OntarioFinancingAuthority

bulletin

2006–07 Second Quarter Ontario Finances

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October 26, 2006

2006–07 Long-Term Public Borrowing

The total long-term public borrowing requirement for the Province and the Ontario Electricity Financial Corporation (OEFC) in 2006–07 is projected at $20.4 billion, down $0.4 billion from the $20.8 billion estimated in the 2006 Budget Plan, and down $0.1 billion from the estimate published in the First Quarter Ontario Finances.

The change in the total long-term public borrowing requirement for 2006–07 is primarily due to a $0.4 billion decline in the deficit from the 2006 Budget plan. The $0.6 billion decline in non-cash items included in the deficit reflects the net cash impact of the $1.1 billion cash transfer from the federal trusts. This decline in non-cash items is offset by the $0.6 billion increase in other uses of cash, resulting from new loans to school boards under the Good Places to Learn initiative.

2006–07 Borrowing Program: Province and OEFC

($ Billions)	Budget Plan	Current Outlook	In-Year Change
Deficit/(Surplus)	2.4	1.9	(0.4)
Adjustments for:			
Non-Cash Items Included in Deficit	1.1	0.4	(0.6)
Amortization of Major Tangible Capital Assets	(2.2)	(2.3)	(0.1)
Investment in Capital Assets	2.5	2.6	—
Debt Maturities	15.1	14.9	(0.2)
Debt Redemptions	0.7	0.9	0.2
Canada Pension Plan Borrowing	(0.4)	(0.3)	0.1
Increase/(Decrease) in Cash and Cash Equivalents	—	—	—
Decrease/(Increase) in Short-Term Borrowing	1.4	1.3	—
Other Uses/(Sources) of Cash	0.2	0.9	0.6
Total Long-Term Public Borrowing Requirement	20.8	20.4	(0.4)

Second-quarter fiscal forecast as at September 30, 2006.
Note: Numbers may not add due to rounding.

Borrowing Program Status*

($ Billions)	Completed	Remaining	Total
Province	10.9	6.1	17.0
OEFC	1.3	2.1	3.5
Total	12.2	8.2	20.4

*As at October 16, 2006.
Note: Numbers may not add due to rounding.

Borrowing Approach

As at September 30, 2006, the Province had raised approximately $10.5 billion or 51 per cent of the long-term public borrowing requirement. Since the end of the quarter, the Province has raised an additional $1.7 billion, for a total of $12.2 billion as at October 16, 2006, leaving $8.2 billion of borrowing to be completed.

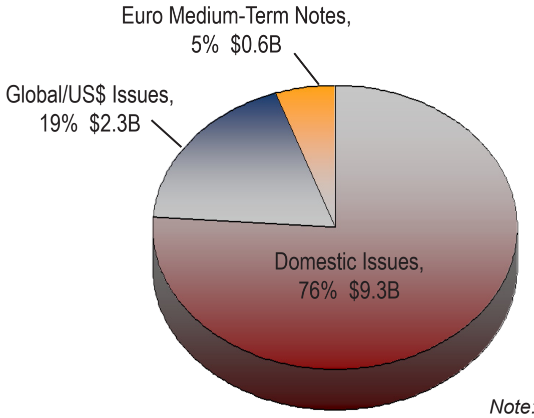
Of the $12.2 billion, approximately $9.3 billion or 76 per cent has been issued in the domestic market through a number of instruments. These included syndicated issues, Ontario Savings Bonds, medium-term notes and bond auctions.

The Province also issued debt successfully in the international capital markets, including two US$1 billion Global bond issues and Euro medium-term notes (EMTNs) in U.S. dollars and South African rand.

