OntarioFinancingAuthority

Ontario

bulletin

2006–07 Third Quarter Ontario Finances

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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 consistent with the estimate published in the Second Quarter Ontario Finances. The change in the total long-term public borrowing requirement is primarily due to a $0.4 billion decline in the deficit from the 2006 Budget.

The $0.6 billion decline in non-cash items included in the deficit is a result of the net impact of the $1.1 billion cash transfer from the federal trusts. The $0.5 billion decline in debt maturities is mainly due to debt issues with callable or extendible features that were shifted into future years. The $0.5 billion increase in other uses of cash is mainly attributable to new loans to school boards and is partially offset by other items such as lower than planned Ontario Power Generation loan utilization, and a reduced drawdown on the Ontario Power Authority line of credit.

2006-07 Borrowing Program: Province and OEFC
($ Billions)

	Budget Plan	Second Quarter	Third Quarter Outlook	Change from Second Quarter	In-Year Change
Deficit/(Surplus)	2.4	1.9	1.9	—	(0.4)
Adjustments for:					
Non-Cash Items Included in Deficit	1.1	0.4	0.4	—	(0.6)
Amortization of Major Tangible Capital Assets	(2.2)	(2.3)	(2.3)	—	(0.1)
Investment in Capital Assets	2.5	2.6	2.6	—	—
Debt Maturities	15.1	14.9	14.6	(0.3)	(0.5)
Debt Redemptions	0.7	0.9	1.0	0.1	0.3
Canada Pension Plan Borrowing	(0.4)	(0.3)	(0.2)	0.1	0.2
Increase/(Decrease) in Cash and Cash Equivalents	—	—	—	—	—
Decrease/(Increase) in Short-Term Borrowing	1.4	1.3	1.5	0.2	0.1
Other Uses/(Sources) of Cash	0.2	0.9	0.7	(0.1)	0.5
Total Long-Term Public Borrowing Requirement	20.8	20.4	20.4	—	(0.4)

Third-quarter fiscal forecast as at December 31, 2006. Numbers may not add due to rounding.

Borrowing Program Status*
($ Billions)

	Completed	Remaining	Total
Province	15.2	1.7	16.9
OEFC	2.8	0.7	3.5
Total	18.1	2.3	20.4

*As at February 15, 2007. Numbers may not add due to rounding.

