Ontario

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Bulletin
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2011–12 Fall Economic Statement

November 23, 2011

Fiscal Outlook

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- The Province remains on track to meet its fiscal targets.
- Ontario's fiscal outlook continues to project steadily declining deficits of $16.0 billion in 2011–12 (0.3 billion lower than the *2011 Budget* forecast), $15.2 billion in 2012–13 and $13.3 billion in 2013–14.
- Provincial revenue is now projected to grow at a slower rate than forecast in the *2011 Budget* primarily due to lower economic growth projections for Ontario.
- Total expense is now forecast to be lower than projected at the time of the *2011 Budget* forecast, primarily due to lower interest-on-debt expense.
- The reserve for 2011–12 has been reduced by $0.5 billion to counter the impact of slower economic growth on Ontario's fiscal performance.
- A $1.0 billion reserve has been maintained for 2012–13 and 2013–14, recognizing the ongoing global economic uncertainty and significant volatility that could cause variances to both the Province's revenue and expense outlooks.
- Eliminating the deficit in 2017–18 and maintaining balanced budgets beyond that time as demographic trends exert increasing pressure on government programs will require a fundamental reform of the delivery of public services. The government has appointed the Commission on the Reform of Ontario's Public Services to make recommendations in time for the *2012 Ontario Budget*.

Fiscal Summary	Actual	2011–12			Medium Term Outlook	
($ billions)	**2010–11**	**2011 Budget Plan[1]**	**FES Outlook**	**In-Year Change**	**2012–13**	**2013–14**
Revenue	**106.7**	**108.7**	**108.3**	**(0.4)**	111.3	116.3
Expense						
Programs	111.2	114.0	114.0	(0.1)	114.9	117.0
Interest on Debt[2]	9.5	10.3	10.1	(0.2)	10.6	11.7
Total Expense	**120.7**	**124.3**	**124.1**	**(0.3)**	**125.5**	**128.7**
Reserve	–	0.7	0.2	(0.5)	1.0	1.0
Surplus/(Deficit)	**(14.0)**	**(16.3)**	**(16.0)**	**0.3**	**(15.2)**	**(13.3)**

[1]For purposes of comparison, revenue and expense from the 2011 Budget Plan are both increased by the same amounts ($0.3 billion) from the original presentation to reflect a fiscally neutral reclassification of three government enterprises to government organizations. As well, three other government organizations have recently crossed the threshold for consolidation.

[2]Interest on debt expense is net of interest capitalized during construction of tangible capital assets of $0.2 billion in 2010–11, $0.3 billion in 2011–12, $0.3 billion in 2012–13 and $0.3 billion in 2013-14.

Note: Numbers may not add due to rounding

Economic Outlook

- A weak U.S. economy, European sovereign debt concern, higher oil prices and disruptions from the Japanese tsunami crisis, have all combined to slow Ontario's economic growth during 2011. As a result of these global economic challenges, the Ontario economy is expected to grow at a more modest pace than previously forecast.
- The Ministry of Finance is projecting real gross domestic product (GDP) growth of 1.8 per cent in 2011, 1.8 per cent in 2012, 2.5 per cent in 2013 and 2.6 per cent in 2014. This is below the private–sector average each year.
- Despite the easing in the pace of growth, the Ontario economy has largely recovered from the global recession 2008–09. As of the second quarter 2011, Ontario real GDP was just 0.1 per cent below the pre-recession level. Recent economic data indicates that economic growth resumed in the third quarter of 2011.
- Ontario has created 128,400 net new jobs so far this year, accounting for over 45 per cent of all the jobs created across Canada. The pace of job creation in Ontario is ahead of that of the United States and most of the G7 nations. As of October 2011, employment was 10,000 jobs above the pre-recession peak in September 2008.

Ontario Economic Outlook (Per Cent)	**2009**	**2010**	**2011p**	**2012p**	**2013p**	**2014p**
Real GDP Growth	(3.2)	3.0	1.8	1.8	2.5	2.6
Nominal GDP Growth	(0.9)	5.3	4.0	3.7	4.4	4.5
Employment Growth	(2.5)	1.7	1.8	1.1	1.4	1.5
CPI Inflation	0.4	2.5	3.2	2.0	2.0	2.0

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

Borrowing Update

- The total long-term public borrowing requirement over the forecast period has been reduced by $3.6 billion compared to the *2011 Budget*, primarily because of the lower deficit recorded in 2010–11 and the lower projected deficit in 2011–12.
- Long-term public borrowing will remain at the Budget forecast of $35 billion this fiscal year, allowing the Province to smooth the borrowing program over the next three years, while taking advantage of historically low interest rates and robust demand for Ontario long-term debt.
- The Province plans to buy back debt maturing over the next two fiscal years, if the opportunity arises. The availability of debt to buy back at fair prices with the appropriate accounting treatment will determine whether the Province proceeds with the planned debt buy backs.

