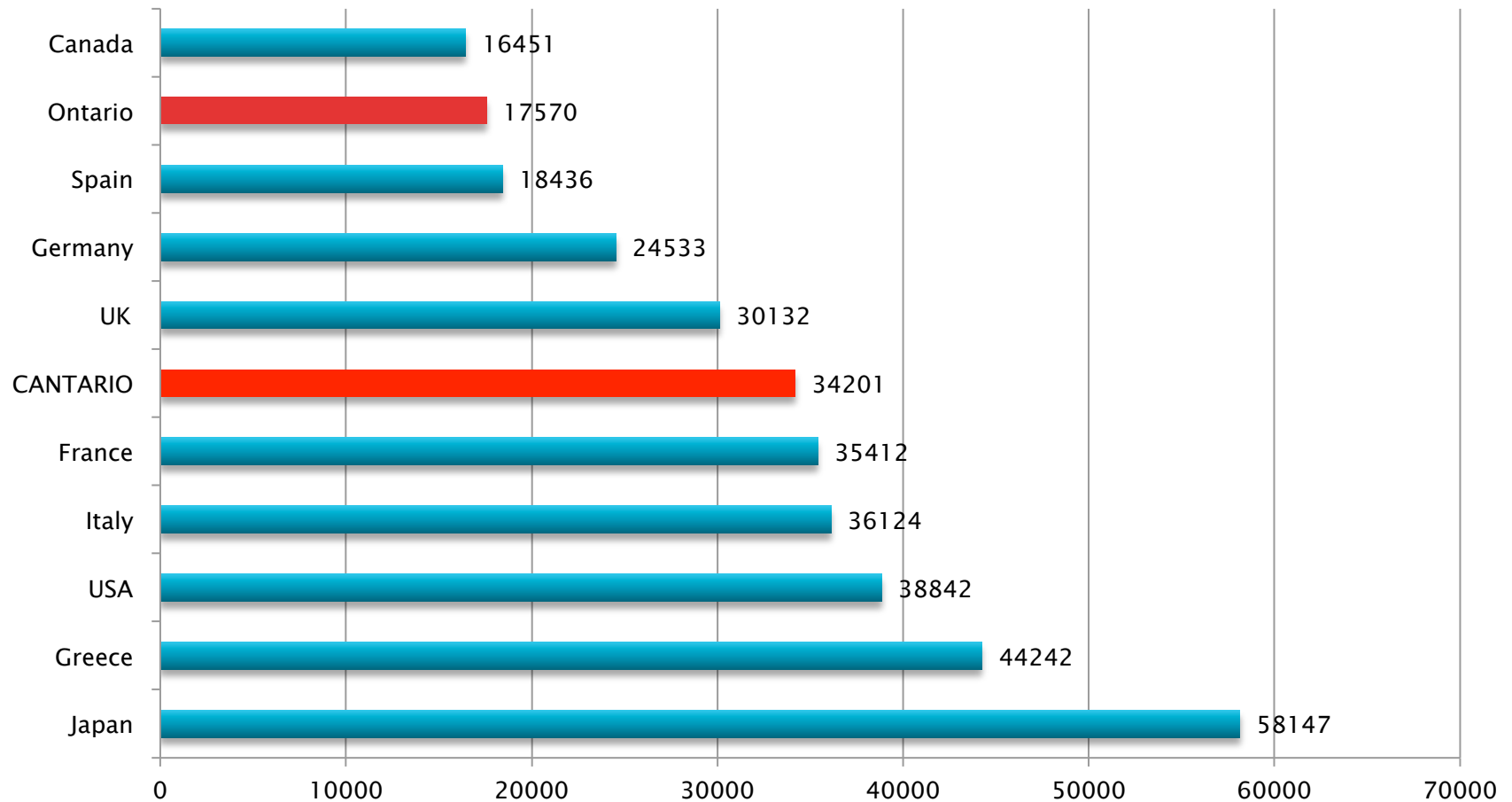


# Adjusting Net Debt for Population

**Per Capita Net Public Debt (\$US) in 2011 for Selected Jurisdictions (Source: IMF World Outlook Database)**



# Another Way to Look at Per Capita Net Debt for Ontario Residents



# Comparing Ontario and Greece

**Table 2.1: Ontario and Greece - A Comparison**

|  | <b>Province of Ontario</b> | <b>Hellenic Republic of Greece</b> |
|--|----------------------------|------------------------------------|
| <i>Capital</i>                                       | Toronto                    | Athens                             |
| <i>Total Land Area (sq kms)</i>                      | 917,741                    | 130,647                            |
| <i>Population</i>                                    | 13,372,996                 | 10,767,827                         |
| <i>Population Density (per sq km)</i>                | 14.6                       | 82.4                               |
| <i>Birth Rate (per 1,000 pop)</i>                    | 10.5 (2010/2011 est)       | 9.1                                |
| <i>Death Rate (per 1,000 pop)</i>                    | 7.0 (2010/2011 est)        | 10.8                               |
| <i>Infant Mortality Rate (per 1,000 live births)</i> | 5.0 (2009)                 | 4.9                                |
| <i>Urban Share of Population(%)</i>                  | 85.0 (2006 census)         | 61.0                               |
| <i>Male Life Expectancy at Birth</i>                 | 79 (2009 est)              | 77.5 (2012 est)                    |
| <i>Female Life Expectancy at Birth</i>               | 84 (2009 est)              | 82.8 (2012 est)                    |
| <i>Nominal GDP Per Capita (\$US)</i>                 | 48,239                     | 27,073                             |
| <i>Labour Force (000s) 2011</i>                      | 7,302                      | 4,959                              |
| <i>Employment (000s) 2011</i>                        | 6,731                      | 4,101                              |
| <i>Unemployment Rate (%) 2011</i>                    | 7.8                        | 17.3                               |
| <i>CPI Inflation Rate 2011</i>                       | 3.1                        | 3.3                                |
| <i>Real GDP Growth Rate 2011</i>                     | 1.8 (estimate)             | -6.9                               |
| <i>Export to GDP Ratio 2011</i>                      | 50.70208675                | 9.3                                |
| <i>Largest Trade Partner</i>                         | USA (76.9% of exports)     | Italy (9.6%)                       |
| <i>Top Export</i>                                    | Motor vehicles & parts     | Food and beverages                 |

