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Ontario

bulletin

2003-04 Ontario First Quarter Finances as of June 30, 2003

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Fiscal Outlook

Balanced Budget Outlook

- The 2003-04 fiscal outlook is on track with the 2003 Budget Plan. As of June 30, 2003, a balanced budget is projected, unchanged from the Budget Plan.

Impact of Severe Acute Respiratory Syndrome (SARS)

- Excluding the impact of the SARS outbreak on Provincial spending, Ontario would have posted a budget surplus of $73 million.
- Ontario will incur an additional $1,073 million in directly related costs in 2003-04 due to SARS. In the absence of any federal financial support, the Province will offset these higher expenditures by allocating $600 million of the $1 billion reserve and reducing the Contingency Fund by $400 million to maintain the balanced budget.
- Additional measures may also be required if the federal government does not provide adequate support.

Fiscal Summary

June 30, 2003 ($ Millions)	Interim 2002-03	2003-04 Budget Plan	2003-04 Current Outlook	2003-04 In-Year Change
Revenue	66,391	71,566	71,439	(127)
Expenditure				
Programs	55,271	59,390	59,243	(147)
Gross Capital Expenditure	2,467	3,170	3,170	—
Less: Net Investment in Capital Assets	576	702	702	—
Public Debt Interest				
Provincial	8,225	8,188	8,135	(53)
Electricity Sector	520	520	520	—
Total Expenditure	65,907	70,566	70,366	(200)
Less: Reserve	—	1,000	1,000	—
Add: Decrease/(Increase) in Stranded Debt from Electricity Sector Restructuring to be Recovered from Ratepayers*	40	—	—	—
Surplus/(Deficit) - (Excluding SARS Impact)	**524**	**0**	**73**	**73**
SARS Impact / No Federal Support				
Expenditure			1,073	
Other Actions: Reduce Contingency Fund			(400)	
Reserve			(600)	
Surplus / (Deficit) Reported This Quarter	**524**	**0**	**0**	—
If Federal Support for SARS				
Revenue (90 per cent of SARS Costs)			965	
Expenditure			1,073	
Contingency Fund			(35)	
Surplus/ (Deficit)	**524**	**0**	**0**	—

* Reflects the estimated excess of revenue over expenditure of the Ontario Electricity Financial Corporation (OEFC). Consistent with the principles of electricity restructuring, OEFC debt is to be recovered from ratepayers, not taxpayers.

Source: Ontario Ministry of Finance.

Economic Highlights

Ontario's real GDP grew by 0.7 per cent (2.9 per cent annualized) in the first quarter of 2003, up from 0.4 per cent (1.7 per cent annualized) growth in the fourth quarter of 2002.

Ontario's economy outperformed both the Canadian economy which advanced 2.4 per cent and the U.S. economy which grew 1.4 per cent at annualized rates in the first quarter.

Ontario retail sales grew by 1.6 per cent in May. Over the first five months of 2003, retail sales were 4.1 per cent ahead of the same period last year.

Sources: Statistics Canada, Ontario Ministry of Finance.

Ontario housing starts rose 12.6 per cent in June, from May, to a level of 86,900 units. Over the first half of 2003, housing starts were 2.4 per cent lower than the same period last year. However, this still represents a very high level of starts, as 2002 was the strongest year in 13 years.

Ontario's unemployment rate was 7.2 per cent in July, below the Canadian average of 7.8 per cent.

Ontario merchandise exports dropped 4.8 per cent over the first five months of 2003 compared to the same period of 2002. Over the same period the value of Ontario manufacturing shipments increased 1.2 per cent.

This bulletin was compiled by the Ontario Financing Authority. For more information, please contact the Investor Relations Unit, Ontario Financing Authority, One Dundas Street West, Suite 1400, Toronto, Ontario, M7A 1Y7, Canada. Telephone (416) 325-0918 / Fax (416) 204-7946 / E-mail:investor@ofina.on.ca. The Ontario Financing Authority is on the Internet at www.ofina.on.ca.