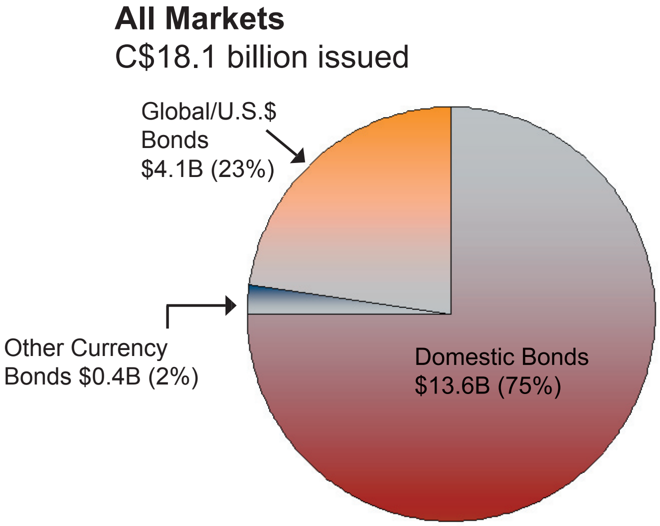
Borrowing Approach

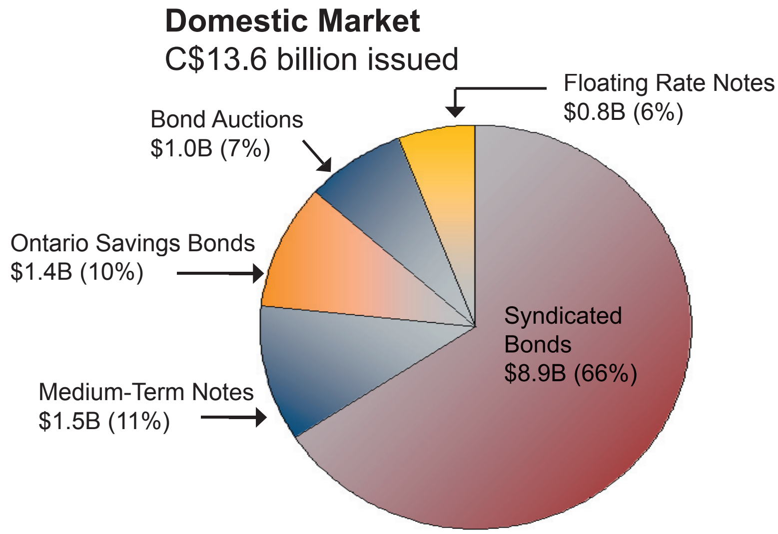
As at December 31, 2006, approximately $16.0 billion or 78 per cent of the long-term public borrowing requirement had been raised. Since the end of the quarter, an additional $2.1 billion was raised, for a total of $18.1 billion as at February 15, 2007, leaving $2.3 billion of borrowing to be completed.

Of the $18.1 billion, approximately $13.6 billion or 75 per cent was issued in the domestic market through a number of instruments. These included syndicated bonds, Ontario Savings Bonds, medium-term notes, floating-rate notes and bond auctions. The Province also issued debt successfully in the international capital markets, including three U.S.$1 billion global bond issues, an Australian dollar bond and Euro medium-term notes (EMTNs) in U.S. dollars, Turkish lira and South African rand.

The Canadian domestic market will continue to be the main funding source for the remainder of 2006–07. However, the Province will maintain a flexible approach to borrowing, monitoring both domestic and international capital markets to minimize debt service costs. The Province plans to raise 25 per cent of its total borrowing requirement from international markets if cost-effective opportunities are available.

Borrowing Breakdown





Source: Ontario Financing Authority. As at February 15, 2007. Numbers may not add due to rounding.