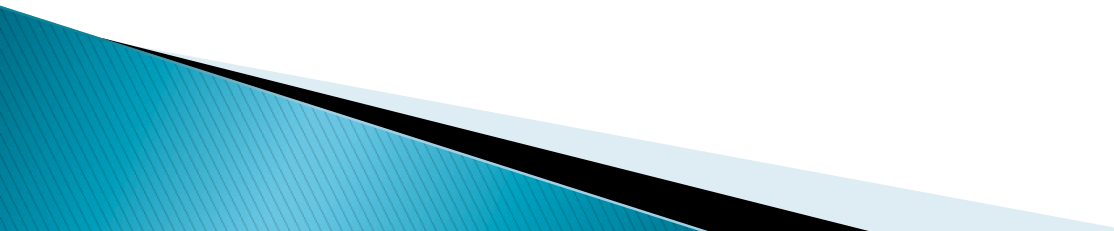
Data Sources: CIA Factbook, Ontario Fact Sheet (Government of Ontario), Ontario 2012 Budget, Statistics Canada.



# The road to debt

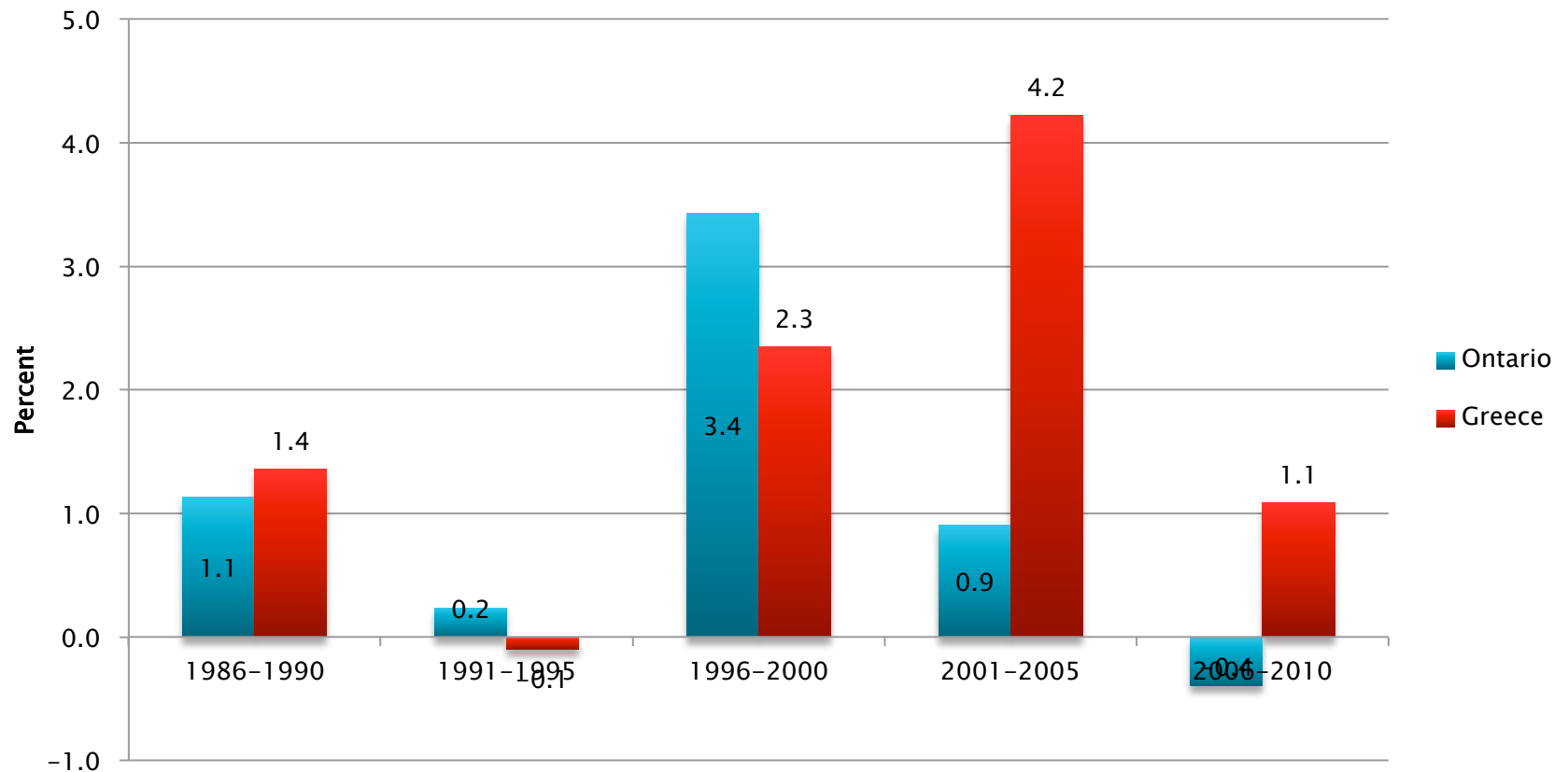


# Debt Drivers

- ▶ Weak economic performance and low productivity
  - ▶ Spending in excess of ability to pay for it which results in deficits which sum into debt
  - ▶ High interest rates compound the debt
  - ▶ Lack of political will to address the problem
- 