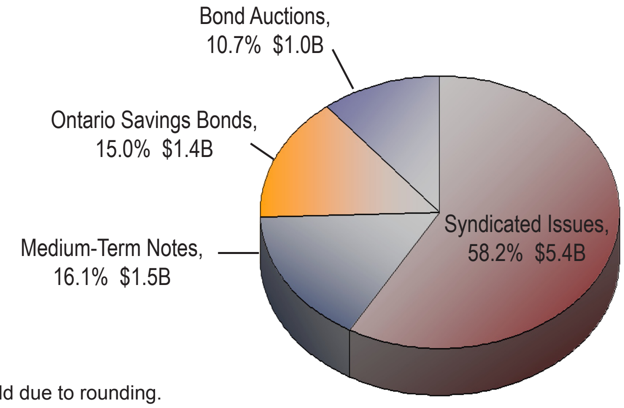
The Canadian domestic market will continue to be the main funding source in 2006–07. However, the Province will maintain a flexible approach to borrowing, monitoring both domestic and international capital markets for diversified borrowing opportunities that minimize debt servicing costs. Should cost-effective opportunities continue to be available, approximately 25 per cent of the long-term borrowing program will be raised from international markets.

2006-07 Borrowing Program

Borrowing - All Markets
C$12.2 billion issued



Borrowing - Domestic Markets
C$9.3 billion issued



Note: Numbers may not add due to rounding.
Source: Ontario Financing Authority (October 16, 2006).

Medium-Term Borrowing Outlook: Province and OEFC

($ Billions)	**2006–07**	**2007–08**	**2008–09**
Deficit/(Surplus)	1.9	2.2	1.0
Adjustments for:			
Non-Cash Items Included in Deficit	0.4	1.8	1.5
Amortization of Major Tangible Capital Assets	(2.3)	(2.4)	(2.6)
Investment in Capital Assets	2.6	2.7	2.7
Debt Maturities:			
Currently Outstanding	14.9	13.8	20.2
Incremental Impact of Future Refinancing	—	1.0	—
Debt Redemptions	0.9	0.7	0.7
Canada Pension Plan Borrowing	(0.3)	(0.4)	(0.6)
Increase/(Decrease) in Cash and Cash Equivalents	—	0.2	0.6
Decrease/(Increase) in Short-Term Borrowing	1.3	0.3	—
Other Uses/(Sources) of Cash	0.9	0.6	0.8
Total Long-Term Public Borrowing Requirement	**20.4**	**20.5**	**24.4**

Note: Numbers may not add due to rounding.

2006-07 Fiscal Outlook

While the 2006–07 deficit target remains unchanged from the $1.9 billion deficit projection outlined in the First Quarter Ontario Finances, or $0.9 billion if the reserve is not required, the medium-term economic growth outlook has softened, reflecting record-high oil prices, a stronger Canadian dollar and a slower projected growth outlook for the U.S. economy. The medium-term fiscal outlook, which includes reserves of $1.5 billion in 2007–08 and 2008–09, is now projected to be a deficit of $2.2 billion in 2007–08 and $1.0 billion in 2008–09, reflecting the impact of the slower economic growth on Provincial revenue. This represents a change of $0.7 billion in 2007–08 and $1.0 billion in 2008–09 from the fiscal targets presented in the 2006 Budget. The Province will post a deficit of $0.7 billion if the reserve is not required in 2007–08 and a $0.5 billion surplus if the reserve is not required in 2008–09.

The Consolidated Financial Statements for 2005-06 indicated that the Province's fiscal performance, projected to be a $1.4 billion deficit at the time of the 2006 Budget, had improved to a modest surplus of $0.3 billion. Higher revenues, combined with lower interest on debt expenses, have given the government the flexibility to invest further in key priority areas and still improve upon the 2006 Budget deficit projection of $2.4 billion for 2006–07.

Total revenue in 2008–09 is projected to be $93.2 billion, an increase of $6.2 billion over the level forecast for 2006–07. This represents an average annual growth rate of 3.5 per cent between 2006–07 and 2008–09.

Taxation revenue is forecast to increase by $4.6 billion between 2006–07 and 2008–09, with annual growth averaging 3.6 per cent. This is consistent with nominal GDP annual growth averaging 4.2 per cent from 2006 to 2008.

