2007 Ontario Budget

Achieving Fiscal Balance

- Higher revenues combined with lower interest on debt expense have enabled the government to project a surplus of $0.3 billion for 2006–07 while continuing to make investments in priority areas such as health, education, infrastructure and postsecondary education.
- This is a significant improvement upon the 2006 Ontario Budget projection for a $2.4 billion deficit in 2006–07, and would be the Province's second consecutive surplus.
- The medium-term fiscal outlook now projects surpluses of $0.4 billion in 2007–08, $1.3 billion in 2008–09 and $1.6 billion in 2009–10, if the reserve is not required.
- This considerable improvement in the Province's fiscal position means that, if the reserve is not required in 2007–08, the Province is on track to post five consecutive fiscal surpluses between 2005–06 and 2009–10.
- The 2007 Ontario Budget proposes a reduction in high Business Education Tax (BET) rates as well as measures to create a property tax framework for the province that is fair and predictable. The new BET system will reduce rates over seven years for more than 500,000 businesses in Ontario, saving them $540 million annually when fully implemented.

Medium-Term Fiscal Plan and Outlook

	Interim	Plan	Outlook	
($ Billions)	2006-07	2007-08	2008-09	2009-10
Revenue	**89.1**	**91.5**	**94.7**	**97.8**
Expense				
Programs	80.0	82.0	84.2	86.8
Interest on Debt	8.8	9.1	9.2	9.4
Total Expense	**88.8**	**91.2**	**93.4**	**96.2**
Surplus/(Deficit) Before Reserve	**0.3**	**0.4**	**1.3**	**1.6**
Reserve	–	0.8	1.0	1.3
Surplus/(Deficit)	**0.3**	**(0.4)**	**0.3**	**0.4**
Investment in Capital Assets	**2.6**	**3.3**	**3.5**	**4.0**
Net Debt[1]	143.0	145.3	147.0	149.2
Accumulated Deficit[1]	108.8	109.2	108.9	108.6
Gross Domestic Product (GDP) at Market Prices	553.2	570.3	597.2	625.2
Net Debt as a per cent of GDP	25.9	25.5	24.6	23.9
Accumulated Deficit as a per cent of GDP	19.7	19.2	18.2	17.4

[1] 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.

- The government is taking steps to further enhance the competitiveness of Ontario's tax system. In 2004, it legislated a plan to gradually phase out Ontario's capital tax by January 1, 2012. Recognizing the importance of attracting new investment to the province, in the Budget the government proposes legislation that would eliminate the capital tax sooner – on July 1, 2010.

Economic Outlook

- The Ministry of Finance is projecting Ontario real GDP growth of 1.6 per cent in 2007. Ontario's growth rebounded in the fourth quarter of 2006 and is expected to strengthen through 2007 as U.S. demand picks up steam and the lower Canadian dollar and oil prices stimulate economic activity.
- Real GDP growth is expected to improve over the medium term, with the Ministry of Finance projecting growth of 2.8 per cent in 2008 and 3.1 per cent in 2009. Improving growth over the medium term reflects a more favourable global economic environment, along with Ontario's strong fundamentals.

Ontario Economic Outlook (Per Cent)

	2004	2005	2006	2007p	2008p	2009p
Real GDP Growth	3.2	2.8	1.3e	1.6	2.8	3.1
Nominal GDP Growth	4.9	3.9	2.9e	3.1	4.7	4.7
Unemployment Rate	6.8	6.6	6.3	6.3	6.2	6.1
CPI Inflation	1.9	2.2	1.8	1.3	1.9	1.9

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

- The average of private-sector forecasts for Ontario real GDP growth is 1.7 per cent in 2007, 2.9 per cent in 2008 and 3.2 per cent in 2009.