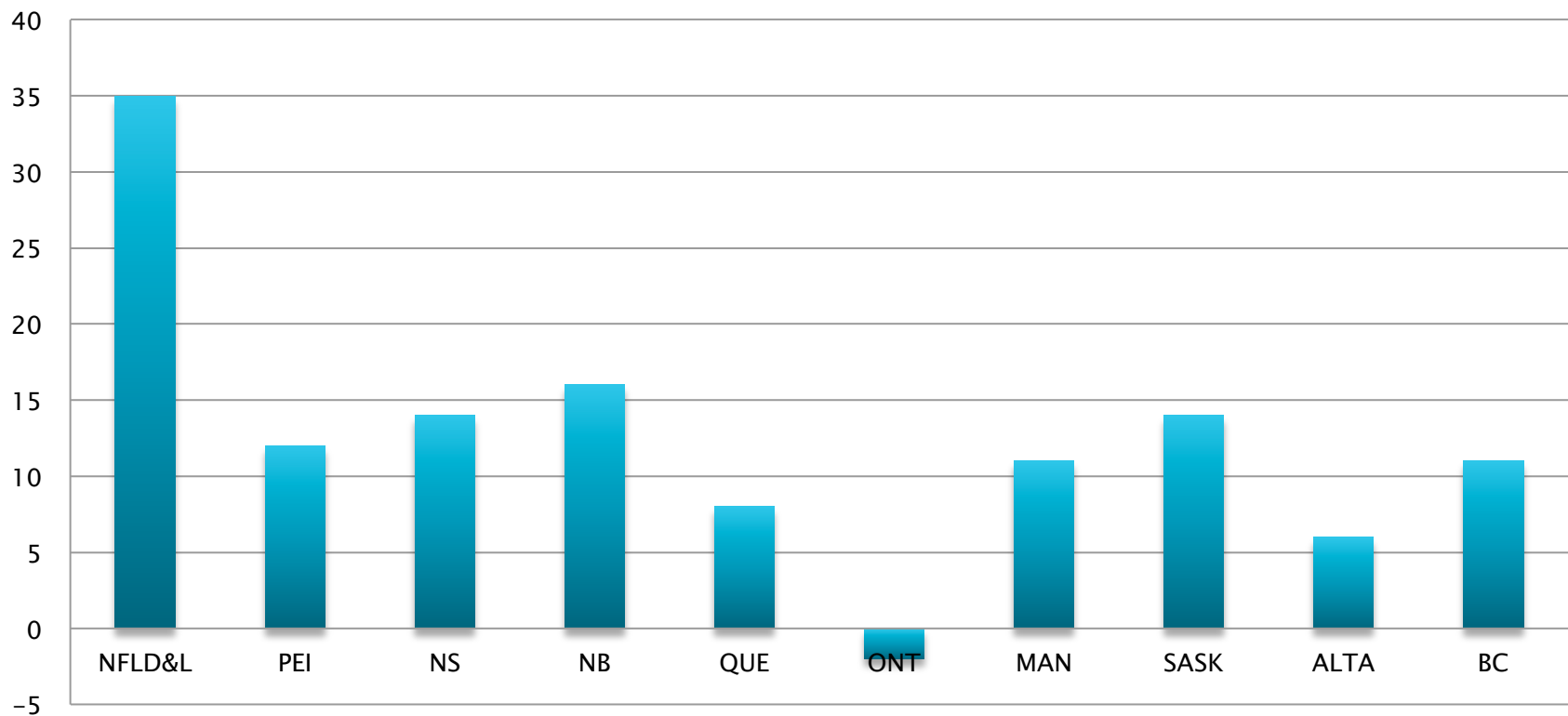
# Growth in Ontario & Greece

Average Annual Growth Rates of Real Per Capita GDP



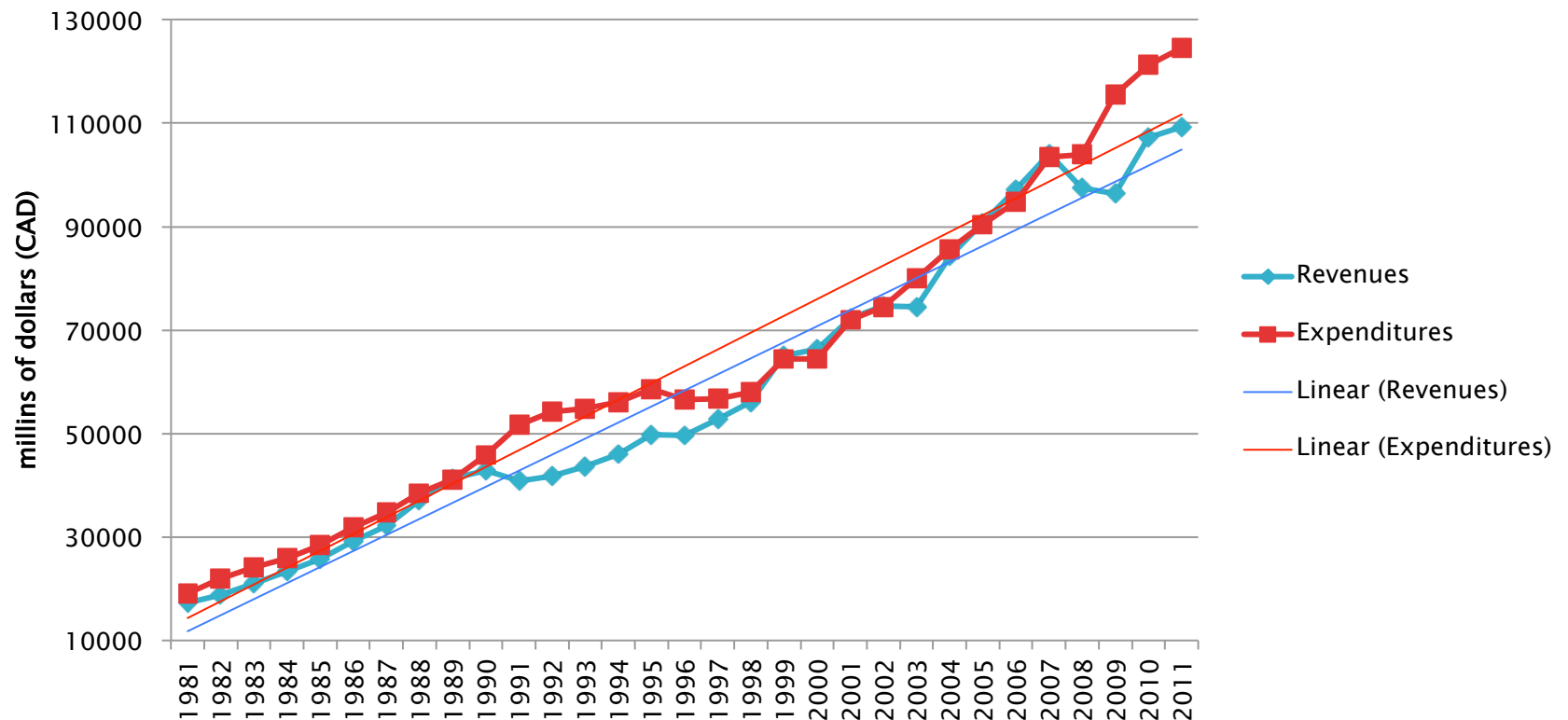
# Ontario has been a laggard within Canada

