2011–12 Ontario Finances Q1 Update

August 8, 2011

Fiscal Outlook

- In the *2011 Budget*, the Ontario government projected a $16.3 billion deficit for 2011–12. The first-quarter results indicate the Province is now on track for a deficit of $16.0 billion, an improvement of $0.3 billion.
- The 2011–12 revenue outlook at $108.8 billion is $0.3 billion above that presented in the *2011 Budget* forecast, largely reflecting a loan repayment from Chrysler Corporation.
- Risks around the revenue outlook are largely related to global factors such as recent developments in Europe and the United States, which could hamper the global economic recovery.
- The 2011–12 total expense outlook, at $124.1 billion, is $13.9 million higher than forecast in the *2011 Budget*.
- Projected interest on debt expense for 2011-12 at June 30, 2011 is unchanged from the *2011 Budget*.
- The 2011–12 outlook maintains the full reserve and the remaining contingency funds to protect against any adverse changes to the fiscal outlook.
- In the *2011 Budget*, the Province projected diminishing deficits of $15.2 billion in 2012-13, and $13.3 billion in 2013-14 with a balanced budget by 2017-18.
- Final results for 2010-11 will be updated in the Public Accounts later this summer. Further details on the Province's fiscal plan will be provided in future fiscal updates.

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Fiscal Summary ($ billions)	**Interim**	**2011–12**			**Medium Term Outlook***	
	2010–11	**2011 Budget Plan**	**Q1 Outlook**	**In-Year Change**	**2012–13**	**2013–14**
Revenue	**106.2**	**108.5**	**108.8**	0.3	111.8	117.0
Expense						
Programs	113.3	113.8	113.8	–	114.6	116.7
Interest on Debt[1]	9.5	10.3	10.3	–	11.4	12.6
Total Expense	**122.9**	**124.1**	**124.1**		**126.0**	**129.3**
Reserve	–	0.7	0.7	–	1.0	1.0
Surplus/(Deficit)	**(16.7)**	**(16.3)**	**(16.0)**	**0.3**	**(15.2)**	**(13.3)**

Note: Numbers may not add due to rounding
[1]Interest on debt expense is net of interest capitalized during construction of tangible capital assets of $195 million in 2010–11 and $268 million in 2011–12.
*As presented in the *2011 Budget*.

Economic Performance and Outlook

- In the first calendar quarter of 2011, Ontario GDP grew at an annualized rate of 3.2 per cent, the seventh consecutive quarterly gain. Real GDP in the first quarter surpassed the pre-recession level set in the second quarter of 2008 by 0.3 per cent. First quarter growth was driven by higher business investment spending and inventory accumulation.
- Ontario's unemployment rate declined by 0.2 percentage points to 7.5 per cent in July, its lowest level since December 2008. Ontario employment has increased by 295,600 net jobs from the recessionary low in May 2009, with full-time employment up 303,100. As of July 2011, employment is 38,800 jobs (+0.6%) above the pre-recession peak in September 2008.
- Ontario home resales were fairly steady over the first half of 2011. The average price of an Ontario resale home increased 10.0 per cent in June from a year earlier.
- As of August 4, 2011, private-sector forecasters, on average, project Ontario real GDP to increase by 2.7 per cent in 2011, up slightly from 2.6 per cent at the time of the *2011 Budget*.
- There are significant risks concerning global growth, including the uncertain U.S. recovery and the sovereign debt crisis in Europe. As a result, private-sector forecasts for Ontario real GDP growth in 2012 have declined from 2.8 per cent at the time of the *2011 Budget* to 2.5 per cent currently.

Economic Outlook

Ontario Economic Outlook	**2009**	**2010**	**2011^p**	**2012^p**	**2013^p**
Real GDP Growth (per cent)	(3.8)	3.0	2.4	2.7	2.7
Nominal GDP Growth (per cent)	(1.2)	5.8	4.6	5.1	4.8
Employment Growth (per cent)	(2.5)	1.7	1.7	1.8	1.8
Unemployment Rate (per cent)	9.0	8.7	8.2	7.7	7.1
CPI Inflation (per cent)	0.4	2.5	2.3	2.1	2.0

p = Ontario Ministry of Finance *2011 Budget* planning projection
Sources: Statistics Canada and Ontario Ministry of Finance

Borrowing Update

- As at August 8, 2011, the Province has completed $14.5 billion (or 41 per cent) of its long-term public borrowing requirement, including U.S. dollar Global bonds totalling $3.9 billion; one Kangaroo issue worth $0.2 billion; and a Euro Medium-Term Note denominated in Norwegian krone with proceeds totalling $44 million.