Federal payments to Ontario are forecast to increase by $1.4 billion between 2006–07 and 2008–09, with annual growth averaging 5.0 per cent. The forecast is based on current federal-provincial agreements, funding commitments, and formulas for major health and social transfers. The forecast includes $2.2 billion over three years in Canada-Ontario Agreement transfers and $1.1 billion over three years, representing Ontario's share of Government of Canada trusts.

To put the Province's finances on track towards a sustainable fiscal balance, annual average growth in spending over the medium term will be held to less than the annual average rate of growth in revenue. Annual growth in total expense is expected to average 2.7 per cent over 2006–07 to 2008–09, which is less than the 3.5 per cent average annual growth in revenue forecast over the medium term.

Fiscal Summary

2006-07 Fiscal Outlook – In-Year Change ($ Billions)	**Budget Plan 2006–07**	**Outlook[1] 2006–07**	**In-Year Change**
Revenue	**85.7**	**87.0**	**1.3**
Expense			
Programs	77.7	78.8	1.1
Interest on Debt	9.4	9.2	(0.2)
Total Expense	87.1	88.0	0.9
Surplus/(Deficit) Before Reserve	**(1.4)**	**(0.9)**	**0.4**
Reserve	**1.0**	**1.0**	**—**
Surplus/(Deficit)	**(2.4)**	**(1.9)**	**0.4**

[1] Second-quarter fiscal forecast as at September 30, 2006.

Note: Numbers may not add due to rounding.

Economic Outlook

Ontario Economic Outlook (Per Cent)

	2004	2005	2006p	2007p	2008p	2009p
Real GDP Growth	3.1	2.8	1.6	2.0	3.0	3.1
Nominal GDP Growth	5.2	4.1	3.0	3.7	4.7	4.8
Unemployment Rate	6.8	6.6	6.3	6.3	6.2	6.1
CPI Inflation	1.9	2.2	1.9	1.6	1.8	1.8

p = projection.

Sources: Statistics Canada and Ontario Ministry of Finance.

Ontario's economy is fundamentally strong and has been resilient in the face of adverse external economic forces. In the first half of 2006, economic growth was supported by domestic demand, with consumer spending and business investment growing solidly. Ontario has created 254,100 net new jobs since October 2003, and the unemployment rate has fallen to an average of 6.4 per cent so far this year – the lowest in five years.

However, record-high oil prices, the stronger Canadian dollar and a weaker outlook for economic growth in the United States – Ontario's largest trading partner – have led to slower projected economic growth than anticipated in the March 2006 Budget. Still, growth is expected to strengthen over the medium term and private-sector forecasters expect Ontario to grow faster than most G7 economies over the 2006 to 2009 period.

The Ministry of Finance is projecting real gross domestic product (GDP) growth of 1.6 per cent for 2006, 2.0 per cent in 2007, 3.0 per cent in 2008 and 3.1 per cent in 2009. These projections are below the average private-sector forecast in every year.

Currently, the average private-sector forecast for Ontario real GDP growth is 1.7 per cent in 2006, 2.1 per cent in 2007, 3.1 per cent in 2008 and 3.2 per cent in 2009.