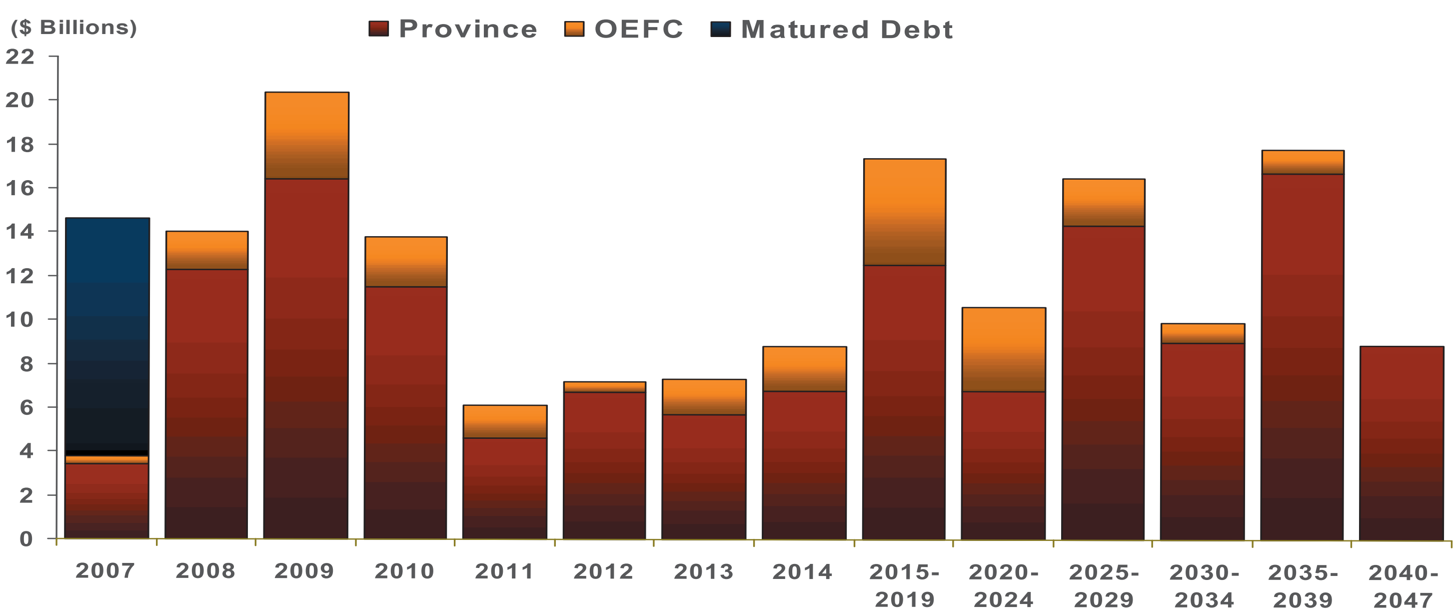
Debt Management

Debt Portfolio - As at December 31, 2006

Debt		**Risk Exposures** (as % of debt)	**Current**	**Policy Limit**
Total Debt[1]	$157.2 billion	**Province**		
Net Debt[2]	$145.3 billion	Interest Rate Reset Exposure	15.0%	25.0%
Net Debt/GDP	26.2%	Foreign Exchange Exposure	0.7%	5.0%
Debt Statistics		**OEFC**		
Percentage Publicly Held	85.3%	Net Floating Rate Exposure	11.7%	20.0%
Percentage Issued in Canadian Dollars	81.9%	Foreign Exchange Exposure	0%	5.0%
Effective Interest Rate (Weighted Average)	6.0%			

[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.

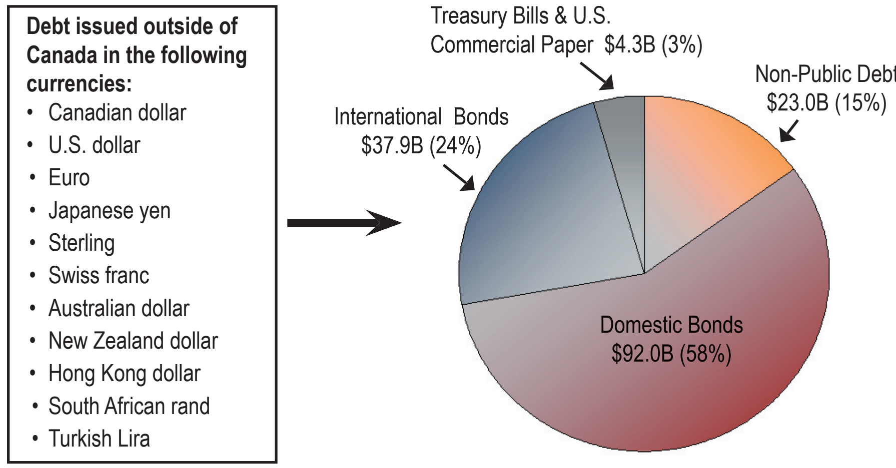
Debt Maturities



As at December 31, 2006.

Total Debt Composition

- Total debt of $157.2 billion as at December 31, 2006 consists of bonds issued in both the short- and long-term public capital markets and non-public debt.
- Public debt totals $134.2 billion, primarily consisting of bonds issued in the domestic and international long-term public markets in 11 currencies. Ontario also had $23.0 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.



Source: Ontario Financing Authority (December 31, 2006).
Numbers may not add due to rounding.

2006-07 Fiscal Outlook

Third quarter results project that the Province's fiscal outlook remains on track for a deficit of $1.9 billion in 2006-07, or $0.9 billion if the reserve is not required. This represents a $0.4 billion improvement from the 2006 Ontario Budget forecast, and is consistent with the projection reported in both the First Quarter Ontario Finances and the 2006 Ontario Economic Outlook and Fiscal Review.

