OntarioFinancingAuthorityBulletin

Ontario

2007–08 Third Quarter Ontario Finances

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2007–08 Fiscal Outlook

The government is currently projecting a balanced budget for the Province in 2007-08. This represents an in-year improvement of $400 million from the 2007 Ontario Budget Plan and is consistent with the fiscal outlook presented in the 2007 Ontario Economic Outlook and Fiscal Review and the 2007-08 First Quarter Ontario Finances.

2007–08 Fiscal Outlook — In-Year Change ($ Billions)	Budget Plan 2007–08	Current Outlook 2007–08	In-Year Change
Revenue	**91.5**	**94.4**	**2.9**
Expense			
Programs	82.0	84.6	2.5
Interest on Debt	9.1	9.1	(0.1)
Total Expense	**91.2**	**93.6**	**2.5**
Reserve	0.8	0.8	–
Surplus/(Deficit)	**(0.4)**	**0.0**	**0.4**

Note: Numbers may not add due to rounding.

In the 2007 Economic Outlook and Fiscal Review, the government announced more than $3 billion in new investments and tax reductions aimed at strengthening Ontario's economic advantage and helping the manufacturing, forestry, agriculture and tourism sectors weather economic challenges. Although the Ontario economy remains fundamentally strong and is on track to outperform the 2007 Budget forecast, private-sector economists predict that future economic growth prospects have been dampened by external challenges. Therefore, in order to continue to improve public services while delivering balanced budgets, the government must maintain its prudent and disciplined fiscal management in the face of external challenges.

REVENUE AT $94.4 BILLION

The revenue outlook, at $94.4 billion, has increased by a total of $2.9 billion since the 2007 Budget. This includes a $270 million improvement since the 2007 Ontario Economic Outlook and Fiscal Review due to a corporations tax forecast increase of $220 million based on stronger 2007 profit growth and higher retail sales tax revenue of $50 million based on stronger growth in 2007 consumer spending.

TOTAL EXPENSE AT $93.6 BILLION

Total expense, at $93.6 billion, has increased by a total of $2.5 billion since the 2007 Budget and is $270 million higher than the forecast in the 2007 Ontario Economic Outlook and Fiscal Review. Detailed information on Ministry program expense changes this quarter, and the corresponding offsets, can be found at www.fin.gov.on.ca/english/budget/finances.

RESERVE AT $0.8 BILLION

The current fiscal outlook maintains a $750 million reserve to protect against unexpected and adverse changes in the Province's revenue and expense outlook, including those resulting from changes in Ontario's economic performance. Should the reserve not be required, it is projected that the Province would achieve a surplus of $750 million.

Economic Outlook

In the 2007 Ontario Economic Outlook and Fiscal Review, the Ministry of Finance projected real GDP growth of 1.9 per cent for 2007, 1.8 per cent in 2008, 2.4 per cent in 2009 and 2.8 per cent in 2010. These projections were 0.1 percentage point below the average private-sector forecast at that time. The moderate rate of economic growth in the near term primarily reflects weaker growth in the U.S. economy, as well as the negative impact of the high dollar and high oil prices.

Ontario Economic Outlook (Per Cent)

	2003	2004	2005	2006	2007e	2008p	2009p	2010p
Real GDP Growth	1.4	2.5	2.9	2.1	1.9	1.8	2.4	2.8
Nominal GDP Growth	3.2	4.8	3.9	3.9	5.0	3.8	4.0	4.7
Employment Growth	3.0	1.7	1.3	1.5	1.6a	1.2	1.3	1.4
CPI Inflation	2.7	1.9	2.2	1.8	1.8a	1.4	2.0	2.0

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

OTHER HIGHLIGHTS:

Ontario's Real Gross Domestic Product (GDP) moderates in July-September Quarter

- Ontario's real GDP grew by 0.5 per cent (2.0 per cent annualized) in the third calendar quarter of 2007, following growth of 0.7 per cent in the second quarter.
- The increase in real GDP reflected a build-up in business inventories and solid gains in household and business spending.

Job Creation steady in 2007

- Ontario employment rose by 101,100 jobs (1.6 per cent) in 2007, while the unemployment rate averaged 6.4 per cent.
- In the fourth quarter of 2007, Ontario employment advanced by 46,700 jobs, following an increase of 35,300 in the third quarter. The unemployment rate was 6.2 per cent in the fourth quarter.

Retail Sales up in 2007

- Over the first eleven months of 2007, Ontario retail sales were up 4.0 per cent compared to the same period in 2006.

Housing Market Activity

- Ontario home resales reached a level of 15,353 units in November, up 10.3 per cent from the same month in 2006 and the best November on record. On a year-to-date basis, sales of existing Ontario homes were up 10.2 per cent over the first eleven months of 2007, compared to the same period in 2006.
- Ontario recorded 68,100 housing starts in 2007, down 7.2 per cent from 2006.

Manufacturing Sales and International Exports in 2007

- Over the first eleven months of 2007, Ontario manufacturing sales were 0.4 per cent below their value for the same period last year.
- Over the first eleven months of 2007, the value of Ontario international merchandise exports was up 2.1 per cent, compared to the same period in 2006, while imports, on the same basis, were up 3.7 per cent.

