OntarioFinancingAuthority

Ontario

bulletin 2006 Ontario Budget

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Highlights

- The 2005-06 deficit is projected to be $1.4 billion, down from $5.5 billion in 2003-04.
- Consistent with the medium-term fiscal plan originally outlined in the 2005 Budget, the deficit is projected at $2.4 billion in 2006-07, falling to $1.5 billion in 2007-08 and eliminated in 2008-09. If the reserve is not required in 2006-07, the deficit is projected to be $1.4 billion. The deficit will be eliminated a year earlier if the reserve is not required in 2007-08.
- Annual growth in total expense is expected to average 3.0 per cent between 2006-07 and 2008-09, which is much less than the 4.7 per cent average annual revenue growth forecast over the medium term.
- For the first time, the Province's financial reporting in the Budget includes the financial results of three important public-sector partners - hospitals, school boards and colleges.
- The Budget announces Move Ontario, the McGuinty government's new, one-time $1.2 billion investment in transportation infrastructure, including $838 million in new funding for public transit in the Greater Toronto Area (GTA) and $400 million in new funding for Ontario's roads and bridges in municipalities outside the GTA, with an emphasis on rural and northern communities.
- Recognizing the increased importance of attracting new investment to the province, the government is proposing to accelerate the capital tax rate cut. Effective January 1, 2007, the current rate would be cut by 5% - a full two years earlier than currently scheduled. Further, the government intends to eliminate the tax in 2010 should the fiscal position of the Province allow.

Medium-Term Fiscal Plan and Outlook

	Interim[1]	Plan	Outlook	
($ Billions)	2005-06	2006-07	2007-08	2008-09
Revenue	83.9	**85.7**	**90.3**	**94.0**
Expense				
Programs	76.2	77.7	80.6	82.6
Interest on Debt	9.1	9.4	9.7	9.9
Total Expense	**85.3**	87.1	90.3	92.5
Surplus/(Deficit) Before Reserve	**(1.4)**	**(1.4)**	**0.0**	**1.5**
Reserve	**-**	**1.0**	**1.5**	**1.5**
Surplus/(Deficit)	**(1.4)**	**(2.4)**	**(1.5)**	**0.0**
Investment in Capital Assets	**2.1**	**2.5**	**2.7**	**2.7**
Net Debt[2]	143.0	146.8	149.8	151.2
Accumulated Deficit[2]	113.1	115.4	116.9	116.9
Gross Domestic Product (GDP) at Market Prices	544.7	569.2	593.7	621.6
Net Debt as a per cent of GDP	26.2	25.8	25.2	24.3
Accumulated Deficit as a per cent of GDP	20.8	20.3	19.7	18.8

[1] Starting in 2005-06, the Province's financial reporting has been expanded to include hospitals, school boards and colleges using one-line consolidation.

[2] Net Debt is calculated as the difference between liabilities and financial assets. The annual change in Net Debt is equal to the Surplus/Deficit of the Province plus the change in tangible capital assets and the change in net assets of hospitals, school boards and colleges. Accumulated Deficit is calculated as the difference between liabilities and total assets including tangible capital assets and net assets of hospitals, school boards and colleges. The annual change in the Accumulated Deficit is equal to the Surplus/Deficit.

Note: Numbers may not add due to rounding.

Economic Outlook

- Ontario's economy performed much better than anticipated in 2005, despite the high dollar and rise in oil prices. The outlook for Ontario growth over the 2006 to 2008 period, however, has declined since the 2005 Budget. Ontario real GDP growth is now projected to be 0.5 percentage points lower in 2006, 0.9 percentage points lower in 2007 and 0.4 percentage points lower in 2008. This moderation in the province's growth prospects reflects the rapid appreciation in the Canadian dollar and sharply higher oil prices.
- Currently, private-sector economists, on average, expect Ontario real GDP growth of 2.6 per cent in 2006, 2.6 per cent in 2007 and 3.1 per cent in 2008.

Ontario Economic Outlook (Per Cent)

	2004	2005e	2006p	2007p	2008p
Real GDP Growth	2.7	2.7	2.3	2.5	2.9
Nominal GDP Growth	4.9	5.3	4.5	4.3	4.7
Unemployment Rate	6.8	6.6	6.3	6.2	6.1
CPI Inflation	1.9	2.2	2.1	1.8	1.8

e = Ministry of Finance estimate for real and nominal GDP growth; p = projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

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

($ Billions)	2006-07	2007-08	2008-09
Deficit/(Surplus)	2.4	1.5	-
Adjustments for:			
Non-Cash Items Included in Deficit	1.1	1.7	1.5
Amortization of Major Tangible Capital Assets	(2.2)	(2.4)	(2.5)
Investment in Capital Assets	2.5	2.7	2.7
Debt Maturities:			
Currently Outstanding	15.1	13.9	19.3
Incremental Impact of Future Refinancing	-	1.0	-
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	-	-	1.0
Decrease/(Increase) in Short-Term Borrowing	1.4	0.2	-
Other Uses/(Sources) of Cash	0.2	0.9	1.3
Total Long-Term Public Borrowing Requirement	**20.8**	**19.8**	**23.4**

Note: Numbers may not add due to rounding.

