OntarioFinancingAuthority bulletin

Ontario

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2005-06 Third Quarter Ontario Finances

2005-06 Long-Term Public Borrowing

The total long-term public borrowing requirement for the Province and the Ontario Electricity Financial Corporation (OEFC) in 2005-06 is projected at $26.9 billion, down from $27.2 billion in the Budget Plan, and unchanged from the Second Quarter Ontario Finances. This amount includes $20.2 billion of debt maturities, $1.1 billion of debt redemptions and $2.4 billion from the deficit. The change in the requirement is a result of:

- $0.4 billion decline in the deficit from the Budget Plan;
- $0.3 billion decline in debt maturities, mainly due to the Province and investors exercising options to extend the term of maturity of four Ontario bond issues;
- $0.4 billion increase in debt redemptions due to higher redemptions of Ontario Savings Bonds (OSBs) in December; and
- $0.2 billion of Canada Pension Plan (CPP) borrowing used to finance the early retirement of less cost-effective debt. This $0.2 billion is unavailable to reduce the total long-term public borrowing requirement.

The increase in other uses/(sources) of cash is mainly attributable to projected short-term loans to the Ontario Power Authority (OPA) to bridge the timing of their cash flow requirements. This amount is being financed through short-term borrowing.

2005-06 Borrowing Program: Province and OEFC

($ Billions)	Budget Plan	Second Quarter	Third Quarter Outlook*	Change from Second Quarter	In-Year Change
Deficit/(Surplus)	2.8	2.4	2.4	-	(0.4)
Adjustments for:					
Non-Cash Items Included in Deficit	2.3	2.2	2.2	-	(0.1)
Amortization of Major Tangible Capital Assets	(0.8)	(0.8)	(0.8)	-	-
Acquisition of Major Tangible Capital Assets	1.8	1.8	1.8	-	-
Debt Maturities	20.5	20.5	20.2	(0.3)	(0.3)
Debt Redemptions	0.7	0.7	1.1	0.4	0.4
Canada Pension Plan Borrowing	(1.2)	(1.0)	(1.0)	-	0.2
Increase/(Decrease) in Cash and Cash Equivalents	-	-	(0.2)	(0.2)	(0.2)
Decrease/(Increase) in Short-Term Borrowing	-	(1.0)	(1.0)	-	(1.0)
Other Uses/(Sources) of Cash	1.1	2.1	2.1	-	1.0
Total Long-Term Public Borrowing Requirement	**27.2**	**26.9**	**26.9**	**(0.0)**	**(0.3)**

* Third-quarter fiscal forecast as at December 31, 2005. If the reserve is not required this year, the deficit is projected to be $1.4 billion.

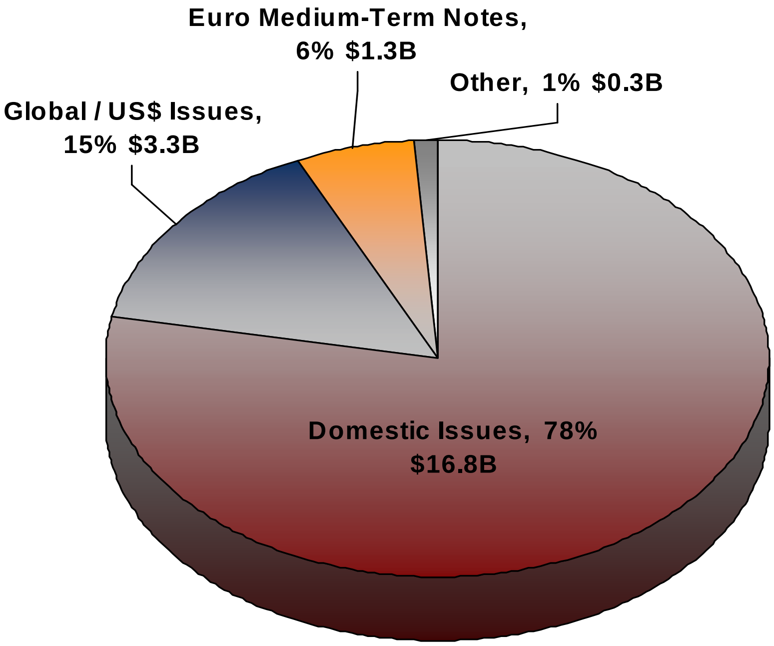
Borrowing Program Status* ($ Billions)	Completed	Remaining	Total
Province	18.3	6.2	24.5
OEFC	1.4	1.0	2.4
Total	**19.7**	**7.2**	**26.9**

*As at December 31, 2005. Note: Numbers may not add due to rounding.

