OntarioFinancingAuthority

Ontario

bulletin

2005 Ontario Budget

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May 11, 2005

Fiscal Outlook

- The 2004-05 interim outlook forecasts a deficit of $3.0 billion, an in-year improvement of $3.1 billion from the $6.1 billion projected in the 2004 Budget. This in-year comparison excludes the one-time revenue gain associated with eliminating the liability for non-utility generator power purchase agreements originally assumed in the 2004 Budget. The 2004-05 interim outlook also reflects the September 2004 First Ministers' health agreement and elimination of the reserve at year-end, as it was not required.
- The government's medium-term fiscal plan aims to reduce the Provincial deficit from the $5.5 billion recorded in 2003-04 and $3.0 billion in 2004-05 by setting steadily declining deficit targets of $2.8 billion in 2005-06, $2.4 billion in 2006-07, and $1.5 billion in 2007-08, and achieving a balanced budget no later than 2008-09. A balanced budget will be achieved one year earlier, if the reserve is not required in 2007-08.
- The Budget projects that between 2005-06 and 2008-09, program spending will grow by 3.1 per cent on average each year, much lower than the 4.9 per cent average annual growth in taxation revenue.
- The government's medium-term fiscal plan takes into account the additional necessary investments being made to improve Ontario's health care system, public schools and postsecondary education system.
- On May 7, 2005 Ontario reached an agreement in principle with the Canadian government on a number of issues, such as immigration and labour market development. Exact details relating to these areas have yet to be determined. A number of these areas require the passage of federal legislation. As a result, the fiscal impact of the agreement has not been reflected in the 2005 Ontario Budget

Medium-Term Fiscal Plan and Outlook

($ Billions)	Interim 2004-05	Plan 2005-06	Outlook 2006-07	Outlook 2007-08	Outlook 2008-09
Revenue	**77.1**	**81.7**	**84.8**	**88.5**	**92.2**
Expense					
Programs	67.6	71.0	73.3	75.9	77.9
Capital	2.9	2.7	2.5	2.1	2.1
Interest on Debt	9.6	9.8	10.0	10.4	10.7
Total Expense	80.1	83.5	85.7	88.5	90.7
Surplus/(Deficit) Before Reserve	**(3.0)**	**(1.8)**	**(0.9)**	**0.0**	**1.5**
Reserve	**--**	**1.0**	**1.5**	**1.5**	**1.5**
Surplus/(Deficit)	**(3.0)**	**(2.8)**	**(2.4)**	**(1.5)**	**0.0**
Net Debt*	**142.2**	**146.0**	**149.7**	**152.6**	**153.8**
Accumulated Deficit*	**127.2**	**130.0**	**132.4**	**133.9**	**133.9**
Gross Domestic Product (GDP) at Market Prices	517.6	538.0	562.6	592.2	623.6
Net Debt as a per cent of GDP	27.5	27.1	26.6	25.8	24.7
Accumulated Deficit as a per cent of GDP	24.6	24.2	23.5	22.6	21.5

*Net Debt is calculated as the difference between liabilities and financial assets. The annual change in Net Debt is equal to the Surplus/Deficit plus the change in tangible capital assets. Accumulated Deficit is calculated as the difference between liabilities and financial and tangible capital assets. The annual change in the Accumulated Deficit is equal to the Surplus/Deficit. Note: Numbers may not add due to rounding. Source: Ontario Ministry of Finance.

Economic Outlook

- Growth is expected to remain moderate in 2005, with real gross domestic product (GDP) increasing by 2.0 per cent, reflecting the appreciation of the Canadian dollar, high oil prices and an easing in the pace of economic growth in the U.S. economy.
- Growth will be slower than in 2004, when Ontario real GDP rose by 2.6 per cent, rebounding from a series of shocks that slowed growth to 1.6 per cent in 2003. Over the longer term, the prospects for Ontario's economic growth are brighter and real output is forecast to rise by 2.8 per cent in 2006, 3.4 per cent in 2007 and 3.3 per cent in 2008.