Financing Program Update

- The Province's total long-term public borrowing for 2003-04 is projected at $14.2 billion, $2.4 billion higher than the 2003-04 Budget Plan. This increase is due to the Province taking advantage of the strong demand for Ontario bonds, including Ontario Savings Bonds (OSB), and historically low long-term interest rates. Subsequently, the Province decided to change its financing program as follows:
  - the $600 million change in non-cash items included in the surplus assumes no federal financial support for the impact of SARS. The associated increase in borrowing will not affect the plan to balance the Province's budget;
  - a smaller decrease, from $3 billion to $2 billion, in cash and cash equivalents;
  - elimination of the increase in short-term borrowing; and
  - a reduction of $535 million in previously planned borrowing from the Canada Pension Plan.
- While the majority of the borrowing in the first quarter of 2003-04 was in Canadian dollars, Ontario was also successful in accessing foreign currency markets. The Province launched its first global bond denominated in Euros, and issued one U.S. dollar global bond and three foreign currency Euro Medium Term Notes, one in Australian dollars, one in Hong Kong dollars and one in Japanese yen.
- In addition to the borrowing and redemptions shown in the table, the Province has bought back $233 million of previously issued debt, financing the purchases with similar amounts of debt issued at more favourable rates.
- The 2003 Ontario Savings Bond (OSB) campaign raised a total of $3.8 billion, the second highest sales in the history of Canadian provincial bond issues. The 2003 OSB sales represent an increase of 50 per cent over last year. During the past nine years, more than one million Ontario residents have invested a total of $22 billion in OSBs.

Post First Quarter

- As of August 12, 2003, the Province has completed $10.0 billion of its 2003-04 long-term public borrowing program. This includes $238 million raised since the end of the first quarter from two domestic Medium Term Notes and a Yen loan.

Net Provincial Debt

- The forecast for Net Provincial Debt as of March 31, 2004 is $109.7 billion, unchanged from the 2003 Budget.

Financial Summary

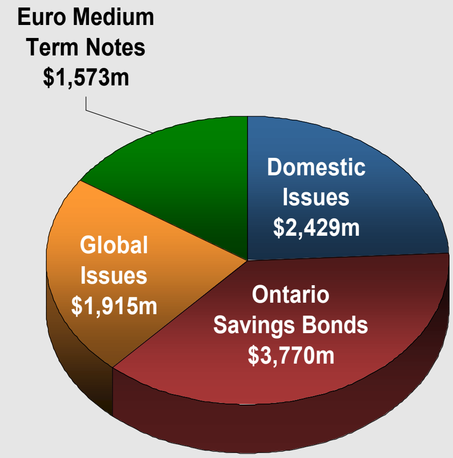
June 30, 2003

($ Millions)	Interim 2002-03	2003-04 Budget Plan	2003-04 Current Outlook	2003-04 Change from Budget
Surplus/(Deficit)	524	0	0	—
Adjustments for:				
Non-Cash Items Included in Surplus	(4,227)	(1,293)	(1,893)	(600)
Amortization of Tangible Capital Assets	763	819	819	—
Acquisitions of Tangible Capital Assets	(1,339)	(1,521)	(1,521)	—
Maturities of Debt	(11,588)	(10,146)	(10,146)	—
Early Redemptions of Debt	(1,094)	(1,000)	(1,000)	—
Canada Pension Plan Borrowing	—	1,201	666	(535)
Decrease/(Increase) in Cash and Cash Equivalents	(150)	3,000	2,000	(1,000)
Increase/(Decrease) in Short-Term Borrowing	1,300	250	—	(250)
Other Sources/ (Uses) of Cash*	—	(3,156)	(3,156)	—
Long-Term Public Borrowing Requirement	15,811	11,846	14,231	2,385
of which: Completed as of June 30, 2003			9,687	—
Remaining			4,544	—

* Includes net repayment from, or loans to agencies and the transfer of all deposits with the Province of Ontario Savings Office (POSO) to Desjardins Credit Union on April 1, 2003.

2003-04 Long-Term Public Borrowing

C$9,687 million issued as of June 30, 2003*



*Excludes debt buybacks.

Ontario Electricity Financial Corporation (OEFC)

- OEFC's long-term public borrowing requirements have been revised to $4.2 billion as the OEFC has decided to take advantage of historically low interest rates to begin retiring its $3 billion commitment-in-lieu under the Ontario Nuclear Funds Agreement. At the time of the 2003 Budget, borrowing to refinance long-term debt maturities was forecast at $3.5 billion.
- As of June 30, 2003, the Province has raised $2.2 billion in the long-term public capital markets on behalf of OEFC.