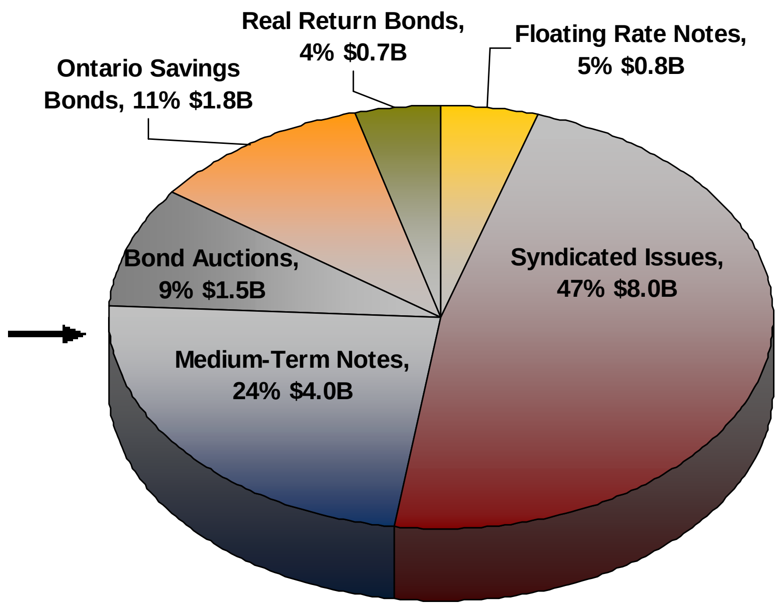
Borrowing Status

- The Ontario Financing Authority (OFA) completed $19.7 billion of the total long-term public borrowing requirement as at December 31, 2005. As of January 20, 2006, an additional $1.9 billion was borrowed in the long-term markets, for a total of $21.6 billion.
- Approximately 80% per cent of the 2005-06 program has been completed.

Borrowing - All Markets
C$21.6 billion issued



Borrowing - Domestic Markets
C$16.8 billion issued



Note: Numbers may not add due to rounding.
Source: Ontario Financing Authority (January 20, 2006).

Medium-Term Outlook

Medium-Term Borrowing Program Outlook: Province and OEFC*

($ Billions)	2006-07	2007-08	2008-09
Deficit/(Surplus)**	2.4	1.5	-
Adjustments for:			
Non-Cash Items Included in Deficit	1.2	1.7	1.4
Amortization of Major Tangible Capital Assets	(0.9)	(1.0)	(1.0)
Acquisition of Major Tangible Capital Assets	2.2	2.4	2.2
Debt Maturities			
Currently Outstanding	14.7	13.4	19.4
Incremental Impact of Future Refinancing	-	1.0	2.2
Debt Redemptions	0.7	0.7	0.7
Canada Pension Plan Borrowing	(0.4)	(0.4)	(0.6)
Increase/(Decrease) in Cash and Cash Equivalents	-	-	-
Decrease/(Increase) in Short-Term Borrowing	1.0	-	-
Other Uses/(Sources) of Cash	(0.9)	0.2	0.5
Total Long-Term Public Borrowing Requirement	**20.0**	**19.5**	**24.8**

*Third-quarter fiscal forecast as at December 31, 2005. If the reserve is not required in 2006-07, the deficit would fall to $0.9 billion. The deficit would be eliminated in 2007-08 if the reserve is also not required in that year.
** Second-quarter fiscal forecast as at September 30, 2005. Note: Numbers may not add due to rounding.

