Ontario

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Bulletin
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2010–11 Second Quarter Ontario Finances

November 18, 2010

Fiscal Outlook

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- Key economic indicators have improved from the lows posted during the recession, and the economy is gradually recovering.
- The Province is now projecting a deficit of $18.7 billion for 2010–11, a $1.0 billion improvement from the 2010 Budget. The government is on track to meet the steadily declining medium-term fiscal targets outlined in the 2010 Budget of $17.3 billion in 2011–12 and $15.9 billion in 2012–13.
- The 2010–11 revenue outlook at $107.7 billion is $0.8 billion above the 2010 Budget forecast, largely reflecting stronger economic growth in 2010. Although economic recovery is underway in Ontario, significant risks remain that could cause variances to both the Province's revenue and expense outlooks.
- Corporations tax revenues are projected to be $0.7 billion above the 2010 Budget forecast due to stronger 2009 revenues indicated by tax returns processed since the Budget. Weaker than previously forecast 2010 profit growth only partially offsets the stronger 2009 amounts.
- Risks to the outlook include uncertainty regarding the U.S. economic recovery and the ongoing challenges in the global economy, such as sovereign debt concerns and trade imbalances.
- Total expense in 2010–11 is currently projected to be $125.6 billion, 0.2 per cent lower than the 2010 Budget forecast, due to a lower interest on debt projection than forecast in the 2010 Budget. The government is proposing a new Ontario Clean Energy Benefit (OCEB). The OCEB would provide eligible consumers with a benefit equal to 10 per cent of the total cost of electricity on their bills, including tax, effective January 1, 2011.
- The government will continue to identify program efficiencies to ensure the rate of expense growth remains well below the rate of revenue growth over the medium-term.
- The fiscal plan continues to maintain a $0.7 billion reserve in 2010–11, and $1.0 billion in each of 2011–12 and 2012–13.

Medium-Term Fiscal Plan and Outlook
($Billions)

		Projected Outlook		
	Actual 2009–10	**2010–11**	**2011–12**	**2012–13**
Total Revenue	**95.8**	**107.7**	**107.6**	**111.8**
Expense				
Programs	106.3	115.9	113.1	114.5
Interest on Debt	8.7	9.7	10.8	12.2
Total Expense	**115.1**	**125.6**	**123.9**	**126.7**
Reserve	–	0.7	1.0	1.0
Surplus/(Deficit)	**(19.3)**	**(18.7)**	**(17.3)**	**(15.9)**

Note: Numbers may not add due to rounding

Economic Outlook

- There are clear signs that a recovery is taking shape in Ontario. Key indicators in Ontario have improved from lows posted during the recession.
- The Ministry of Finance is assuming real gross domestic product (GDP) growth of 3.2 per cent in 2010, 2.2 per cent in 2011, 2.5 per cent in 2012 and 2.7 per cent in 2013. This is 0.2 of a percentage point below the private sector average each year to be prudent.
- Ontario's real GDP growth in 2010 is expected to be faster than in all other provinces except British Columbia and Newfoundland and Labrador, and stronger than in both Canada and the U.S. as a whole.
- Economic forecasts for 2010 have improved compared to those in the 2010 Budget, but have weakened for subsequent years, largely caused by weaker anticipated U.S. growth. As well, there are significant risks to the outlook, particularly the ongoing challenges in the global economy.
- Despite the severity of the recession's impact on employment, 75 per cent of the jobs lost have been recovered. Since May 2009, Ontario's job growth has been stronger than that of most other provinces and significantly above that of the U.S. as a whole and most states.

Ontario Economic Outlook (Per Cent)	**2007**	**2008**	**2009**	**2010p**	**2011p**	**2012p**	**2013p**
Real GDP Growth	2.0	(0.9)	(3.6)	3.2	2.2	2.5	2.7
Nominal GDP Growth	4.2	0.1	(1.1)	5.6	4.1	4.5	4.6
Employment Growth	1.6	1.4	(2.4)	1.7	1.7	1.8	1.9
CPI Inflation	1.8	2.3	0.4	2.3	2.1	2.0	2.0

p = Ministry of Finance planning projection
Sources: Statistics Canada and Ontario Ministry of Finance

Borrowing Update

- The Province is renewing its long-standing partnership with Teranet by extending its exclusive licence to provide electronic land registration and writs services in Ontario.
- The total funding requirement for 2010–11 has decreased by $2 billion since the 2010 Budget, due to the $1 billion decrease in the provincial deficit and the $1 billion payment to the Province from the proposed Teranet agreement.
- The Province has chosen to reduce both short-term and long-term borrowing at this point. Depending on market conditions throughout the remainder of the year, the Province has the flexibility to adjust the mix between short-term and long-term borrowing to continue to match investor demand.
- The borrowing program is projected to be $38.8 billion in 2011–12 and $40.2 billion in 2012–13.