2011–12 Borrowing Program: Province and OEFC	**2011–12**			**2011 Budget Outlook**	
($ million)	**2011 Budget Plan**	**Q1**	**In-Year Change**	**2012-13**	**2013-14**
Deficit/(Surplus)	16.3	16.0	(0.3)	15.2	13.3
Investment in Capital Assets	10.9	10.9	-	11.5	10.5
Non-Cash Adjustments	(3.6)	(3.6)	-	(3.4)	(3.9)
Net Loans/Investments	2.7	2.5	(0.1)	1.2	1.1
Debt Maturities	13.9	13.9	-	17.4	23.7
Debt Redemptions	0.5	0.5	-	0.5	0.5
Total Funding Requirement	**40.7**	**40.2**	**(0.5)**	**42.3**	**45.3**
Canada Pension Plan Borrowing	(1.1)	(1.1)	-	(0.8)	0.0
Decrease/(Increase) in Short-Term Borrowing	0	0.5	0.5	(3.0)	(3.0)
Increase/(Decrease) in Cash and Cash Equivalents	(4.6)	(4.6)	-	0.0	0.0
Total Long-Term Public Borrowing Requirement	**35.0**	**35.0**	**-**	**38.6**	**42.2**

Note: Numbers may not add due to rounding

Borrowing Approach

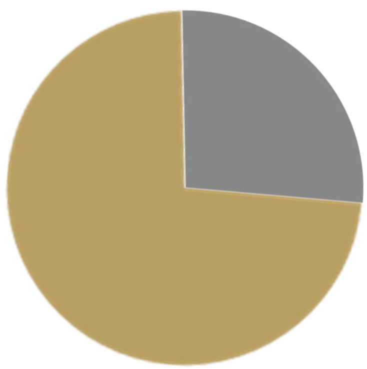
- Ontario has issued $10.3 billion (71 per cent) domestically, well above the 60 per cent target set out in the *2011 Budget*.
- International markets have also been an important source of funding for Ontario so far this year. About $4.1 billion or 29 per cent of long-term borrowing has been raised internationally in U.S. dollars, Norwegian krone and Australian dollars.
- As dometic investors have continued to show a preference for longer-term maturities, Ontario has been able to extend the term to maturity of its debt and take advantage of the sustained low interest rate environment.

All Markets

Total – $14.5 billion issued

Domestic Issues $10.3B (71%)

International Issues $4.1B (29%)



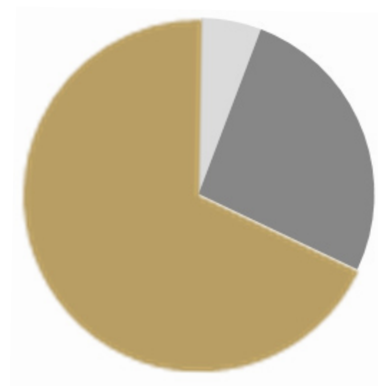
Domestic Market

Total – $10.3 billion issued

Syndicated Bonds $7.0B (68%)

Floating Rate Notes $2.8B (27%)

Ontario Savings Bonds $0.6B (5%)



Note: Numbers may not add due to rounding

As at August 8, 2011

Debt Statistics

Debt	**2011–12**
Total Debt	$244.7 billion
Net Debt[1]	$241.2 billion
Accumulated Deficit[1]	$163.6 billion
Net Debt[1]/GDP	37.6%
Accumulated Deficit[1]/GDP	25.5%
Debt Statistics	
Percentage publicly held	93.7%
Percentage issued in Canadian dollars	73.7%
Effective Interest Rate (weighted average)	4.5%

Risk Exposure (% of debt)	**Current**	**Policy Limit**
Province		
Net Interest Rate Resetting Exposure	7.1	35.0
Foreign Exchange Exposure	1.0	5.0
OEFC		
Net Interest Rate Resetting Exposure	11.8	35.0
Foreign Exchange Exposure	0.0	5.0

As at June 30, 2011

[1]Projected to March 31, 2012

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.