Ontario's Debt

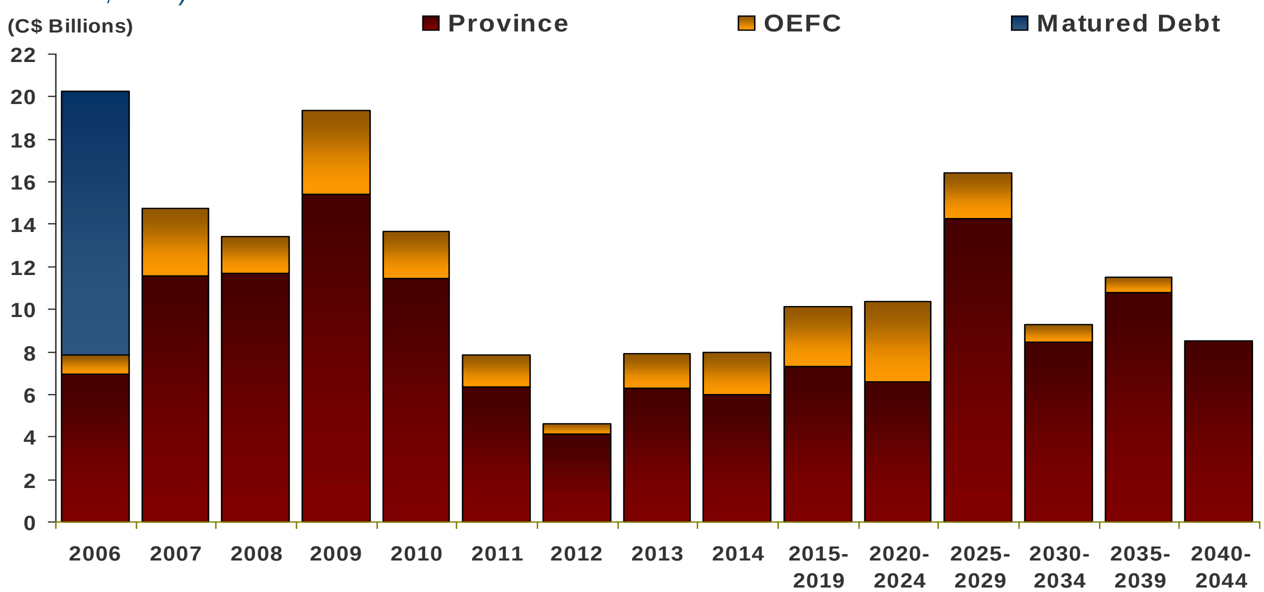
Province of Ontario Debt Portfolio (As at December 31, 2005)				
Debt		**Risk Exposures** (as % of debt)	**Current**	**Policy Limit**
Total Debt[1]	$157.3 billion	**Province**		
Net Debt[2]	$144.0 billion	Interest Rate Reset Exposure	10.6%	25.0%
Net Debt/GDP	26.7%	Foreign Exchange Exposure	0.7%	5.0%
Debt Statistics		**OEFC**		
Percentage Publicly Held	85%	Net Floating Rate Exposure	10.6%	20.0%
Percentage Issued in Canadian Dollars	81%	Foreign Exchange Exposure	0%	5.0%
Effective Interest Rate (Weighted Average)	6.2%			

[1] Total Debt represents consolidated non-public and publicly held debt.

[2] Net Debt (projected as at December 31, 2005 for the year end March 31, 2006) represents the difference between total liabilities and total financial assets.

