

Fiscal Outlook

Plan to Eliminate the Structural Deficit

To preserve Ontario's economic health, to protect services people value, and to put Ontario on a path of fiscal sustainability and accountability, the government is committing to a medium-term plan to balance the budget.

The plan includes steadily declining deficit targets of \$2.2 billion in 2004-05, \$2.1 billion in 2005-06, \$1.5 billion in 2006-07 and a balanced budget by 2007-08. In 2004-05, the deficit target of \$2.2 billion includes a one-time revenue gain of \$3.9 billion related to the elimination of the liability for the above-market portion of the power purchase agreements with non-utility generators, if the proposed new electricity market structure is passed by the Legislature and is implemented. Under the proposed electricity-sector reforms, full costs would be passed on to the consumer over the life of the contracts, resulting in the elimination of this liability.

Over the medium term, the government will be transforming its programs and services to be more accountable, affordable and results based. Through this transformation of government programs and services and by holding program spending growth to less than the rate of growth in tax revenues over the medium term, the government will eliminate Ontario's structural deficit without putting priorities at risk.

Better Management of Provincial Assets

As part of the continuous review of government activities, the government will undertake a review of major Provincial assets to determine whether they are being managed effectively and efficiently and they are providing the maximum return to the citizens of Ontario. This review will ensure that in all cases the public interest is promoted and protected and that the continued role of the government in owning and managing these assets is consistent with the ongoing priorities of the people of Ontario.

Revenue Highlights

The government will provide a health care system that is sustainable and delivers high-quality, results-focused and patient-centred health care. It is vital that the health care system be supported with adequate and predictable financing. It is also vital that health care financing be considered in the context of the need to eliminate the deficit. The Budget proposes the introduction of a new health premium. The proposed Ontario Health Premium is expected to generate \$1.6 billion in revenue in 2004-05 and \$2.4 billion in 2005-06.

The government also proposes corporate tax measures to encourage economic growth. These include a plan to eliminate the Capital Tax. Starting January 1, 2005, the current \$5 million deduction from taxable paid-up capital would increase by \$2.5 million each year until the deduction reaches \$15 million on January 1, 2008. By that time, more than 13,000 medium-sized corporations would no longer pay capital tax. Starting January 1, 2009, capital tax rates would be reduced each year until the capital tax is fully eliminated on January 1, 2012.

Multi-Year Balanced Budget Plan

	Interim	Plan	Outlook		
(\$ Billions)	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue*	68.3	78.4	79.9	82.5	86.0
Expense					
Programs	62.5	66.7	67.2	68.9	70.6
Capital	2.2	2.6	2.5	2.5	2.5
Interest on Debt	9.8	10.3	10.8	11.1	11.5
Total Expense	74.5	79.6	80.5	82.5	84.5
Reserve	-	1.0	1.5	1.5	1.5
Surplus/(Deficit)	(6.2)	(2.2)	(2.1)	(1.5)	0.0
Net Debt**	139.4	142.4	145.4	147.9	148.7
Accumulated Deficit**	124.9	127.2	129.2	130.7	130.7
Gross Domestic Product (GDP)					
at Market Prices	493.4	513.5	539.2	567.3	597.4
Net Debt as a per cent of GDP	28.3	27.7	27.0	26.1	24.9
Accumulated Deficit as a					
per cent of GDP	25.3	24.8	24.0	23.0	21.9

*Includes one-time revenue gain of \$3.9 billion related to the elimination of the liability for non-utility generator power purchase agreements in 2004-05.

**Net debt represents the difference between liabilities and financial assets. Accumulated deficit represents net debt adjusted for tangible capital assets.

Numbers may not add due to rounding. Source: Ontario Ministry of Finance

Electricity Sector Reforms

The government plans to introduce legislation in June 2004 to implement its vision for reforming the electricity sector, and if the legislation is passed in the fall, the new market structure is expected to be in place early in the new year.

In addition to the creation of an Ontario Power Authority, responsible for ensuring long-term supply adequacy in Ontario and encouraging conservation and renewable energy, the proposed reforms would result in a combination of a fully regulated and competitive electricity sector, with different electricity generators receiving prices set through a variety of mechanisms. Electricity generated from Ontario Power Generation's (OPG) nuclear and baseload hydro generation assets would receive regulated prices, and electricity from those generators with existing or new contracts would receive prices as determined by their contracts. A competitive market would set the price received by other generation.

Under the proposed plan, consumers would pay bills that reflect a blend of these costs, including the pass-through of regulated rates for OPG-regulated plants, the full costs for existing and new contracts for generation, and market prices for other plants receiving the market price. For residential and small business consumers, the Ontario Energy Board (OEB) would implement a new standard rate plan in early 2005 that would reflect these blended costs. The standard rate plan would provide more stable prices to consumers, with periodic adjustments to ensure people pay the true cost of electricity over time.