Percent Change in Real Per Capita GDP (2002 constant dollars): 2000–2009



# Ontario

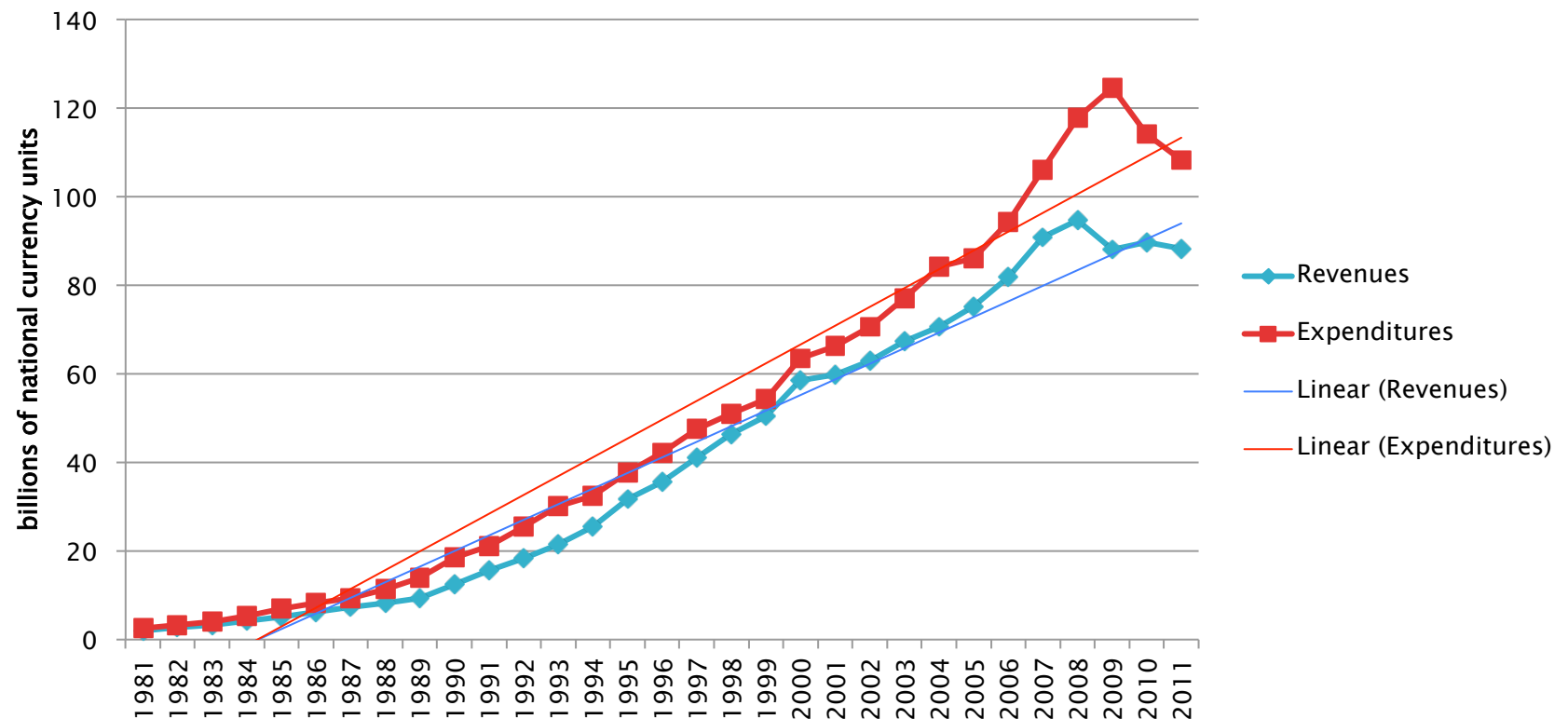
## Ontario Government Revenues and Expenditures 1981-2011





# Greece

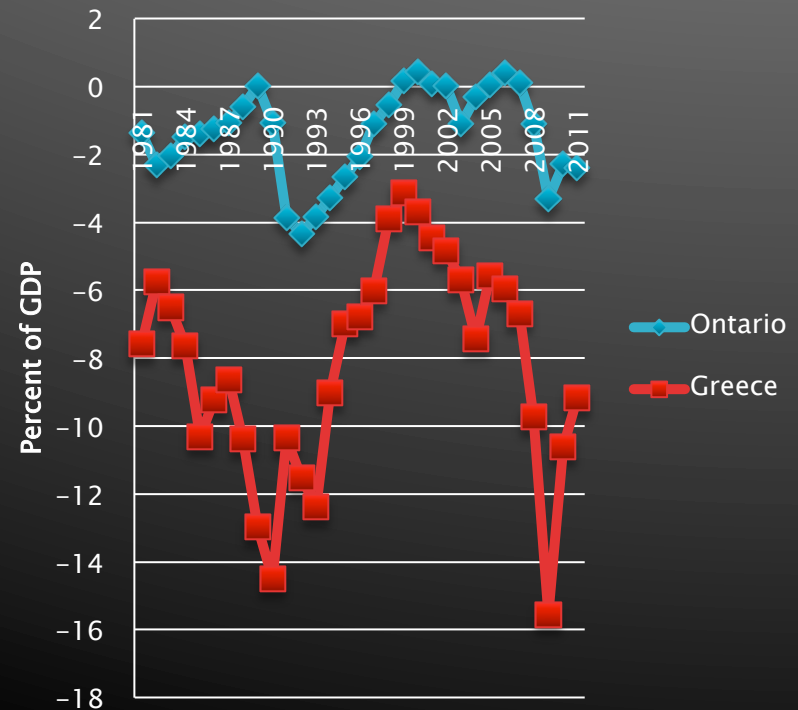
## Greece General Government Revenues and Expenditures , 1981-2011