- Refinancing maturing debt remains a primary component of the medium-term borrowing outlook. Debt maturities for the Province and OEFC are projected at $15.1 billion in 2006-07, $14.9 billion in 2007-08 and $19.3 billion in 2008-09.
- The Canadian domestic market will remain the main funding source for the Province in 2006-07. However, 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.

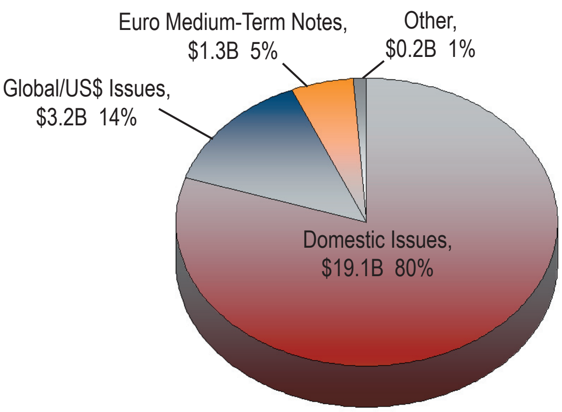
2005-06 Borrowing Program: Province and OEFC

($ Billions)	Budget Plan	Interim	In-Year Change
Deficit/(Surplus)	2.8	1.4	(1.4)
Adjustments for:			
Non-Cash Items Included in Deficit	2.3	3.9	1.6
Amortization of Major Tangible Capital Assets	(0.8)	(2.1)	(1.3)
Investment in Capital Assets	1.8	2.1	0.3
Debt Maturities	20.5	19.8	(0.7)
Debt Redemptions	0.7	1.1	0.4
Canada Pension Plan Borrowing	(1.2)	(1.0)	0.2
Increase/(Decrease) in Cash and Cash Equivalents	-	(1.5)	(1.5)
Decrease/(Increase) in Short-Term Borrowing	-	(1.8)	(1.8)
Other Uses/(Sources) of Cash	1.1	1.9	0.8
Total Long-Term Public Borrowing Requirement	**27.2**	**23.8**	**(3.4)**

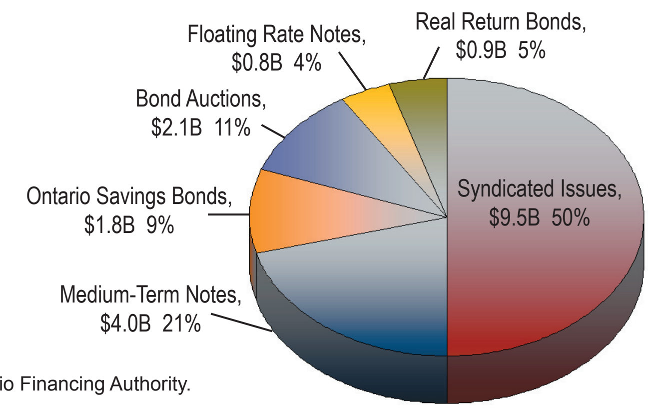
Note: Numbers may not add due to rounding.

- The interim long-term public borrowing requirement for 2005-06 is $23.8 billion, down $3.4 billion from the $27.2 billion estimated in the 2005 Budget Plan. The change in the long-term public borrowing requirement is mainly due to a decline in the deficit and a decision to bring cash (or liquid) reserves more into line with historical levels. Cash reserves of the Province and OEFC are projected at $6.1 billion as of March 31, 2006, which compares to average cash reserves of $6.0 billion over the past five years.
- The increase in non-cash items included in the deficit is primarily due to accounting changes related to the consolidation of hospitals, school boards and colleges. These accounting changes resulted in a $1.3 billion increase in the amortization of major tangible capital assets. Also contributing to the increase are changes in the timing of receipts and expenses on a cash versus accrual basis.
- The $0.7 billion decline in debt maturities is mainly attributable to debt issues with callable or extendible features that were shifted into the 2006-07 fiscal year.

Borrowing - All Markets
C$23.8 billion issued



Borrowing - Domestic Markets
C$19.1 billion issued



Source: Ontario Financing Authority.