Borrowing Program

Medium-Term Borrowing Outlook: Province and OEFC

($ Billions)	2007–08	2008–09	2009–10
Deficit/(Surplus)	0.4	(0.3)	(0.4)
Non-Cash Adjustments	(0.5)	(0.8)	(0.7)
Investment in Capital Assets	3.3	3.5	4.0
Net Loans/Investments	1.2	0.9	0.2
Debt Maturities:			
Currently Outstanding	14.4	20.1	14.4
Incremental Impact of Future Financing	–	–	0.6
Debt Redemptions	0.9	0.7	0.7
Total Funding Requirement	**19.7**	**24.1**	**18.8**
Canada Pension Plan Borrowing	(0.4)	(0.6)	(0.7)
Decrease/(Increase) in Short-Term Borrowing	(0.5)	(0.6)	0.9
Increase/(Decrease) in Cash and Cash Equivalents	–	–	–
Total Long-Term Public Borrowing Requirement	**18.8**	**22.9**	**19.0**

Note: Numbers may not add due to rounding.

- Since the 2006 Economic Outlook and Fiscal Review, projected long-term public borrowing requirements were revised downward, declining by $1.7 billion in 2006–07, $1.7 billion in 2007–08 and $1.5 billion in 2008–09.
- In total, projected long–term public borrowing requirements have declined by nearly $5 billion since the 2006 Economic Outlook and Fiscal Review.
- As long as cost-effective opportunities continue to be available, at least 25 per cent of the long-term borrowing program will be raised from international markets.

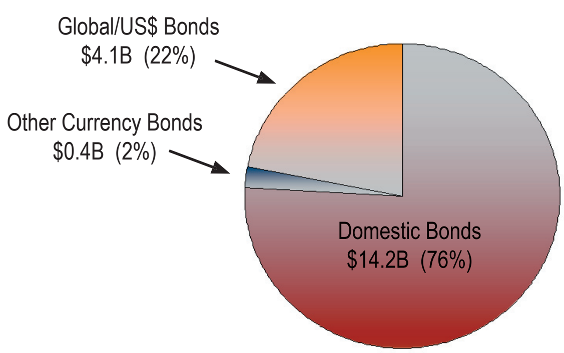
- The interim long-term public borrowing requirement for 2006–07 is $18.7 billion, down $2.1 billion from the $20.8 billion estimated in the 2006 Budget Plan. This decline is largely due to the elimination of the deficit.
- Approximately $14.2 billion, or 76 per cent, of the borrowing program was completed in the domestic bond market through a number of instruments, including: syndicated bonds, medium-term notes, Ontario Savings Bonds, bond auctions and floating rate notes.
- The Province also issued bonds in other currencies, including: three $1 billion Global bonds in U.S. dollars, Euro Medium-Term Notes (EMTNs) in U.S. dollars, South African rand and, for the first time, Turkish lira, as well as an inaugural Kangaroo (Australian dollar) bond.
- The OFA maintained a flexible approach to borrowing, monitoring both domestic and international capital markets to minimize debt service costs and diversify the borrowing program. Approximately $4.5 billion, or 24 per cent, of the borrowing program was raised from international markets.