Ontario Economic Highlights (Annual Average, Per Cent)

	2003	2004	2005p	2006p	2007p	2008p
Real GDP Growth	1.6	2.6	2.0	2.8	3.4	3.3
Nominal GDP Growth	3.1	4.7	3.9	4.6	5.3	5.3
Unemployment Rate	7.0	6.8	6.7	6.5	6.3	6.1
CPI Inflation	2.7	1.9	2.1	1.9	1.8	1.8

p=projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

Medium-Term Outlook: Province and Ontario Electricity Financial Corporation (OEFC)

($ Billions)	2005-06	2006-07	2007-08	2008-09
Deficit/(Surplus)	2.8	2.4	1.5	-
Adjustments for:				
Non-Cash Items Included in Deficit	2.3	1.2	1.7	1.4
Amortization of Major Tangible Capital Assets	(0.8)	(0.9)	(1.0)	(1.0)
Acquisitions of Major Tangible Capital Assets	1.8	2.2	2.4	2.2
Debt Maturities				
Currently Outstanding	20.5	14.5	12.6	19.1
Incremental Impact of Future Refinancing	-	-	1.9	2.5
Subtotal	20.5	14.5	14.4	21.7
Debt Redemptions	0.7	0.7	0.7	0.7
Canada Pension Plan Borrowing	(1.2)	(0.4)	(0.4)	(0.6)
Decrease/(Increase) in Short-Term Borrowing	-	-	-	-
Other Uses/(Sources) of Cash	1.1	0.1	0.2	0.5
Total Long-Term Public Borrowing Requirement	**27.2**	**19.9**	**19.5**	**24.8**

Note: Numbers may not add due to rounding.

Borrowing Program Status as of April 30, 2005

($ Billions)	Completed	Remaining	Total
Province	6.5	18.2	24.7
OEFC	-	2.5	2.5
Total	**6.5**	**20.7**	**27.2**

- The Canadian domestic market will remain the main funding source for the Province in 2005-06. Ontario will diversify its domestic borrowing program by issuing a variety of debt instruments including syndicated issues, bond auctions, floating rate notes, medium-term notes and Ontario Savings Bonds. The OFA is also reviewing the merits of issuing a Real Return Bond linked to the Canadian Consumer Price Index.
- International markets will remain a significant component of Ontario's borrowing program. While the U.S. dollar market is expected to be the most important international market for the Province, Ontario will also consider opportunities to expand its presence in the euro market and increase issuance in Swiss francs, sterling and yen.
- In addition, the OFA is completing documentation to permit the Province to issue debt in the Australian dollar domestic market. New currency markets may present cost-effective borrowing opportunities for Ontario. These include the Mexican peso and Turkish lira markets. Foreign exchange exposure to these currencies will be converted into Canadian dollars.

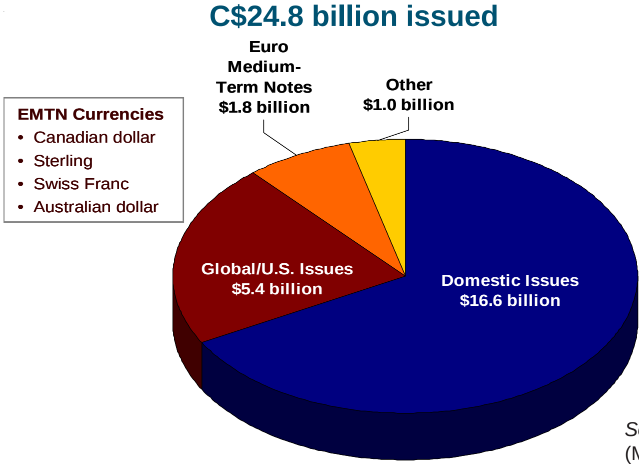
- The Increase/(Decrease) in Cash and Cash Equivalents in 2004-05 represents $5.9 billion of pre-funding for the 2005-06 Total Long-Term Public Borrowing Requirement.
- The $1.3 billion decline in Adjustments for Non-Cash Items Included in Deficit is primarily attributable to the impact of the federal government transfer for Health Care Wait Times Reduction ($1.4 billion).
- The $0.8 billion decline in Debt Maturities is primarily attributable to debt that had callable or extendible features that were exercised or not exercised by either the investor or the Province, resulting in the extention of the corresponding debt maturities to future years. As part of prudent budget forecasting, it was assumed that this debt would mature in fiscal 2004-05.