Borrowing Update

The total long-term public borrowing requirement for the Province and Ontario Electricity Financial Corporation (OEFC) in 2007–08 remains at $17.7 billion as in the First Quarter Ontario Finances, down $1.1 billion from the 2007 Budget Plan.

2007–08 Borrowing Program ($ Billions)	Budget Plan	Current Outlook	In-Year Change
Deficit/(Surplus)	0.4	0.0	(0.4)
Non-Cash Adjustments	(0.5)	(0.9)	(0.5)
Investment in Capital Assets	3.3	3.4	0.1
Net Loans/Investments	1.2	2.3	1.1
Debt Maturities	14.4	13.7	(0.7)
Debt Redemptions	0.9	1.3	0.4
Total Funding Requirement	**19.7**	**19.8**	**0.1**
Canada Pension Plan Borrowing	(0.4)	(0.3)	0.1
Decrease/(Increase) in Short-Term Borrowing	(0.6)	(1.4)	(0.8)
Increase/(Decrease) in Cash and Cash Equivalents	0.0	(0.5)	(0.5)
Total Long-Term Public Borrowing Requirement	**18.8**	**17.7**	**(1.1)**

Note: Numbers may not add due to rounding.

As reported in the 2007-08 First Quarter Ontario Finances, the $0.5 billion decline in non-cash adjustments is mainly due to additional cash transfers to the Province from the federal trusts.

The $1.1 billion increase in net loans/investments is mainly due to an increase in loans to Ontario Power Generation, and, as reported in the 2007 Economic Outlook and Fiscal Review, the transfer of third-party asset-backed commercial paper (ABCP) to a long-term investment portfolio. The Province currently holds about $0.6 billion of ABCP. It is expected that any potential Provincial write-down related to ABCP exposure will be offset by in-year savings on the Province's other IOD (Interest on Debt) costs and will not affect the fiscal plan.

The $0.7 billion decline in debt maturities, of which $0.2 billion occurred prior to September 30, 2007, is mainly a result of the Province extending the maturity of a number of debt issues. The $0.4 billion increase in debt redemptions is a result of higher-than-forecast redemptions of Ontario Savings Bonds in June and December. Short-term borrowing increased by $0.8 billion, primarily to offset the transfer of ABCP to net loans/investments, and to finance increased loans to Ontario Lottery and Gaming Corporation and the Royal Ontario Museum.

Borrowing Approach

As at December 31, 2007, the Province had issued $14.2 billion. Since the end of the quarter, the Province issued an additional $1.2 billion, for a total of $15.4 billion as at January 29, 2008.

Bond markets have been very volatile in recent months, but the Province continues to have steady access to the domestic bond market due to both investor confidence in Ontario and the liquidity provided by its benchmark bond issues. Approximately $14.3 billion, or 93 per cent, of the borrowing was completed in the domestic market.

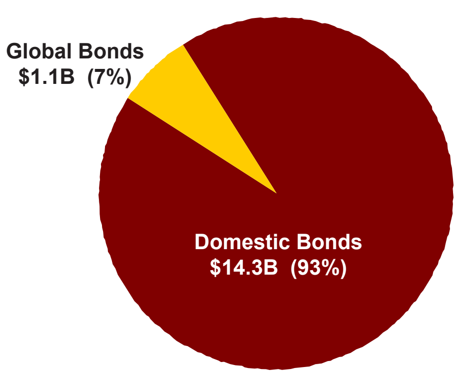
Borrowing Program Status

($ Billions)	Completed	Remaining	Total
Province	13.2	2.0	15.2
OEFC	2.2	0.3	2.5
Total	15.4	2.3	17.7

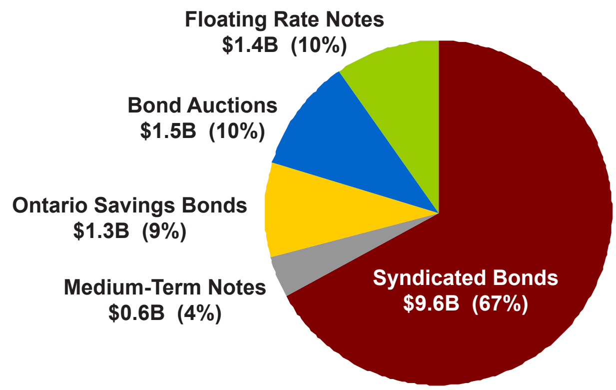
(As at January 29, 2008) – Numbers may not add due to rounding.

The Province will continue to maintain a flexible approach to borrowing, monitoring both domestic and international capital markets for opportunities to diversify its borrowing program. The Province targets 25 per cent of its borrowing from international markets. So far this fiscal year, seven per cent has been raised internationally as borrowing costs have been much higher abroad.