2006-07 Borrowing Program: Province and OEFC

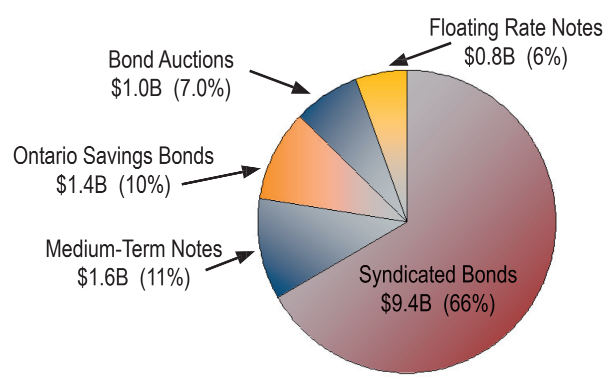
($ Billions)	Budget Plan	Interim	In-Year Change
Deficit/(Surplus)	2.4	(0.3)	(2.7)
Non-Cash Adjustments	(1.2)	0.2	1.4
Investment in Capital Assets	2.5	2.6	0.1
Net Loans/Investments	0.2	0.6	0.3
Debt Maturities:			
Currently Outstanding	15.1	14.0	(1.2)
Incremental Impact of Future Financing	–	–	–
Debt Redemptions	0.7	1.0	0.3
Total Funding Requirement	**19.8**	**18.1**	**(1.7)**
Canada Pension Plan Borrowing	(0.4)	(0.2)	0.2
Decrease/(Increase) in Short-Term Borrowing	1.4	1.3	(0.1)
Increase/(Decrease) in Cash and Cash Equivalents	–	(0.5)	(0.5)
Total Long-Term Public Borrowing Requirement	**20.8**	**18.7**	**(2.1)**

Note: Numbers may not add due to rounding.