2011–12 Borrowing Program: Province and Ontario Electricity Financial Corporation (OEFC) ($Billions)	**2011–12**				
	Budget Plan	**Current Outlook**	**In-Year Change**	**2012–13**	**2013–14**
Deficit	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	2.4	(0.3)	1.2	1.0
Debt Maturities	13.9	13.9	-	17.3	23.8
Debt Redemptions	0.5	0.3	(0.2)	0.3	0.3
Total Funding Requirement	**40.7**	**40.0**	**(0.7)**	**42.1**	**45.1**
Canada Pension Plan Borrowing	(1.1)	(1.1)	-	(0.8)	-
Decrease/(Increase) in Short-Term Borrowing	-	0.7	0.7	(3.0)	(3.0)
Increase/(Decrease) in Cash and Cash Equivalents	(4.6)	(7.8)	(3.2)	-	-
Provision for Debt Buy-Backs	-	3.2	3.2	(1.2)	(2.0)
Total Long-Term Public Borrowing Requirement	**35.0**	**35.0**	**-**	**37.2**	**40.0**

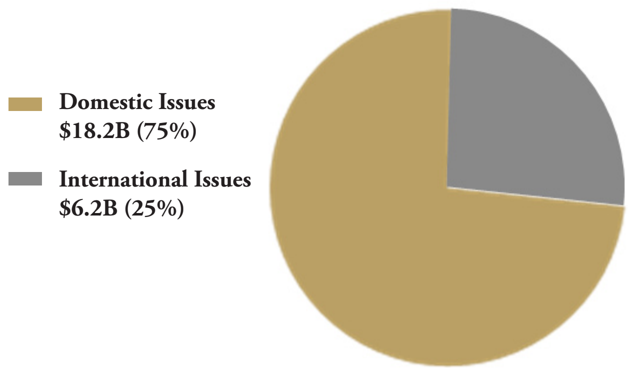
Note: Numbers may not add due to rounding

Borrowing Approach

- The Province has been able to continue to extend the term to maturity of its debt while locking in interest rates below the forecast used in the *2011 Budget*. The weighted-average term to maturity of long-term provincial debt issued so far in 2011–12 is 11.6 years, compared to 12.8 years for 2010–11 and 8.1 years for 2009–10. This term to maturity extension reduces refinancing risks and helps offset the impact of expected higher interest rates in the future years on the Province's interest on debt (IOD) costs.
- The IOD expense in 2011–12, at $10,097 million, is $193 million less than forecast in the *2011 Budget*. This reduction primarily reflects the impact of lower interest rates and the lower deficit in 2010–11.
- Ontario has issued $18.2 billion (75 per cent) in the Canadian dollar market, well above the 60 per cent target set out in the *2011 Budget*. The Province now expects to end the year with more than 70 per cent of its borrowing in this market.

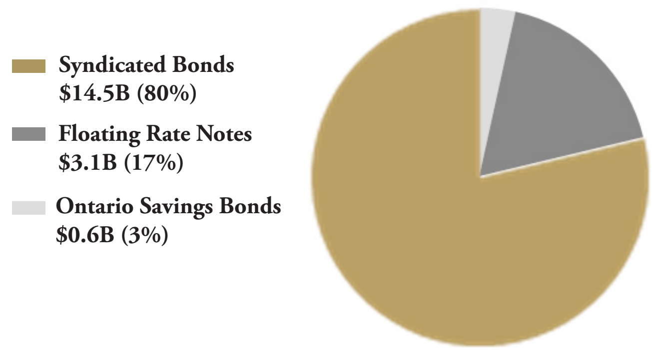
All Markets

Total – $24.3 billion issued



Canadian Dollar Market

Total – $18.2 billion issued



Note: Numbers may not add due to rounding

- As at November 15, 2011, $24.3 billion, or 70 per cent of the $35.0 billion long-term borrowing requirement for 2011–12, was completed.

Debt Statistics

Debt	
Total Debt	$251.9 billion
Net Debt[1]	$238.4 billion
Accumulated Deficit[1]	$160.6 billion
Net Debt[1]/GDP	37.4%
Accumulated Deficit[1]/GDP	25.2%
Debt Statistics	
Percentage Publicly Held	94%
Percentage Issued in Canadian Dollars	73%
Effective Interest Rate (Weighted Average)	4.4%

Risk Exposure (% of debt)	Current	Policy Limit
Province		
Net Interest Rate Resetting Exposure	5.8	35.0
Foreign Exchange Exposure	1.1	5.0
OEFC		
Net Interest Rate Resetting Exposure	10.2	35.0
Foreign Exchange Exposure	0.0	5.0

As at September 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.