# Fiscal Responsibility?

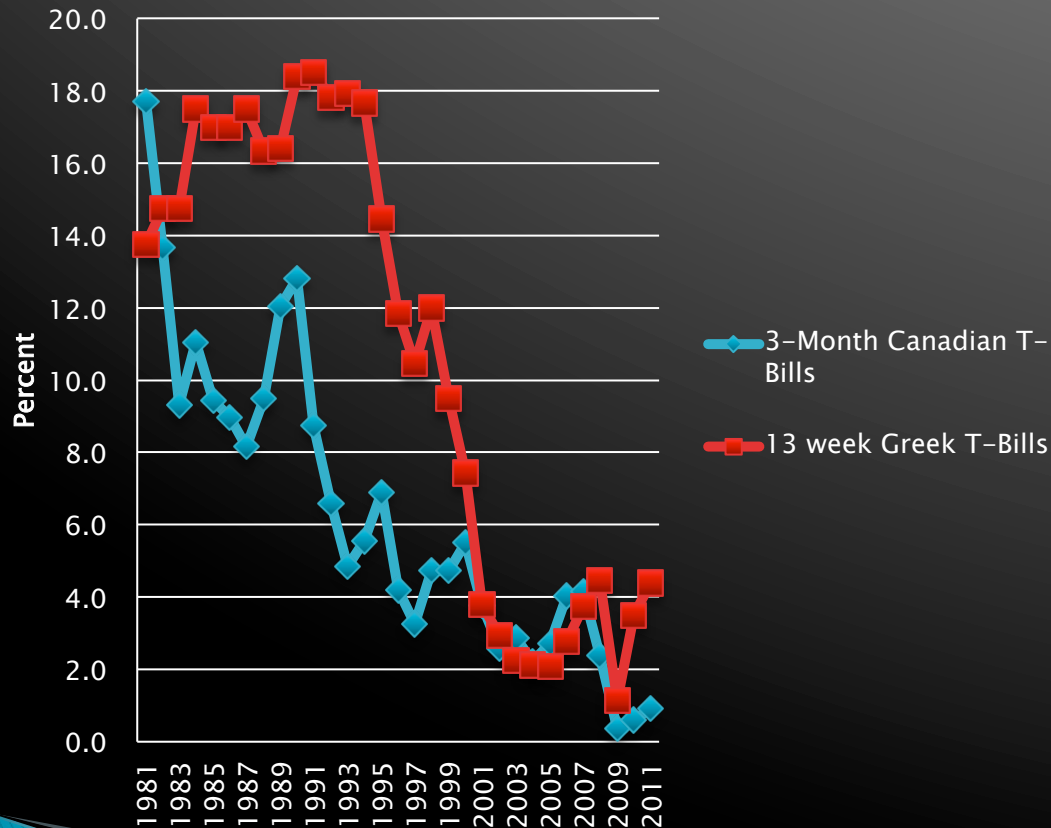
- ▶ Since 1981, Ontario has balanced its budget 8 times.
- ▶ Greece has never balanced its budget
- ▶ Both jurisdictions have large structural components to their deficits