Borrowing - All Markets
C$18.7 billion issued



Borrowing - Domestic Market
C$14.2 billion issued



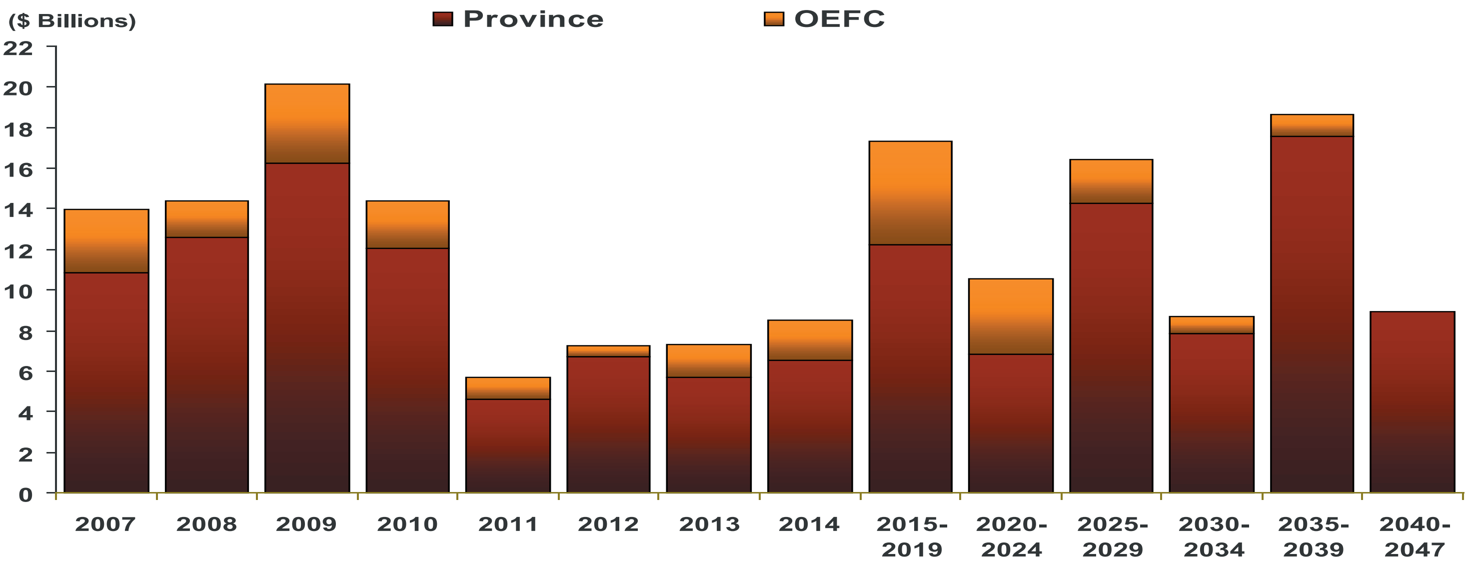
Debt Management

Ontario's Debt

Province of Ontario Debt Portfolio				
Debt		**Risk Exposures[3]** (as % of debt)	**Current**	**Policy Limit**
Total Debt[1]	$157.1	**Province**		
Net Debt[2]	$143.0	Interest Rate Resetting Exposure	13.0%	35.0%
Net Debt/GDP	25.9%	Foreign Exchange Exposure	0.7%	5.0%
Debt Statistics		**OEFC**		
Percentage Publicly Held	85.7%	Interest Rate Resetting Exposure	14.4%	35.0%
Percentage Issued in Canadian Dollars	82.1%	Foreign Exchange Exposure	0%	5.0%
Effective Interest Rate (Weighted Average)	6.02%			

[1] Total Debt (projected to March 31, 2007) represents consolidated non-public and publicly held debt.
[2] Net Debt (projected to March 31, 2007) represents the difference between total liabilities and total financial assets.
[3] Risk exposures as at February 28, 2007. In fiscal 2006–07, the interest rate resetting exposure policy was changed from 25 per cent to allow the Province to take advantage of lower floating rates.

Debt Maturities



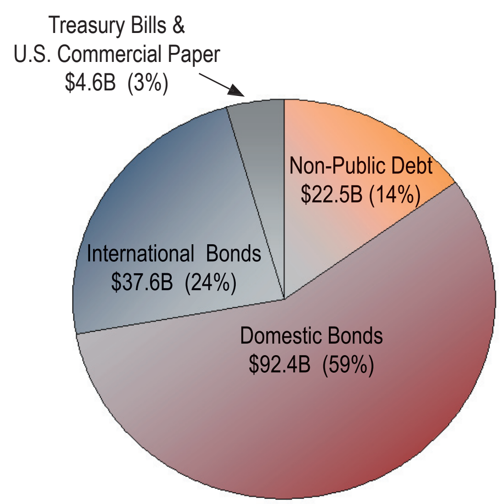
Excludes Province of Ontario and OEFC short-term debt and other liabilities.
Assumes issues with options will be retired at the earliest possible date. Excludes the incremental impact of future financing.
Source: Ontario Financing Authority.

Total Debt Composition

- Total debt is composed of bonds issued in both the short- and long-term public capital markets and non-public debt.
- Public debt totals $134.6 billion, primarily consisting of bonds issued in the domestic and international long-term public markets in 11 currencies. Ontario also has $22.5 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 and government agencies, including the Canada Pension Plan (CPP).

Debt issued outside of Canada in the following currencies:

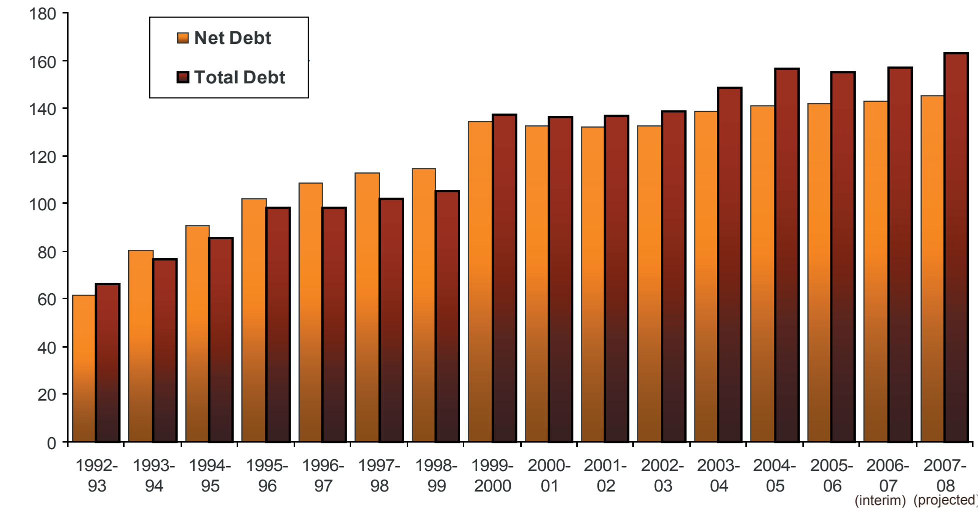
- Canadian dollar
- U.S. dollar
- Euro
- Japanese yen
- Sterling
- Swiss franc
- Australian dollar
- New Zealand dollar
- Hong Kong dollar
- South African rand
- Turkish lira