2004-05 Borrowing Program: Province and OEFC

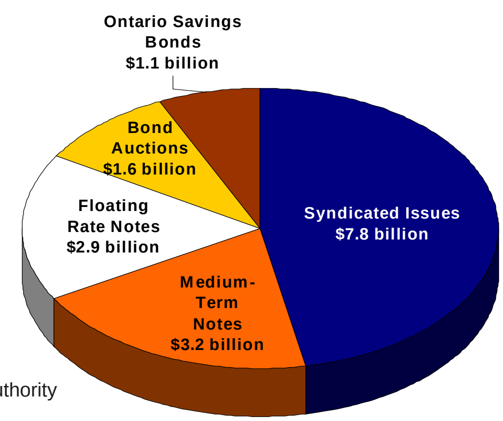
($ Billion)	Budget Plan*	Interim	In-Year Change
Deficit/(Surplus)	6.1	3.0	(3.1)
Adjustments for:			
Non-Cash Items Included in Deficit	(0.7)	(2.0)	(1.3)
Amortization of Major Tangible Capital Assets	(0.8)	(0.8)	-
Acquisitions of Major Tangible Capital Assets	1.6	1.5	(0.1)
Debt Maturities	16.1	15.3	(0.8)
Debt Redemptions	1.0	1.4	0.4
Canada Pension Plan Borrowing	(1.1)	(1.0)	0.1
Increase/(Decrease) in Cash and Cash Equivalents	-	5.9	5.9
Decrease/(Increase) in Short-Term Borrowing	0.2	0.2	-
Other Uses/(Sources) of Cash	1.4	1.4	-
Total Long-Term Public Borrowing Requirement	**23.8**	**24.8**	**1.0**

Note: Numbers may not add due to rounding.
*Deficit and Adjustments for Non-Cash Items Included in Deficit as per 2004-05 Budget Plan excluding the one-time revenue gain related to the projected elimination of the liability for non-utility generator power purchase agreements in 2004-05.

Borrowing - All Markets
C$24.8 billion issued



Borrowing - Domestic Markets
C$16.6 billion issued



Source: Ontario Financing Authority (March 31, 2005).