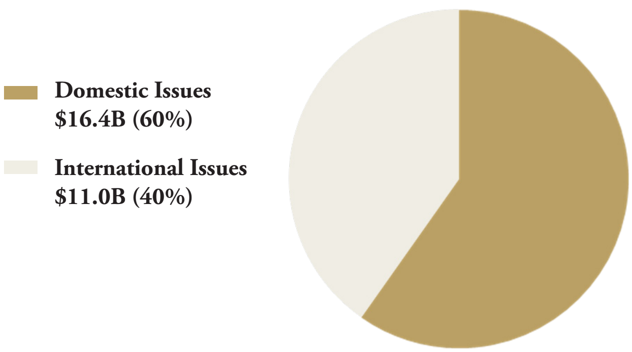
2010–11 Borrowing Program: Province and Ontario Electricity Financial Corporation (OEFC) ($Billions)	**2010–11**		
	Budget Plan	**Current Outlook**	**In-Year Change**
Deficit	19.7	18.7	(1.0)
Investment in Capital Assets	9.8	9.8	-
Non-Cash Adjustments	(1.7)	(2.7)	(1.0)
Net Loans/Investments	1.9	1.9	-
Debt Maturities	15.6	15.6	-
Debt Redemptions	0.4	0.4	-
Total Funding Requirement	**45.6**	**43.6**	**(2.0)**
Canada Pension Plan Borrowing	(0.8)	(0.8)	-
Decrease/(Increase) in Short-Term Borrowing	(1.6)	(0.6)	1.0
Increase/(Decrease) in Cash and Cash Equivalents	(3.5)	(3.5)	-
Total Long-Term Public Borrowing Requirement	**39.7**	**38.7**	**(1.0)**

Note: Numbers may not add due to rounding

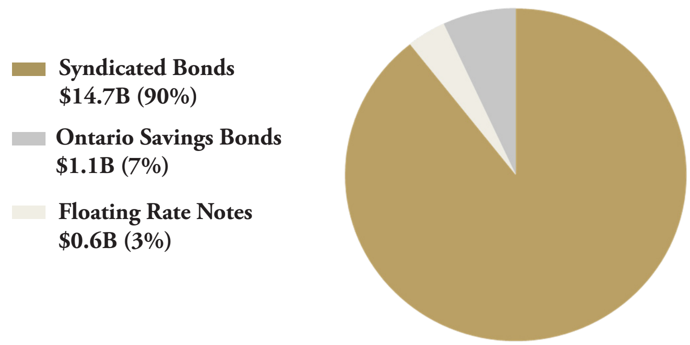
Borrowing Approach

- The Province maintained a flexible approach to borrowing, monitoring both domestic and international capital markets for cost-effective borrowing opportunities. The 2010 Budget announced that the Province planned to borrow at least 50 per cent in the domestic market. Since then, the Province has responded to strong demand in Canada, allowing it to increase the proportion borrowed domestically compared to recent years.
- The Province has extended the term of its debt in response to robust investor demand for long-term Ontario debt denominated in Canadian dollars. This term extension reduces refinancing risks and will mitigate the impact on the Province's interest on debt costs in the future when rates begin to return to historical norms.
- About $16.4 billion, or 60 per cent of borrowing, has been completed in the domestic market so far in 2010–11, compared to 49 per cent for the entire 2009–10 fiscal year.

All Markets
Total – $27.4 billion issued



Domestic Market
Total – $16.4 billion issued



- As at November 4, 2010, $27.4 billion, or 71 per cent of the $38.7 billion long-term borrowing requirement for 2010–11, was completed.

Debt Statistics

Debt		**Risk Exposure (% of debt)**	**Current**	**Policy Limit**
Total Debt	$225.3 billion	**Province**		
Net Debt[1]	$219.5 billion	Net Interest Rate Resetting Exposure	5.1	35.0
Accumulated Deficit[1]	$149.6 billion	Foreign Exchange Exposure	1.1	5.0
Net Debt[1]/GDP	35.9%			
Accumulated Deficit[1]/GDP	24.5%	**OEFC**		
Debt Statistics		Net Interest Rate Resetting Exposure	13.9	35.0
Percentage Publicly Held	93%	Foreign Exchange Exposure	0.0	5.0
Percentage Issued in Canadian Dollars	75%			
Effective Interest Rate (Weighted Average)	4.63%			

As at September 30, 2010
[1] Projected to March 31, 2011
Net Debt is calculated as the difference between liabilities and financial assets. 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.