Borrowing Program

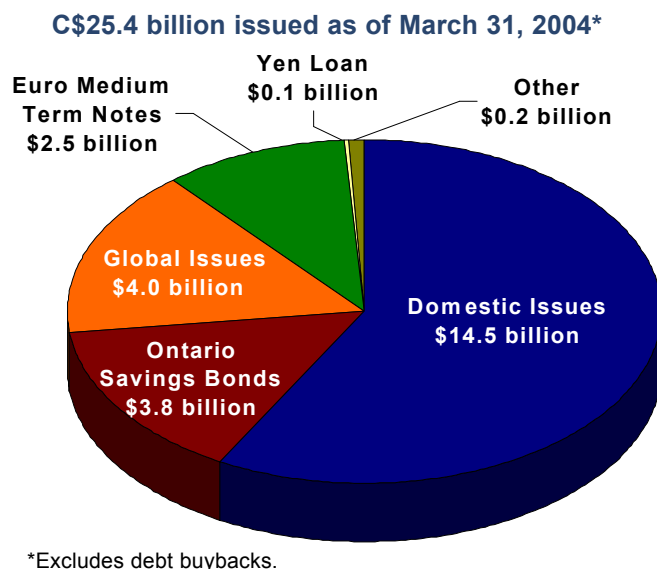
2003-04 Long-Term Public Borrowing Program

Total long-term public borrowing requirements for the Province and OEFC in 2003-04 were \$25.4 billion. This amount includes \$14.9 billion of debt maturities and redemptions and \$6.2 billion for the deficit.

In 2003-04, \$18.7 billion, or almost three quarters, of the Province's total long-term public borrowing requirements were completed in the Canadian domestic market.

Ontario diversified its funding sources by raising the equivalent of \$4.6 billion in foreign currencies, achieving costs below those available in the Canadian domestic markets:

- The Province launched its first global bond denominated in euros, and also issued three U.S. dollar global bonds.
- Euro Medium-Term Notes were issued in Canadian dollars, Australian dollars, Swiss francs and Japanese yen, along with the Province's first Hong Kong dollar bond. Ontario also issued a yen loan.



Consolidated Provincial Borrowing Program

(\$ Billions)	2003-04			Plan 2004-05
	Fall Outlook*	Interim	Change	
Deficit/(Surplus)	5.6	6.2	0.6	2.2
Adjustments for:				
Non-Cash Items Included in Deficit	0.9	(1.3)	(2.2)	3.2
Amortization of Major Tangible Capital Assets	(0.8)	(0.8)	-	(0.8)
Acquisitions of Major Tangible Capital Assets	1.5	1.3	(0.2)	1.6
Debt Maturities	13.3	13.3	-	16.1
Debt Redemptions	1.1	1.6	0.5	1.0
Canada Pension Plan Borrowing	(0.2)	(0.1)	0.1	(1.1)
Increase/(Decrease) in Cash and Cash Equivalents	(2.0)	0.9	2.9	0.0
Decrease/(Increase) in Short-Term Borrowing	(0.3)	1.3	1.6	0.2
Other Uses/(Sources) of Cash	3.6	3.0	(0.6)	1.4
Total Long-Term Public Borrowing Requirement	22.7	25.4	2.7	23.8

* As presented in the 2003 Ontario Economic Outlook and Fiscal Review.

Note: Consistent with the treatment in the 2002-03 Public Accounts, the borrowing program of OEFC was consolidated with that of the Province.

The Province's long-term borrowing program was \$25.4 billion, \$2.7 billion higher than the 2003 Ontario Economic Outlook and Fiscal Review estimate, as the Province locked-in historically low long-term interest rates by increasing Cash and Cash Equivalents while decreasing Short-Term Borrowing. The \$0.6 billion increase in the Deficit also increased the borrowing program. The program increase was partially offset by a decrease in Non-Cash Items Included in the Deficit.

Long-term public borrowing requirements for 2004-05 are forecast at \$23.8 billion, a \$1.6 billion decrease from 2003-04. So far in 2004-05, the Province has completed \$3.5 billion in long-term public borrowing, leaving \$20.3 billion remaining to be borrowed for the fiscal year.

While the Province expects to borrow as a result of projected deficits in the medium term, the most significant component of the borrowing program will be to refinance maturing debt.

The Province will maintain a flexible approach to borrowing, monitoring both domestic and international capital markets to seek out diversified borrowing opportunities that minimize debt servicing costs and support the government's fiscal plan.