Debt Management

Ontario's Debt

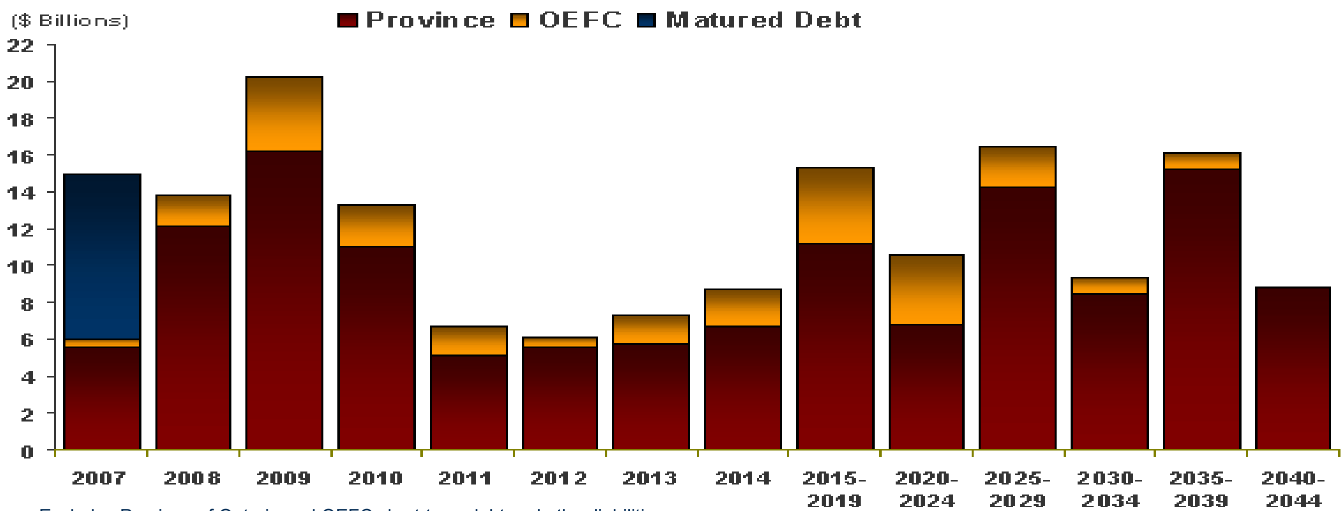
Province of Ontario Debt Portfolio - As at September 30, 2006

Debt	
Total Debt[1]	$156.1 billion
Net Debt[2]	$145.3 billion
Net Debt/GDP[3]	26.2%
Debt Statistics	
Percentage Publicly Held	85.0%
Percentage Issued in Canadian Dollars	82.8%
Effective Interest Rate (Weighted Average)	6.1%

Risk Exposures (as % of debt)	**Current**	**Policy Limit**
Province		
Interest Rate Reset Exposure	14.7%	25.0%
Foreign Exchange Exposure	0.7%	5.0%
OEFC		
Net Floating Rate Exposure	13.3%	20.0%
Foreign Exchange Exposure	0%	5.0%

[1] Total Debt represents consolidated non-public and publicly held debt, without taking into consideration any of the Province's assets.
[2] Net Debt (projected to March 31, 2007) represents the difference between total liabilities and total financial assets.
[3] Projected to March 31, 2007.

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 (September 30, 2006).

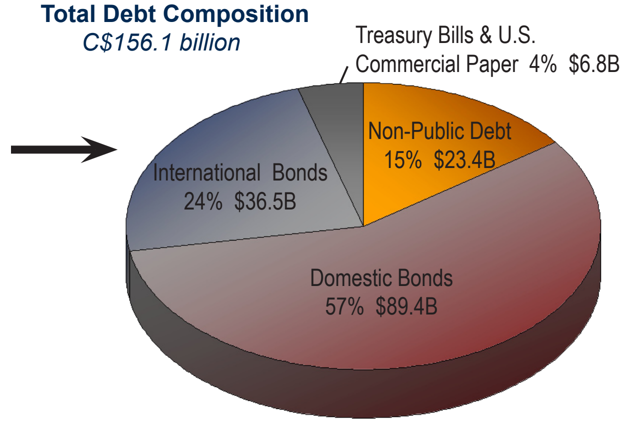
Total Debt Composition

- Total debt of $156.1 billion as at September 30, 2006 consists 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 $132.7 billion, primarily consisting of bonds issued in the domestic and international long-term public markets in 10 currencies. Ontario also had $23.4 billion outstanding in non-public debt issued in Canadian dollars. Non-public debt consists of non-marketable debt instruments issued to public-sector pension funds, including the Canada Pension Plan (CPP), mainly in the 1980s.

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

Total Debt Composition
C$156.1 billion



Source: Ontario Financing Authority (September 30, 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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