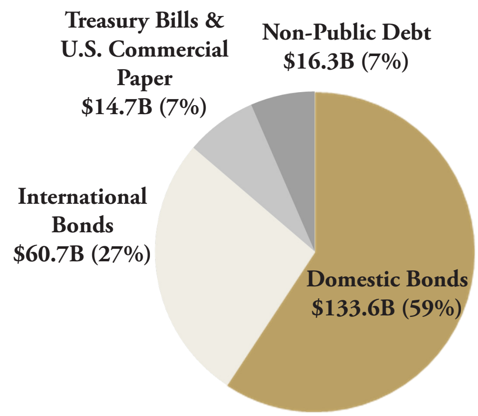
Debt Portfolio

- Total debt of $225.3 billion (as at September 30, 2010) is composed of bonds issued in both the short- and long-term public capital markets, non-public debt, treasury bills and U.S. commercial paper.
- Public debt totals $209 billion, primarily consisting of bonds issued in the domestic and international long-term public markets in 11 currencies.
- Ontario also has $16.3 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

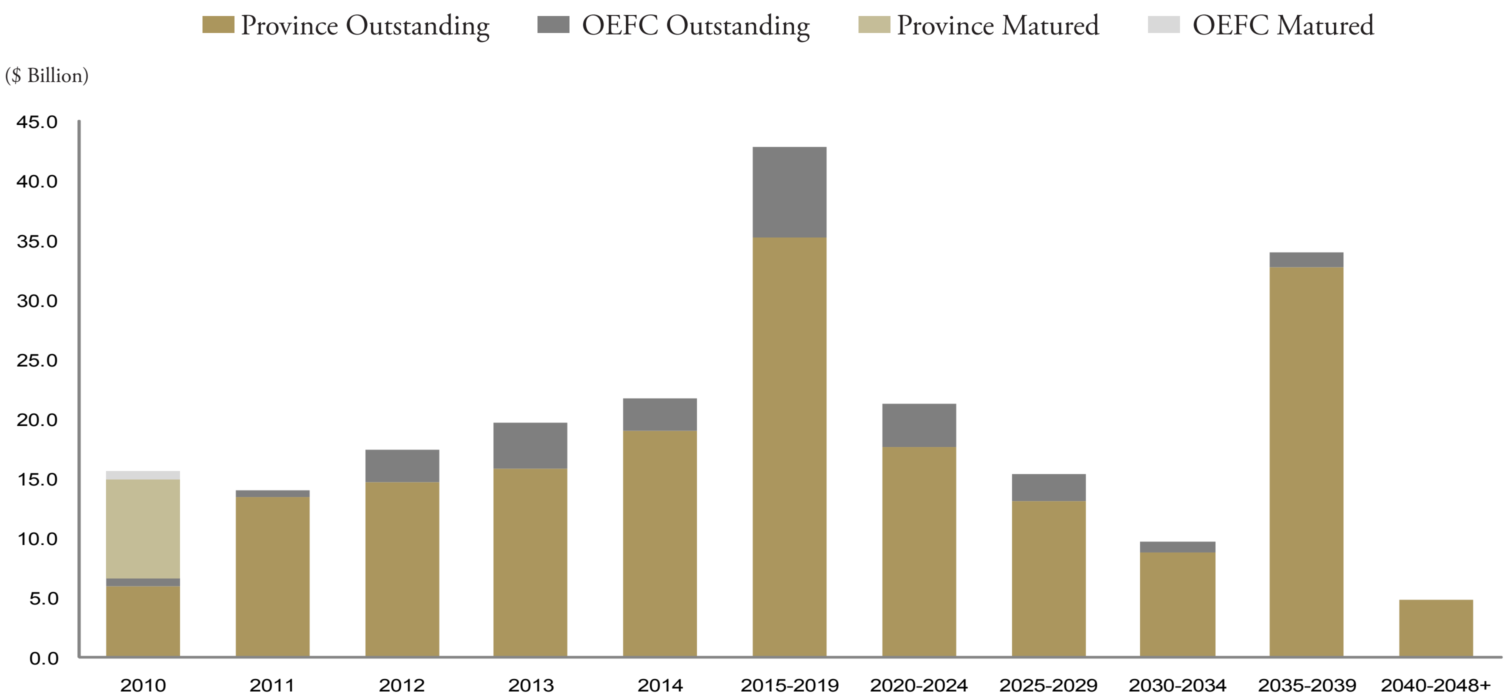
- Canadian dollar
- U.S. dollar
- Euro
- New Zealand dollar
- Swiss franc
- Japanese yen
- Australian dollar
- U.K. sterling
- South African rand
- Hong Kong dollar
- Norwegian kroner

Total Debt Composition
$225.3 billion



As at September 30, 2010

Debt Maturities



As at September 30, 2010
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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