Debt Maturities

(As at December 31, 2005)



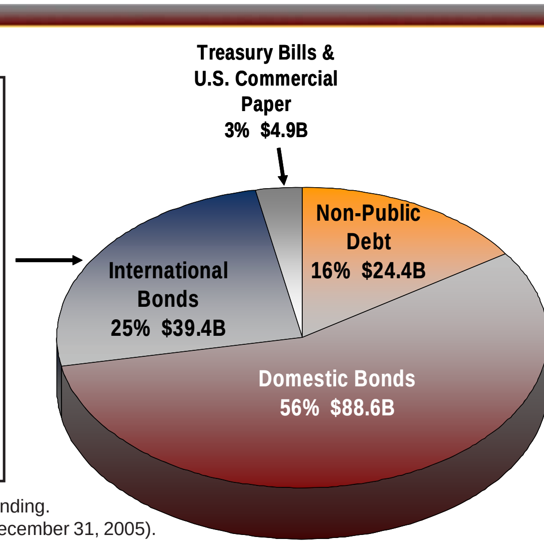
Excludes Province of Ontario and OEFC short-term debt and other liabilities.
Assumes issues with options will be retired at the earliest possible date. Excludes the incremental impact of future refinancing.
Source: Ontario Financing Authority.

Total Debt Composition

- Total Debt of $157.3 billion as at December 31, 2005 is composed of bonds and debentures issued in both the short- and long-term public capital markets and non-public debt held by certain federal and provincial public-sector pension plans and government agencies.
- As at December 31, 2005, public debt totalled $132.8 billion, primarily consisting of bonds issued in the domestic and international long-term public markets in 10 currencies. Ontario also had $24.4 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
- South African rand



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

Fiscal Summary

($ Millions)	2005-06		
	Budget Plan	Current* Outlook	In-Year Change
Revenue	81,687	82,132	445
Expense			
Programs	71,014	71,224	210
Capital	2,673	2,706	33
Interest on Debt	9,796	9,571	(225)
Total Expense	**83,483**	**83,501**	**18**
Surplus / (Deficit) Before Reserve	**(1,796)**	**(1,369)**	**427**
Reserve	1,000	1,000	-
Surplus / (Deficit)	**(2,796)**	**(2,369)**	**427**

* Third-quarter fiscal forecast as at December 31, 2005.

Source: Ontario Ministry of Finance

2005-06 In-Year Performance

Deficit Outlook at $2.4 Billion

- The 2005-06 deficit outlook is $2,369 million, an improvement of $427 million from that presented in the 2005 Budget Plan and is unchanged from the fiscal outlook included in the 2005 Economic Outlook and Fiscal Review. The current fiscal outlook maintains a $1.0 billion reserve to protect against unexpected and adverse changes in the economic and fiscal outlook. If the reserve is not required this year, the deficit is projected to be $1.4 billion.
- The 2005-06 revenue outlook maintains the prudent approach adopted in the 2005 Economic Outlook and Fiscal Review. While economic growth in calendar-year 2005 is stronger than projected in the 2005 Budget and could boost 2005-06 revenues, risks to the outlook remain. Economic growth is expected to weaken in calendar-year 2006, which could lower revenues in the last quarter of fiscal 2005-06. In addition, critical revenue information will arrive later in fiscal-year 2005-06, notably the finalization of 2004 tax return processing and 2005 Corporations Tax installment payments. Given these risks and uncertainties, the revenue outlook is unchanged from the previous quarter.

Economic Outlook

- Over the first three quarters of 2005, the Ontario economy was remarkably resilient in the face of adverse factors such as higher oil prices and the appreciation of the Canadian dollar.
- The Ministry of Finance raised its real GDP growth assumption from 2.0 per cent in the 2005 Budget to 2.5 per cent in the 2005 Economic Outlook and Fiscal Review.
- The average private-sector forecast for Ontario economic growth is currently 2.5 per cent in 2005, up from 2.3 per cent at the time of the Budget.

Ontario Economic Outlook- Draft (Per Cent)

	2003	2004	2005p	2006p	2007p	2008p
Real GDP Growth	1.6	2.7	2.5	2.5	3.0	3.3
Nominal GDP Growth	3.2	4.9	4.8	4.7	4.4	4.6
Unemployment Rate	7.0	6.8	6.6a	6.5	6.6	6.4
CPI Inflation	2.7	1.9	2.2a	2.1	1.7	1.8

a = actual; p = projection.

Sources: Statistics Canada and Ontario Ministry of Finance Survey of Forecasts (January 2006).

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

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