Deficit to GDP Ratio,  
Ontario and Greece,  
1981-2011



# The Power of Compound Interest

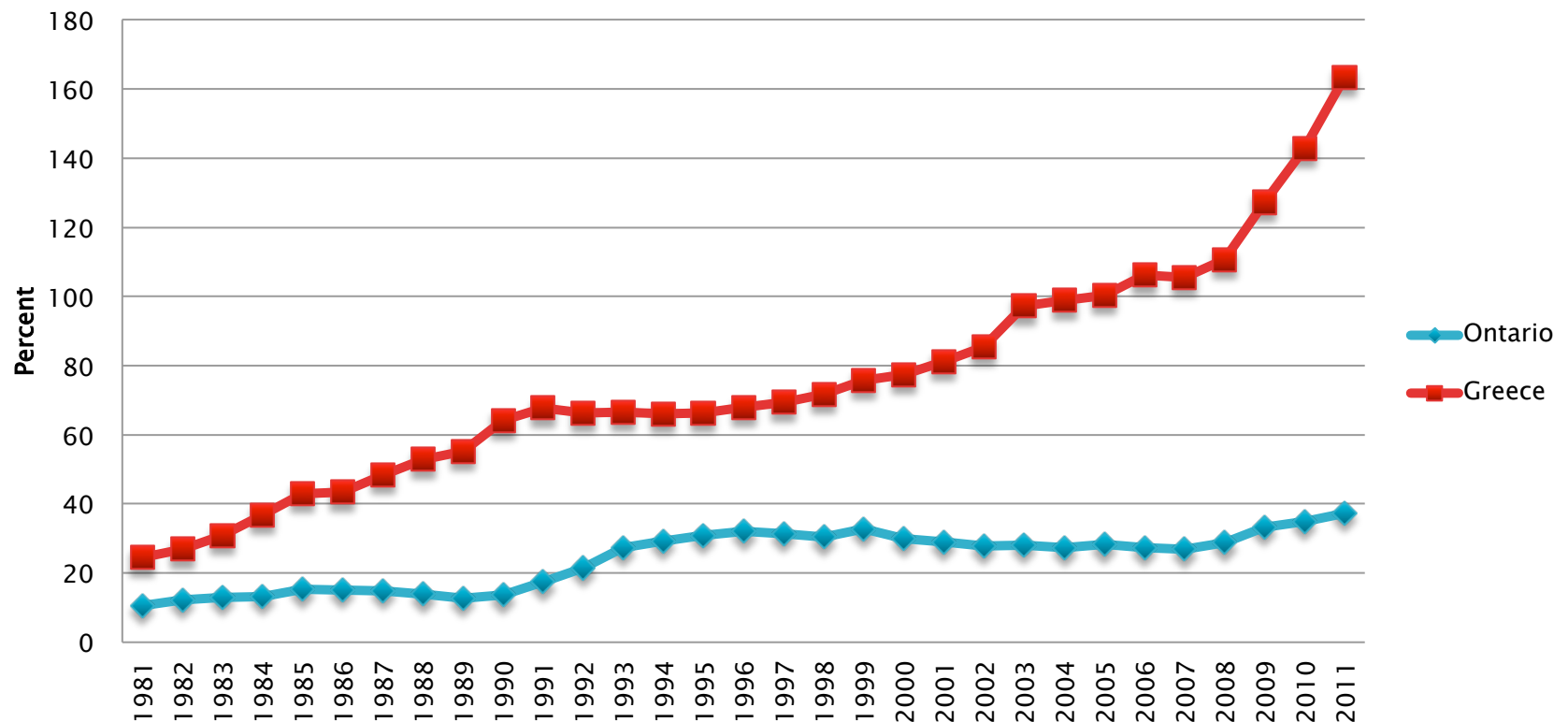
## Short Term Interest Rates



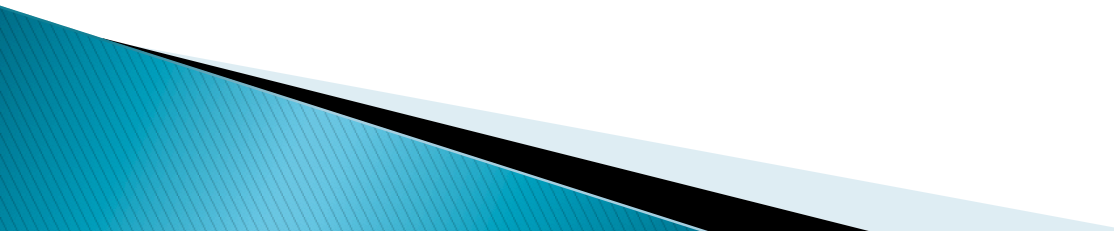
- ▶ Debt escalated in 1980s & early 1990s due to high interest rates
- ▶ However, recent low interest rates have created a disincentive to deal with debt

# Rising Debt

Net Debt to GDP Ratios for Ontario and Greece:  
1981–2011

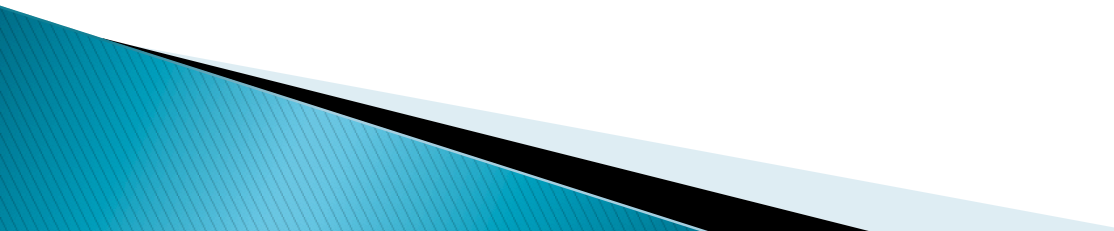


# Why is Ontario similar to Greece?

- ▶ Declining economic growth and productivity but still spending in a manner it has grown accustomed to.
  - ▶ Low interest rates made acquiring and carrying large amounts of debt possible.
  - ▶ Lack of political constituency and will to frequently balance the budget.
- 



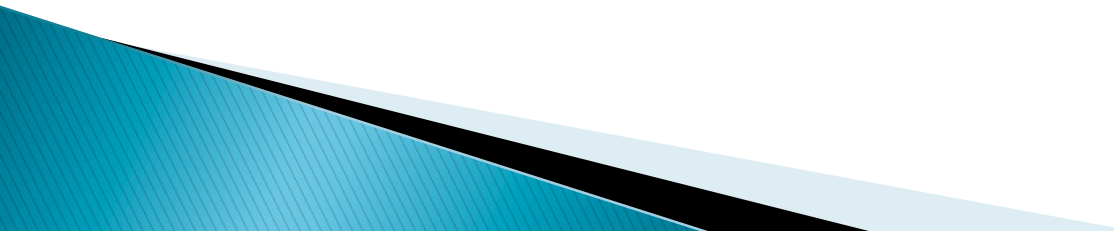
# Why Ontario is not yet a tragedy of Greek Proportions

- ▶ First, it is still a wealthier jurisdiction with a greater ability to carry its public debt load.
  - ▶ Second, unlike Greece, it still faces very low interest rates on its public debt.
  - ▶ Third, the cyclical component of its deficit is larger and therefore compared to Greece can expect greater improvements in its fiscal position as the economy recovers.
- 