Debt Management

Ontario's Debt

Province of Ontario Debt Portfolio

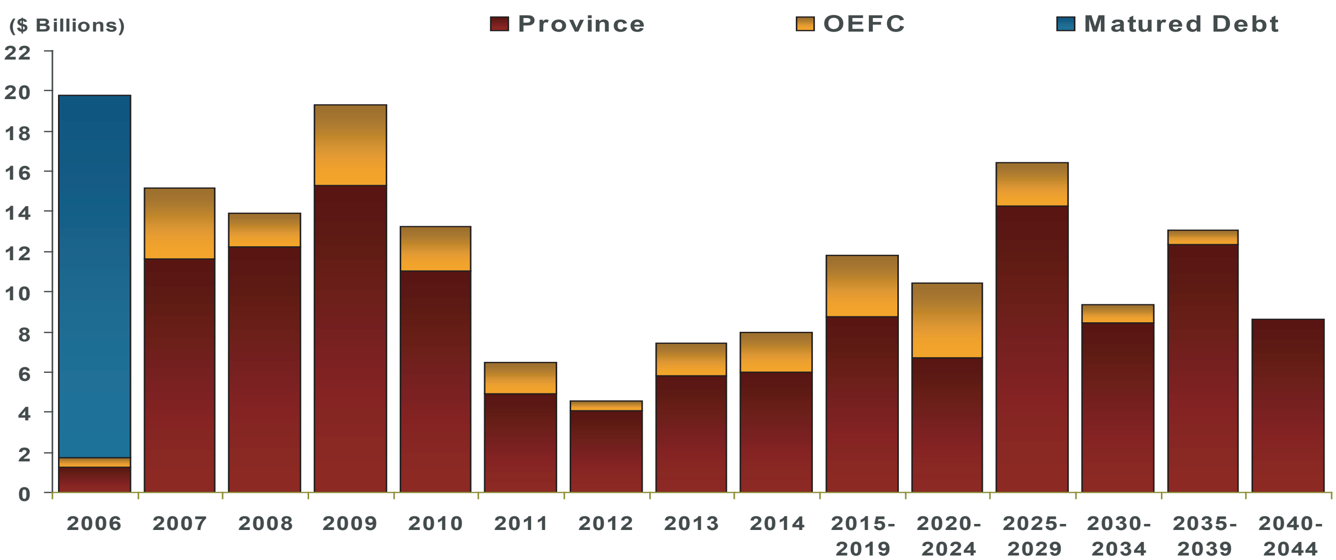
Debt		**Risk Exposures**[3] (as % of debt)	**Current**	**Policy Limit**
Total Debt[1]	$154.7 billion	**Province**		
Net Debt[2]	$143.0 billion	Interest Rate Reset Exposure	9.8%	25.0%
Net Debt/GDP	26.2%	Foreign Exchange Exposure	0.7%	5.0%
Debt Statistics		**OEFC**		
Percentage Publicly Held	84.4%	Net Floating Rate Exposure	9.2%	20.0%
Percentage Issued in Canadian Dollars	82.3%	Foreign Exchange Exposure	0%	5.0%
Effective Interest Rate (Weighted Average)	6.1%			

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

[2] Net Debt (projected as at February 28, 2006 for the year end March 31, 2006) represents the difference between total liabilities and total financial assets.

[3] Risk Exposures as at February 28, 2006.

Debt Maturities



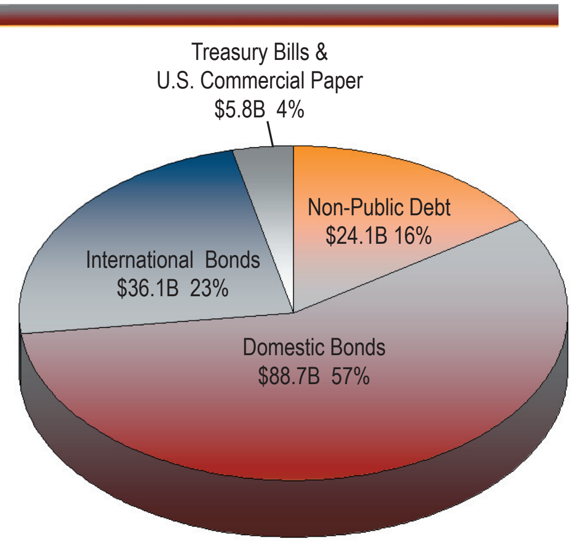
Excludes Province of Ontario and OEFC short-term debt and other liabilities.
Assumes issues with options will be retired at the earliest possible date. Excludes the incremental impact of future refinancing.
Source: Ontario Financing Authority. (As of February 28, 2006).