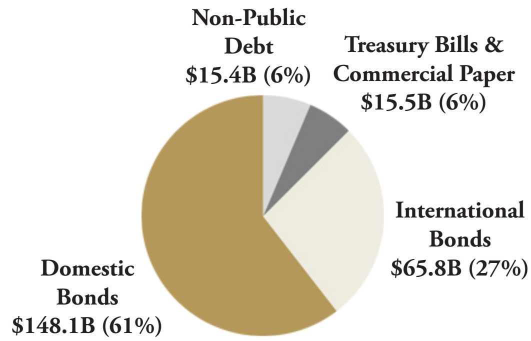
Debt Portfolio

- Total debt of $244.7 billion 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 $229.4 billion, primarily consisting of bonds issued in the domestic and international long-term public markets in 11 currencies.
- Ontario also has $15.4 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).

International Bonds

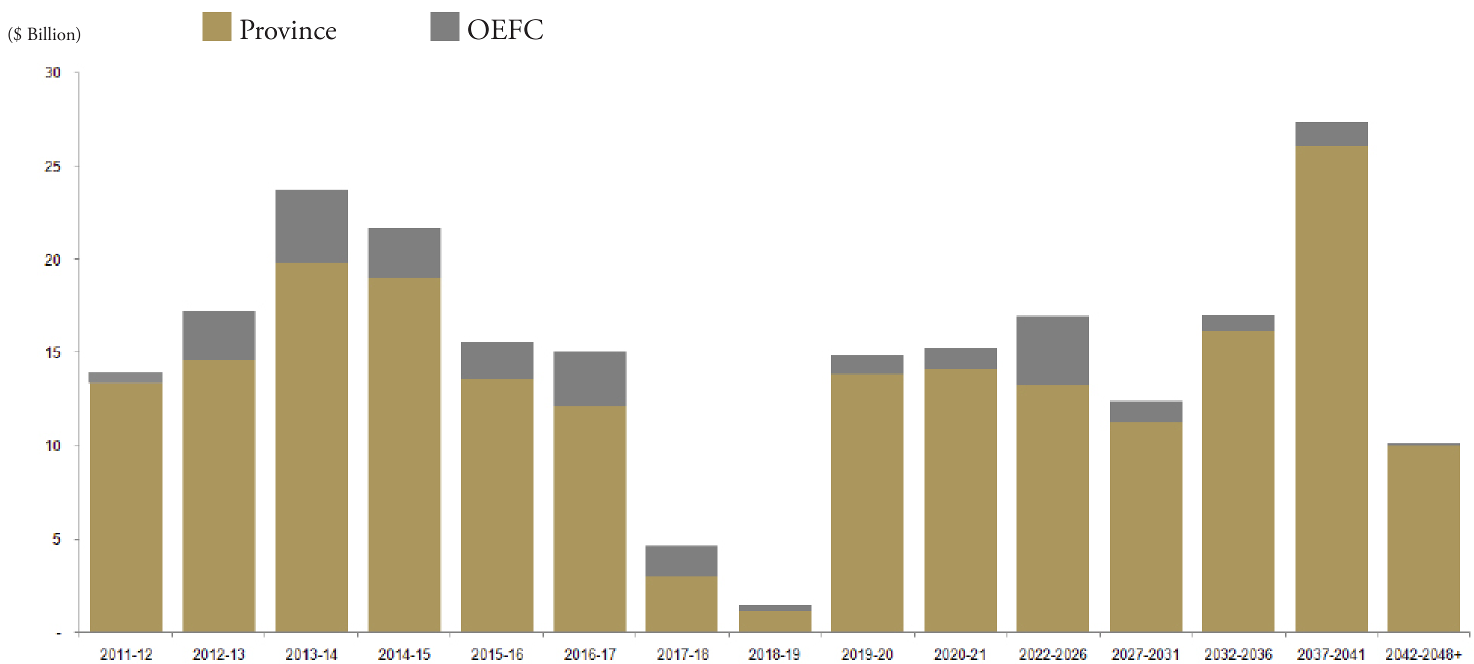
- Canadian dollar
- U.S. dollar
- Euro
- New Zealand dollar
- Norwegian kroner
- Swiss franc
- Japanese yen
- Australian dollar
- U.K. pound sterling
- South African rand
- Hong Kong dollar

Total Debt Composition
C$244.7 billion



As at June 30, 2011

Debt Maturities



As at June 30, 2011
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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