# So How is Ontario Doing?

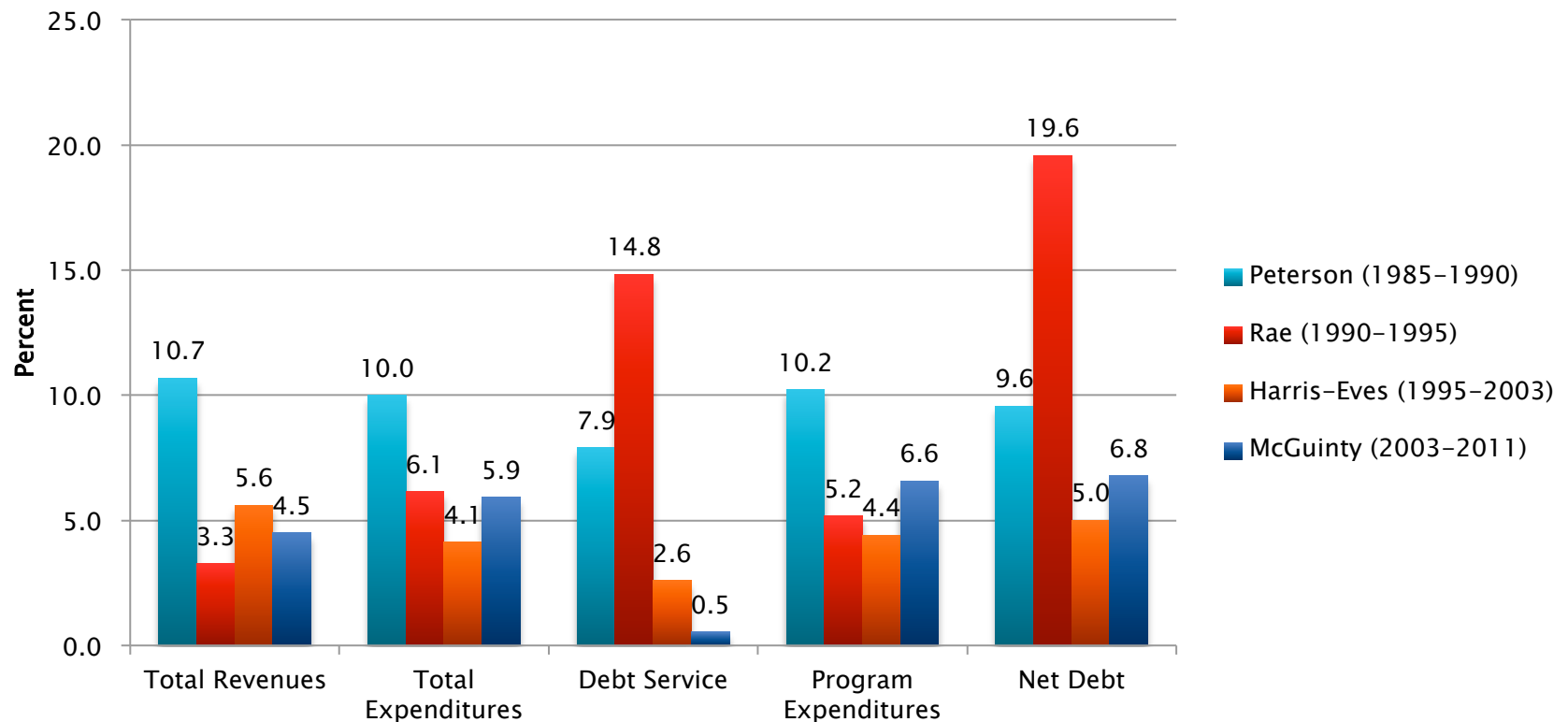


# Drummond Report

- ▶ Ontario finally acknowledged the severity of its public debt and deficit situation with the Drummond Report and the 2012 Budget.
  - ▶ Expenditures in 2012–13 are expected to rise by 2 percent while revenues are expected to rise by 3.7 percent.
  - ▶ Ontario is still banking on slowing expenditure growth below revenue growth.
- 

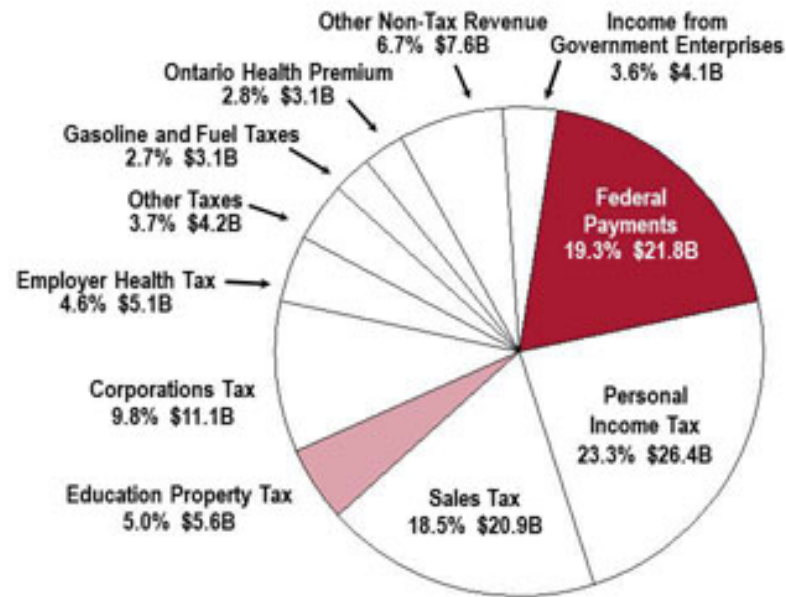
# Ranking the Premiers Fiscally

## Average Annual Nominal Growth Rates in Public Finance Variables by Ontario Political Era



# Where the Money Comes From (Total Revenue: 113.8 billion)

CHART 3.4 Composition of Revenue, 2012–13

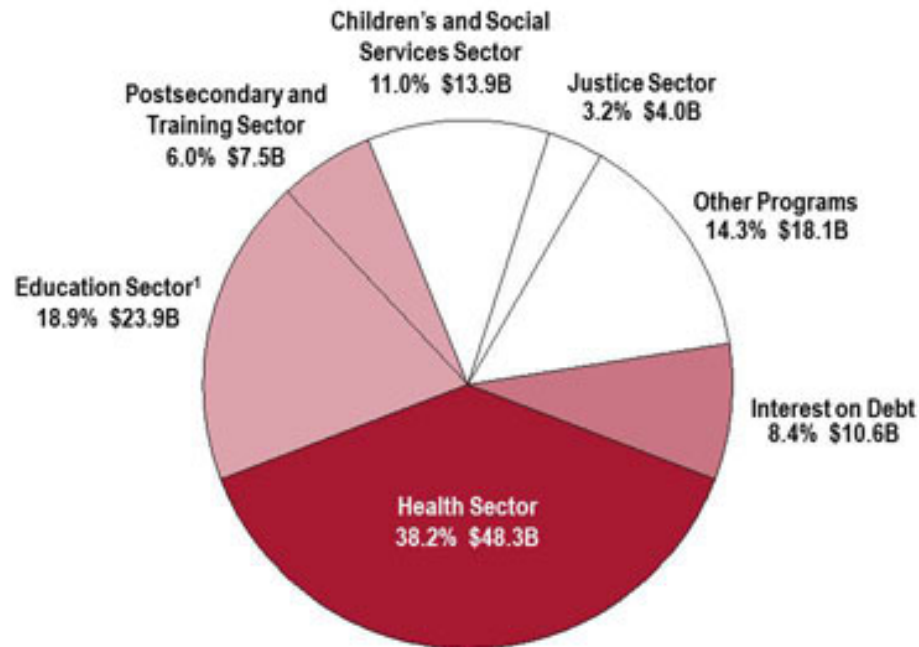


Note: Numbers may not add due to rounding.