Debt Management

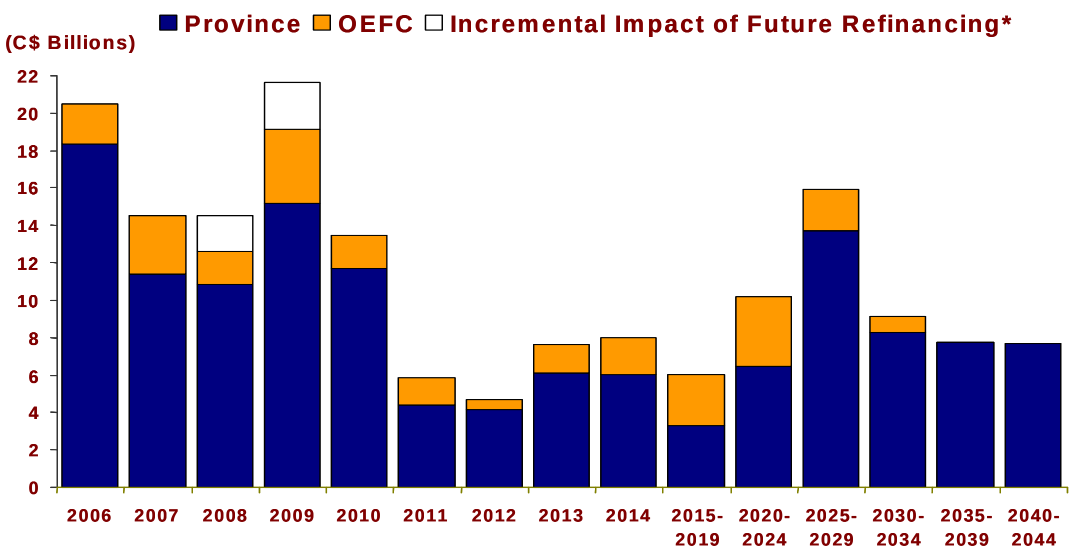
Ontario's Debt

Province of Ontario Debt Portfolio (As of March 31, 2005)					
Debt		**Risk Exposures**	**Current**	**Policy Limit**	
Total Debt*	$156.6 billion	**Province**			
Net Debt**	$142.2 billion	Interest Rate Reset Exposure	10.2%	25.0%	
Net Debt/GDP	27.5%	Foreign Exchange Exposure	0.8%	5.0%	
Debt Statistics		**OEFC**			
Percentage Publicly Held	84%	Floating Rate Exposure	13.9%	20.0%	
Percentage Issued in Canadian Dollars	79%	Foreign Exchange Exposure	0.1%	5.0%	
Effective Interest Rate (Weighted Average)	6.3%				

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

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

Debt Maturities



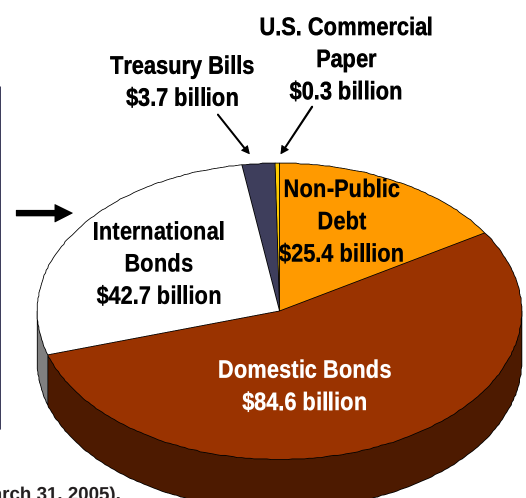
Excludes Province of Ontario and OEFC short-term debt and liabilities.
Assumes issues with options will be retired at the earliest possible date.
*As indicated in the Medium-Term Borrowing Program Outlook.
Source: Ontario Financing Authority (March 31, 2005).

Total Debt Composition

- Total Debt of $156.6 billion is composed of bonds and debentures issued in both the short- and long-term public capital markets and non-public debentures held by certain federal and provincial public-sector pension plans and government agencies.
- As of March 31, 2005, public debt totalled $131.3 billion, primarily consisting of bonds issued in the domestic and international long-term public markets in nine currencies. Ontario also had $25.4 billion outstanding in non-public debt issued in Canadian dollars.

Debt issued outside of Canada in the following currencies:

- Canadian dollar
- U.S. dollar
- Euro
- Japanese yen
- Sterling
- Swiss Franc
- Australian dollar
- New Zealand dollar
- Hong Kong dollar