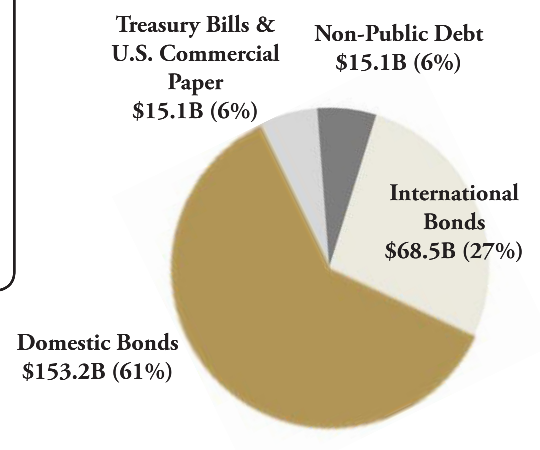
Debt Portfolio

- Ontario had a total debt of $251.9 billion as at September 30, 2011. Total debt is composed of bonds issued in both the short- and long-term public capital markets and non-public debt.
- Public debt totals $236.8 billion, primarily consisting of bonds issued in the long-term markets in Canadian dollars, and internationally in U.S. dollars and in nine other currencies.
- Ontario also has $15.1 billion outstanding in non-public debt issued in Canadian dollars. Non-public debt mainly consists of debt instruments issued to public-sector pension funds in Ontario and the Canada Pension Plan Investment Board. This debt is not marketable and cannot be traded.

International Bonds

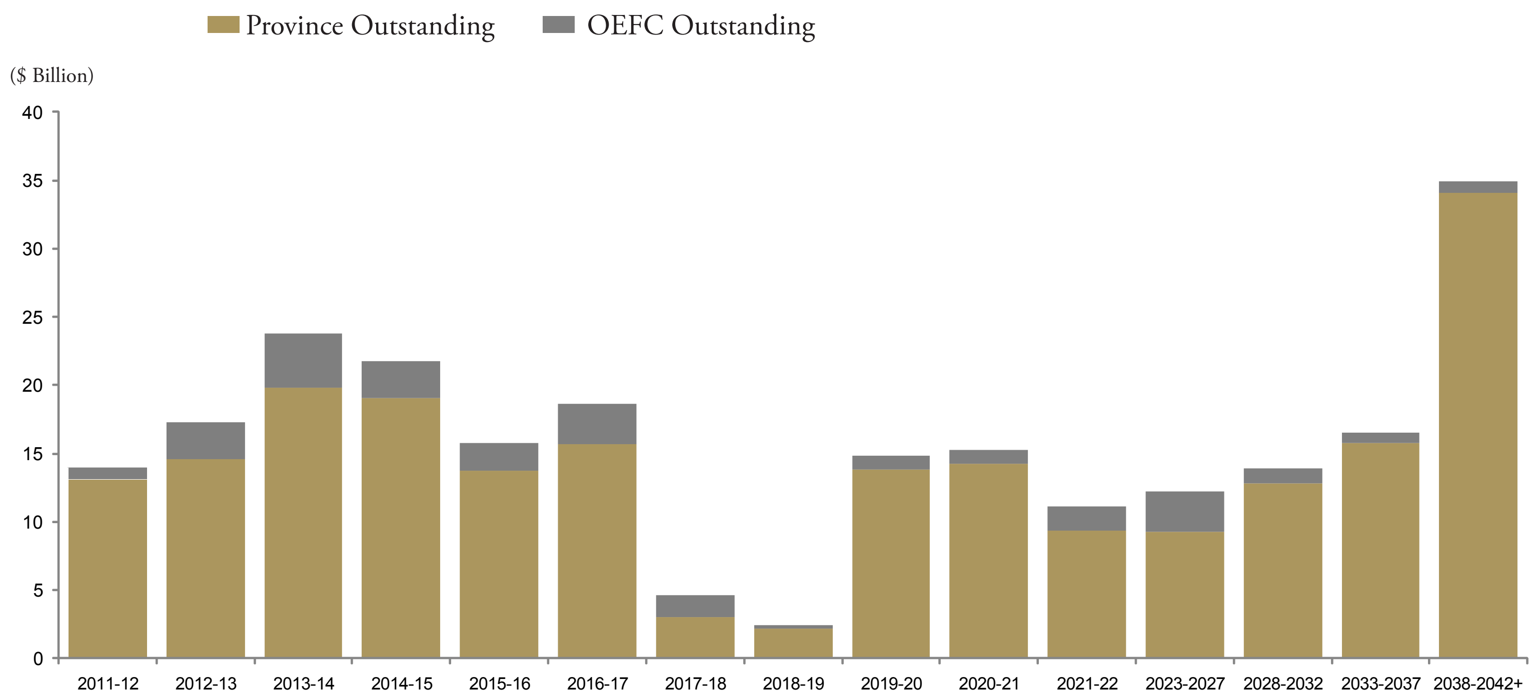
- Canadian dollar
- U.S. dollar
- Euro
- New Zealand dollar
- Swiss franc
- Japanese yen
- Australian dollar
- U.K. sterling
- South African rand
- Hong Kong dollar
- Norwegian kroner

Total Debt Composition
$251.9 billion



As at September 30, 2011

Debt Maturities



As at September 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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