# Where the Money Goes (Total Expenditure: 125.2 billion)

**CHART 3.5 Composition of Total Expense, 2012–13**

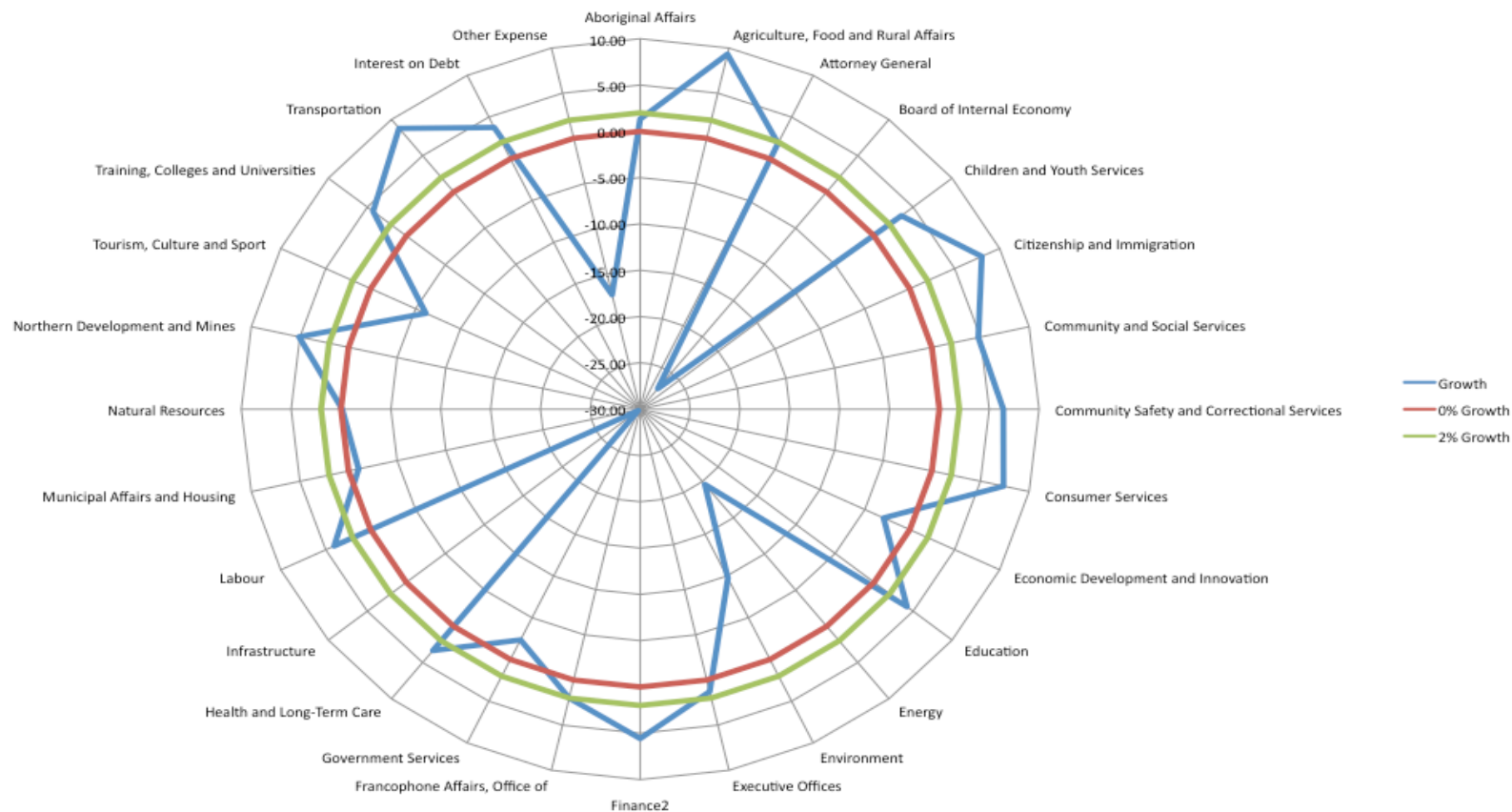


<sup>1</sup> Excludes Teachers' Pension Plan.

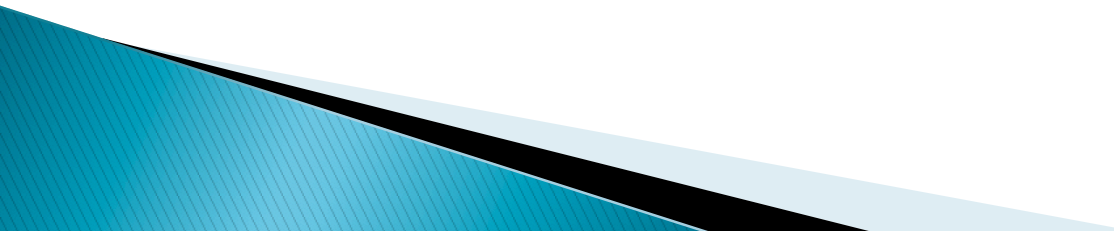
Note: Numbers may not add due to rounding.

# Is Ontario Spending Under Control?

Projected Expenditure Growth By Ontario Ministry: 2011-12 to 2012-13 (Data source: Ontario Finance)



# Restraint?

- ▶ Despite *fiscal restraint*, Ontario is still increasing its spending overall and some categories are still expanding rather dramatically.
  - ▶ Out of 28 expenditure categories – 18 saw increases in spending and of those 14 grew more than 2 percent.
  - ▶ Throne Speech: Promises balanced budget by 2017/18 and then expenditure growth at 1 percentage point below GDP growth.
- 

# Conclusion

- ▶ Ontario still has a long way to go in restoring its public finances to health.
- ▶ Needs to do so before the potential for an interest rate spike causes debt service costs to spiral – as they did in the early 1990s.