Total Debt Composition

- Total debt of $154.7 billion (projected as of March 31, 2006) 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.
- Public debt totals $130.6 billion, primarily consisting of bonds issued in the domestic and international long-term public markets in 10 currencies. Ontario also had $24.1 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

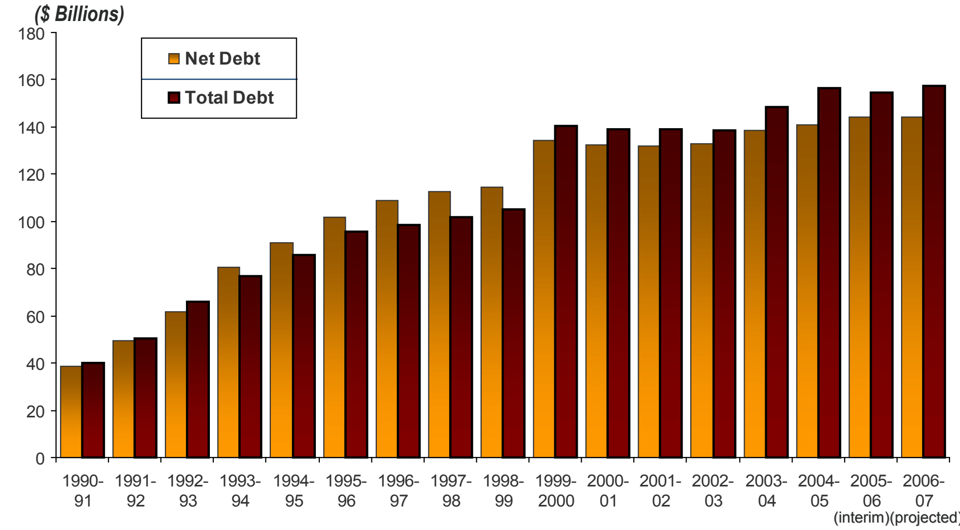


Source: Ontario Financing Authority.

Debt Management

Debt

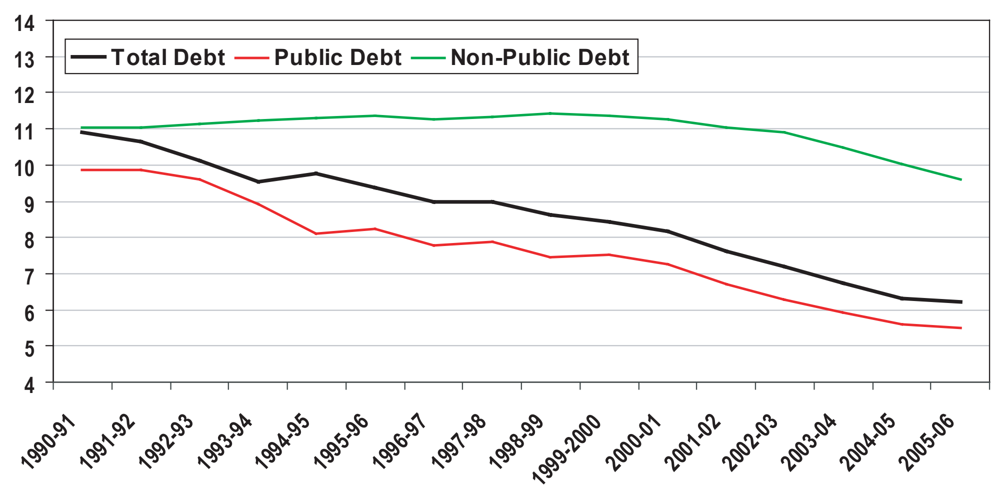
- The Province's total debt is projected to be $154.7 billion as of March 31, 2006.
- Ontario's net debt, the difference between total liabilities and total financial assets of the Province, was $140.7 billion as of March 31, 2005 and is projected to be $143.0 billion as of March 31, 2006.
- The debt of the Ontario Strategic Infrastructure Financing Authority (OSIFA) is projected to be $1.3 billion as of March 31, 2006. OSIFA's debt is included in total debt, but not in net debt, as its debt is offset by projected net assets of $1.3 billion. OSIFA's debt is not guaranteed by the Province.
- The non-financial assets include the consolidation of hospitals, school boards and colleges, which does not impact net debt.



Effective Interest Rate of Debt

- The effective interest rate (on a weighted-average basis) on total debt, which is projected to be $154.7 billion as of March 31, 2006, is 6.1 per cent, compared to 6.3 percent on March 31, 2005 and 10.9 per cent on March 31, 1991.
- During 2005-06, the Bank of Canada increased short-term interest rates. However, long-term rates declined to their lowest level in 45 years, resulting in a much flatter yield curve.
- The Province has taken advantage of lower long-term rates by issuing a number of longer-dated bond issues in 2005-06. Approximately 67 per cent or $16 billion in bonds were issued in terms of 10 years or longer. This has contributed to the decrease in the cost of debt.

Effective Interest Rate (Weighted Average)



Sources: Ontario Public Accounts 1991-2005 and Ontario Financing Authority.

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) 204-6694

Web Site and E-mail Address
www.ofina.on.ca
investor@ofina.on.ca