Medium-Term Outlook: Consolidated Provincial Borrowing Program

(\$ Billions)	2004-05	2005-06	2006-07	2007-08
Deficit/(Surplus)	2.2	2.1	1.5	0.0
Estimated Adjustments to Non-Cash Items Included in Deficit	2.4	1.2	1.1	1.1
Acquisitions of Major Tangible Capital Assets	1.6	1.7	1.9	1.7
Debt Maturities				
Currently Outstanding	16.1	18.9	11.8	9.5
Incremental Impact of Future Refinancing	0.0	0.0	2.1	5.8
Subtotal	16.1	18.9	13.9	15.3
Debt Redemptions	1.0	1.0	1.0	1.0
Canada Pension Plan Borrowing	(1.1)	(1.2)	(0.4)	(0.4)
Decrease/(Increase) in Short-Term Borrowing	0.2	0.0	0.0	0.0
Other Uses/(Sources) of Funds	1.4	0.2	0.0	0.1
Estimated Long-Term Public Borrowing Requirement	23.8	23.9	19.0	18.8

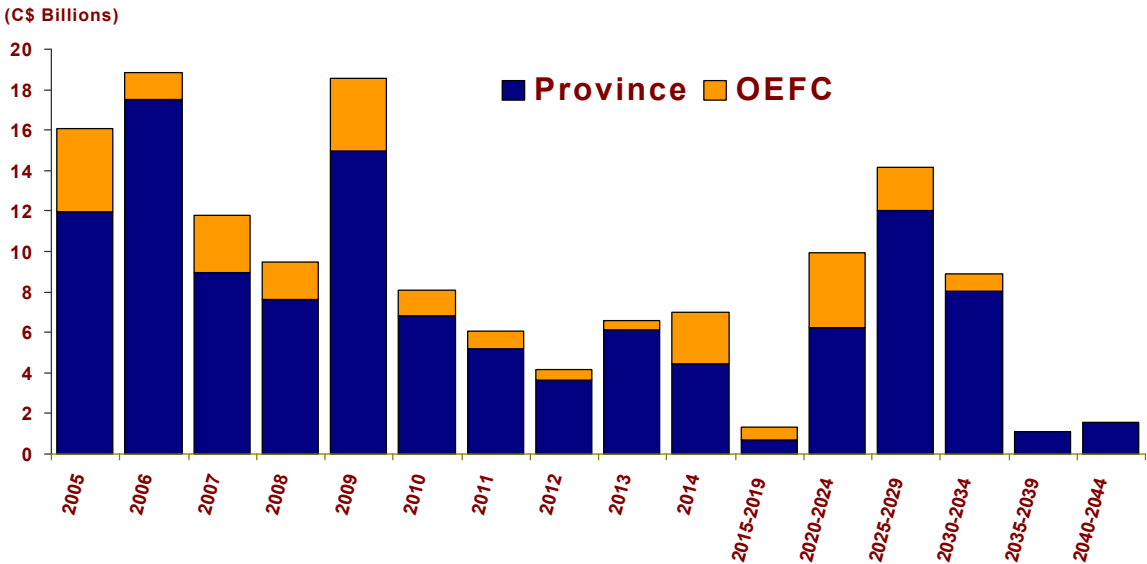
Ontario's Debt

Province of Ontario Debt Portfolio (Interim as of March 31, 2004)			
Debt		Risk Exposures	Current Policy Limit
Net Debt*		Province	
\$139.4 billion		Interest Rate Reset Exposure	11.4% 25.0%
Net Debt/GDP		Foreign Exchange Exposure	1.2% 5.0%
Debt Statistics (Total Debt**)		OEFC	
Percentage Publicly Held		Floating Rate Exposure	8.0% 20.0%
Percentage Issued in Canadian Dollars		Foreign Exchange Exposure	0% 5.0%
Effective Interest Rate (Weighted Average)			
82%			
80%			
6.7%			

* Net Debt represents the difference between total liabilities and total financial assets of the province.

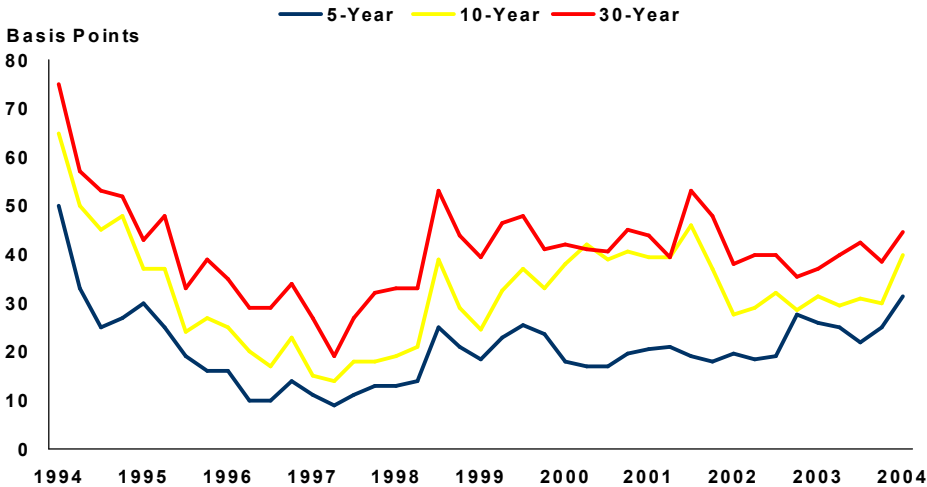
** Total Debt represents consolidated non-public and publicly held debt of the Province.