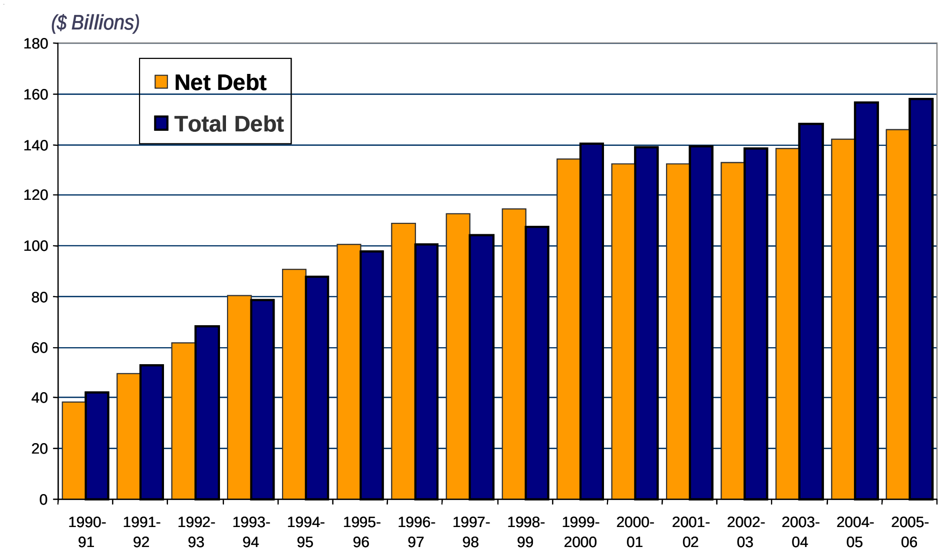


Source: Ontario Financing Authority (March 31, 2005).
Note: Numbers may not add due to rounding.

Debt Management

Debt

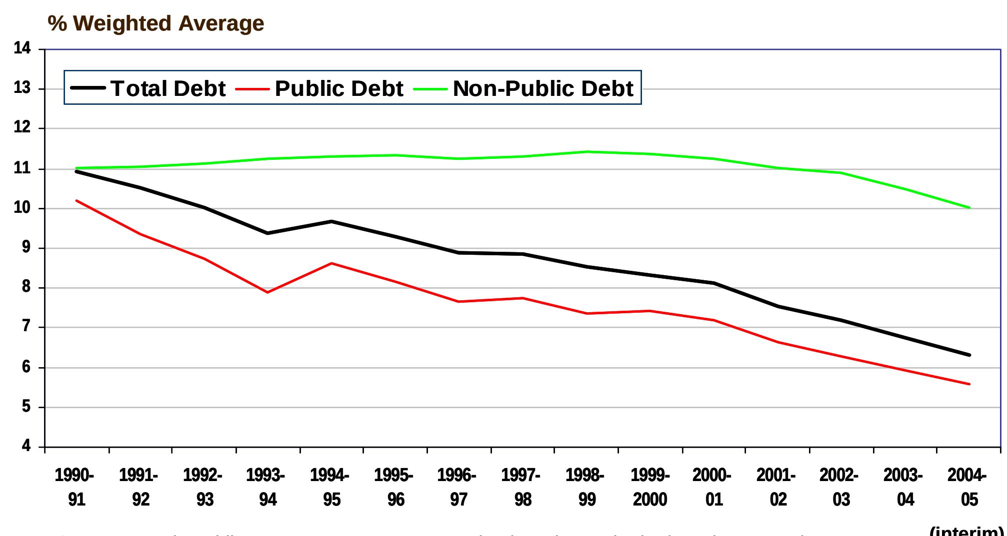
- Ontario's Total Debt has increased since the early 1990's from $41.9 billion as of March 31, 1991 to an interim $156.6 billion as of March 31, 2005. The increase in Total Debt in the year ended March 31, 2000, reflects the consolidation of OEFC's $19.4 billion in stranded debt from the electricity sector to the Province's debt.
- Net Debt represents the difference between total liabilities and the total financial assets of the Province. Interim Net Debt was $142.2 billion as of March 31, 2005. Net Debt is projected at $146.0 billion as of March 31, 2006.
- The Ontario Strategic Infrastructure Financing Authority's (OSIFA) interim 2004-05 debt of $1.3 billion is included in the Province's Total Debt, but not in the Province's Net Debt. OSIFA's debt is not guaranteed by the Province.



Sources: Ontario Public Accounts 1991-2004, Ontario Ministry of Finance, Ontario Financing Authority (March 31, 2005).

Effective Interest Rate of Debt

- The Province has been able to take advantage of a lower interest rate environment by refinancing debt at more attractive interest rates. As of March 31, 2005, the effective interest rate on Total Debt (on a weighted average basis) was 6.3% compared to 10.9% on March 31, 1991.
- The effective interest rate on public debt as of March 31, 2005, was 5.6% compared to 10.0% on non-public debt. The weighted average of interest rates takes into account the proportion of debt at each level of interest rate in the debt portfolio.



Source: Ontario Public Accounts 1991-2004. Ontario Financing Authority (March 31, 2005).

Background Information

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

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