Debt Management

Debt

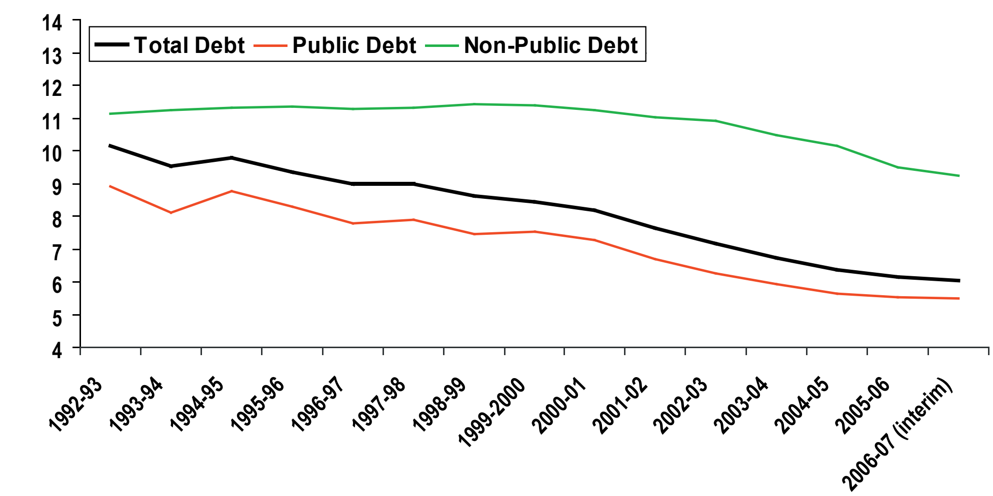
Debt



- The Province's total debt is projected to be $157.1 billion as at March 31, 2007, compared to $154.9 billion as at March 31, 2006. Total debt represents all borrowing without offsetting financial assets.
- Ontario's net debt, the difference between total liabilities and total financial assets, was $141.9 billion as at March 31, 2006, and is projected to be $143.0 billion as at March 31, 2007.
- While the Province is projecting a surplus for 2006-07, total debt is expected to increase due to the government's capital investments in key priority areas and loans to school boards for capital projects. The increase in net debt is primarily a result of the government's capital investments.
- Debt of the Ontario Infrastructure Projects Corporation (Infrastructure Ontario) is projected to be $1.3 billion as at March 31, 2007. This debt is included in total debt; however, the impact on net debt is minimal, as its debt is offset by projected net assets of $1.1 billion. Infrastructure Ontario's debt is not guaranteed by the Province.

Effective Interest Rate of Debt

Effective Interest Rate (Weighted Average) of Debt



Sources: Ontario Public Accounts 1993–2006 and Ontario Financing Authority.

- The effective interest rate (on a weighted-average basis) on total debt is estimated to be 6.02 per cent as at March 31, 2007 (March 31, 2006, 6.14 per cent). For comparison, as at March 31, 1993, the effective interest rate on total debt was 10.14 per cent.
- As at March 31, 2007, the effective interest rate on public debt is estimated at 5.48 per cent (5.52 per cent as at March 31, 2006), compared to an estimated 9.24 per cent on non-public debt (9.49 per cent as at March 31, 2006).
- Until May 2006, the Bank of Canada continued to increase its benchmark target for the overnight interest rate. The overnight rate has not changed since that time as economic growth has moderated.

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

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