All Markets
C$15.4 billion



Domestic Market
C$14.3 billion



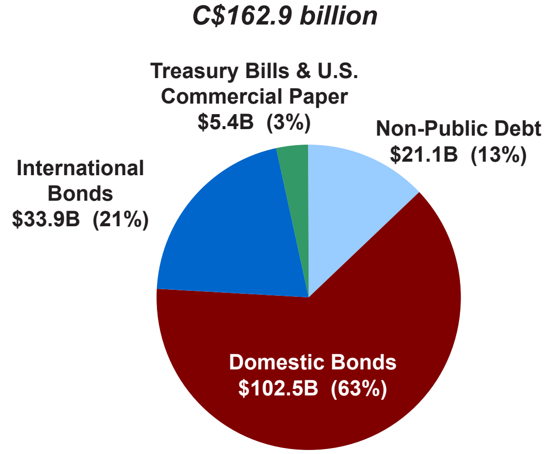
Credit rating agencies continue to rate Ontario's debt highly (Aa1 Moody's/AA S&P, DBRS) due to its strong fiscal performance.

Debt Portfolio

- Total debt of $162.9 billion is composed of bonds issued in both the short- and long-term public capital markets and non-public debt.
- Public debt totals $141.8 billion, primarily consisting of bonds issued in the domestic and international long-term public markets in 11 currencies.
- Ontario also has $21.1 billion outstanding in non-public debt issued in Canadian dollars. Non-public debt consists of debt instruments issued to public-sector pension funds in Ontario and the Canada Pension Plan Investment Board (CPPIB). This debt is not marketable and cannot be traded.

International Bonds issued in the following currencies:

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

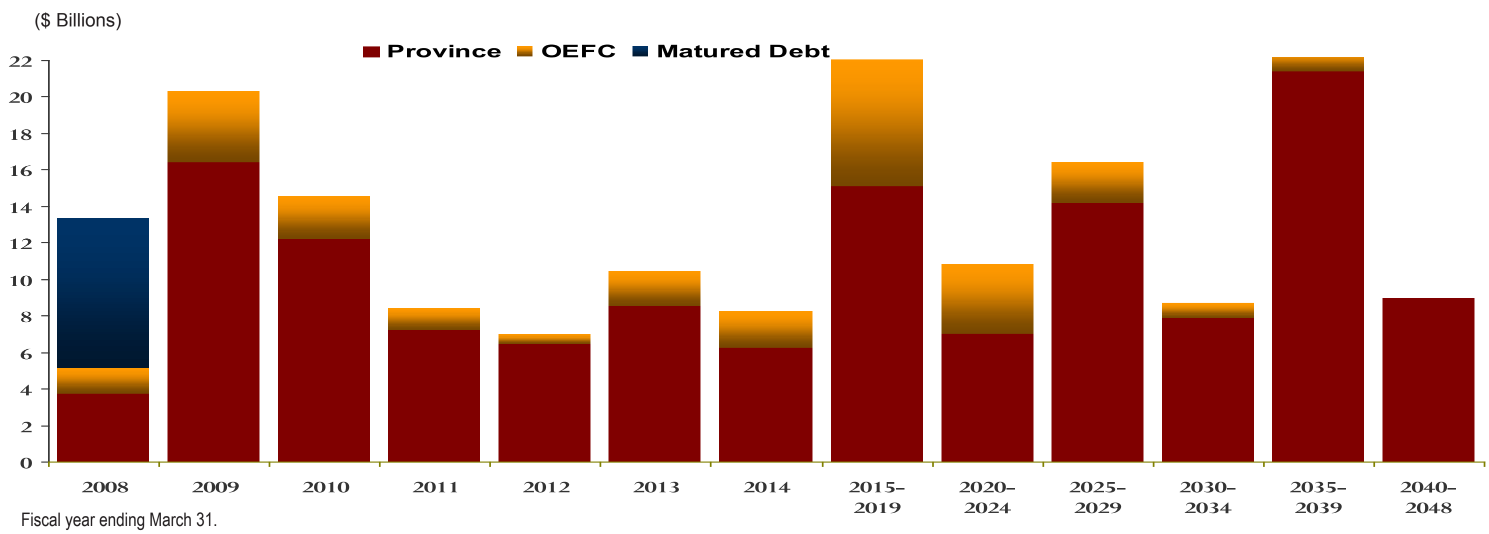


Debt Statistics

Debt		**Risk Exposure** (% of debt)	**Current**	**Policy Limit**
Total Debt	$162.9 billion	**Province**		
Net Debt*	$143.1 billion	Net Interest Rate Resetting Exposure	18.3	35.0
Net Debt/GDP*	24.4%	Foreign Exchange Exposure	0.5	5.0
Debt Statistics		**OEFC**		
Percentage Publicly Held	87.0%	Net Interest Rate Resetting Exposure	20.4	35.0
Percentage Issued in Canadian Dollars	84.1%	Foreign Exchange Exposure	0.0	5.0
Effective Interest Rate (Weighted Average)	5.87%			

Total Debt represents consolidated non-public and publicly held debt. Net Debt represents the difference between total liabilities and total financial assets. *Projected to March 31, 2008.

Debt Maturities



Fiscal year ending March 31.

Excludes short-term debt and other liabilities and the incremental impact of future financing. Assumes issues with options will be retired at the earliest possible date.

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

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