The Province's medium-term fiscal plan, as outlined in the 2006 Budget, projected a balanced budget no later than 2008-09. Higher oil prices, the stronger Canadian dollar and a weaker outlook for economic growth in the United States have led to slower projected Ontario economic growth than was anticipated at the time of the 2006 Budget. As a result, the 2006 Economic Outlook and Fiscal Review released in October revised the medium-term fiscal outlook to include deficits of $2.2 billion in 2007-08 and $1.0 billion in 2008-09 - reflecting the impact of more moderate economic growth on Ontario's revenue outlook.

The government remains committed to eliminating the deficit. It will therefore continue to be prudent and disciplined in its approach to managing the Province's finances. This approach, in addition to ongoing strategic investments in health care, education, infrastructure, and postsecondary education and training, will continue to strengthen the economy and ensure that Ontario is well positioned to manage both the challenges and opportunities ahead.

Fiscal Summary

2006-07 Fiscal Outlook – In-Year Change ($ Billions)	**Budget Plan 2006–07**	**Outlook[1] 2006–07**	**In-Year Change**
Revenue	**85.7**	**87.1**	**1.3**
Expense			
Programs	77.7	78.8	1.2
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] Third-quarter fiscal forecast as at December 31, 2006. Numbers may not add due to rounding.

Economic Outlook

In the 2006 Economic Outlook and Fiscal Review, the Ministry of Finance projected real 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 were below the average private-sector forecast at that time.

The slower rate of economic growth in the near term reflects the appreciation of the Canadian dollar, continuing high oil prices, higher interest rates and an easing in the pace of growth in the U.S. economy.

Ontario Economic Outlook (Per Cent)

	2004	2005	2006p	2007p	2008p	2009p
Real GDP Growth	3.2	2.8	1.6	2.0	3.0	3.1
Nominal GDP Growth	4.9	3.9	3.0	3.7	4.7	4.8
Unemployment Rate	6.8	6.6	6.3a	6.3	6.2	6.1
CPI Inflation	1.9	2.2	1.8a	1.6	1.8	1.8

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

The current average private-sector forecast for Ontario real GDP growth is 1.5 per cent in 2006, 1.8 per cent in 2007, 3.0 per cent in 2008 and 3.2 per cent in 2009.

Economic Highlights

Ontario Real Gross Domestic Product (GDP) Growth Pauses

- Ontario's real GDP edged lower by 0.1 per cent in the third calendar quarter of 2006. This decrease was due mainly to a decline in net trade as exports decreased while imports increased. Ontario's household and business sectors both posted solid growth moderating the impact of weaker net trade.

Solid Job Creation in 2006

- Ontario created 37,400 net new jobs in December, the strongest monthly gain since August 2002. The unemployment rate fell by 0.3 percentage points to 6.1 per cent in December. In 2006, Ontario added 95,000 net new jobs for a gain of 1.5 per cent, up from a gain of 1.3 per cent in 2005. The unemployment rate averaged 6.3 per cent in 2006, the lowest annual level since 2001.

Retail Sales Growing

- Over the first eleven months of 2006, Ontario retail sales were 4.3 per cent ahead of the same period in 2005.

Inflation Remains Moderate

- The Ontario annual CPI inflation rate was 1.1 per cent (year-to-year) in December, unchanged from November. In 2006, the Ontario CPI inflation rate was 1.8 per cent, down from 2.2. per cent in 2005.

Activity in Housing Market Moderates

- In 2006, there were 194,793 home resales in Ontario, the third best year on record, down 1.1 per cent from 2005.

Manufacturing Shipments and International Exports Weaker in 2006

- Over the first eleven months of 2006, Ontario manufacturing shipments were 4.0 per cent lower than the same period in 2005. Ontario exports grew 3.0 per cent in November, following a 2.5 per cent gain in October (Ontario Ministry of Finance estimates). However, on a year-to-date basis, Ontario exports were down 1.9 per cent over the first eleven months of 2006, compared to the same period in 2005.

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

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