Ontario's Long-Term Debt Maturity Profile



Province of Ontario debt and Ontario Electricity Financial Corporation (OEFC) debt as of March 31, 2004. The Province borrows on OEFC's behalf. In return, the OEFC issues debt to the Province. Excludes Province of Ontario and OEFC short-term debt and other liabilities. Assumes issues with options will be retired at the earliest possible date.

Ontario's Credit Spread History Over Government of Canada Bonds



Ontario's Economy

Ontario Economic Highlights (Annual Average, Per Cent)

	2001	2002	2003	2004p	2005p	2006p	2007p
Real GDP Growth	1.8	3.6	1.3	2.3	3.2	3.3	3.4
Unemployment Rate	6.3	7.1	7.0	6.7	6.5	6.2	5.9
CPI Inflation	3.1	2.0	2.7	1.9	2.1	1.9	1.8

p = projection.

Sources: Statistics Canada and Ontario Ministry of Finance.

The Ontario economy is expected to gain momentum in 2004 and to rebound from the series of shocks that slowed economic growth in 2003.

Ontario's real gross domestic product (GDP) is forecast to grow by 2.3 per cent in 2004, and an average of 3.3 per cent over the period from 2005 to 2007.

This growth will foster strong job creation and rising incomes. Inflation is expected to remain contained at around two per cent per year.

Other Economic Indicators (Per Cent Change)

	2001	2002	2003	2004p	2005p	2006p	2007p
Retail Sales	2.6	5.6	2.8	3.5	4.1	4.1	4.3
Housing Starts (000s)	73.3	83.6	85.2	77.6	76.0	75.0	74.0
Personal Income	3.6	3.5	2.3	3.4	4.5	4.8	4.9
Corporate Profits	-11.5	16.7	1.6	5.8	4.9	5.0	5.9
Job Creation (000s)	91	105	161	104	114	132	140

p = projection.

Sources: Statistics Canada, Canada Mortgage and Housing Corporation and Ontario Ministry of Finance.

Strong U.S. Economic Growth

The performance of the world economy, and especially the U.S. economy, is a key determinant of Ontario's economic growth. In 2003, U.S. consumers and businesses purchased goods and services valued at about \$200 billion from Ontario, equivalent to 40 per cent of the province's GDP. This represented more than 90 per cent of Ontario's international exports.

Private-sector forecasters expect global growth to rise to 3.7 per cent in 2004 and 3.2 per cent in 2005, up from 2.6 per cent in 2003. The U.S. economy is expected to grow at an even faster pace.

The Outlook for Ontario Trade

The strong pickup in global economic growth, particularly in the United States, will provide a solid base of demand for Ontario exporters in 2004. Private-sector forecasters project U.S. real GDP growth of 4.6 per cent in 2004, 3.8 per cent in 2005, 3.4 per cent in 2006 and 3.2 per cent in 2007. While demand is strong, Ontario exporters face the challenge of remaining competitive in the global marketplace and adjusting to the higher dollar.

The Canadian dollar is expected to resume its appreciation, rising from an annual average of 71.4 cents U.S. in 2003 to 74.8 cents U.S. in 2004 and reaching 78.6 cents U.S. by 2007.

The rise in the exchange rate is expected to dampen export growth in the near term with a 2.6 per cent gain expected in 2004. Real export growth is expected to strengthen to an average of 4.1 per cent in 2005 through 2007 as firms will have completed their adjustment to the higher exchange rate. Real imports are expected to grow at a similar pace, pulled by strong consumer and business spending growth.

Background Information

The Ontario Financing Authority is an agency of the Province of Ontario responsible for provincial borrowing and debt management activities.

Address

Investor Relations
Ontario Financing Authority
One Dundas Street West, Suite 1400
Toronto, Ontario
Canada M7A 1Y7

Telephone and Fax Numbers

Telephone (416) 325-0918
Fax (416) 204-7946

Web Site and E-mail Address

www.ofina.on.ca
investor@ofina.on.ca