

2022 Ontario Economic Outlook and Fiscal Review

- Ontario is projecting a \$12.9 billion deficit in 2022–23, an improvement of \$6.9 billion from the outlook published in the *2022 Budget*.
- While Ontario experienced strong economic growth through 2021 and in the first half of 2022, there is economic uncertainty on the horizon. A key risk for global economies, including Canada, is central banks sharply raising interest rates to prevent elevated inflation from becoming entrenched.
- Ontario has made progress towards each of the existing targets in its debt burden reduction strategy, with some notable improvements since the *2022 Budget*. Ontario's net debt-to-GDP ratio is now forecast to be 38.4 per cent in 2022–23, compared with the forecast of 41.4 per cent in the *2022 Budget*. This is down by 0.8 percentage points since 2021–22.
- Ontario's long-term borrowing requirement for 2022–23 is forecast to be \$32.2 billion, \$9.3 billion less than the *2022 Budget* forecast. This is primarily due to the stronger financial results reported in the *Public Accounts of Ontario 2021–2022*, lower-than-forecast deficit for 2022–23, and pre-borrowing for 2023–24.

Borrowing Program

- Over the three-year outlook period, total long-term borrowing is now forecast to be \$22.1 billion lower than forecast in the *2022 Budget*. Furthermore, the short-term borrowing program is forecast to be \$3.0 billion lower in 2022–23 and \$1.0 billion lower in 2023–24, reducing Ontario's overall borrowing needs by \$26.1 billion over the three-year outlook period compared to the *2022 Budget* forecast.
- Had the borrowing program stayed the same as in the *2022 Budget* forecast, given higher interest rates forecast today, interest on debt would have been \$0.2 billion higher in 2022–23, \$0.7 billion higher in 2023–24 and \$1.0 billion higher in 2024–25.

(\$ Billions)	Current Outlook		Medium-Term Outlook		
	2022 Budget	In-Year Change	2022–23	2023–24	2024–25
Deficit/(Surplus)	19.9	(6.9)	12.9	8.1	0.7
Investment in Capital Assets	13.4	—	13.4	13.6	15.0
Non-Cash and Cash Timing Adjustments	(9.7)	(8.0)	(17.7)	(9.6)	(10.5)
Loans to Infrastructure Ontario	(0.1)	(0.1)	(0.2)	0.1	0.1
Other Net Loans/Investments	0.7	(0.3)	0.4	0.0	(0.8)
Debt Maturities/Redemptions	30.5	0.0	30.6	31.2	27.8
Total Funding Requirement	54.7	(15.3)	39.5	43.4	32.3
Decrease/(Increase) in Short-Term Borrowing	(3.0)	3.0	—	(2.0)	—
Increase/(Decrease) in Cash and Cash Equivalents	—	—	—	—	—
Pre-borrowing in 2021–22 for 2022–23	(10.3)	—	(10.3)	—	—
Pre-borrowing for 2023–24	—	3.0	3.0	(3.0)	—
Total Long-Term Public Borrowing	41.5	(9.3)	32.2	38.4	32.3

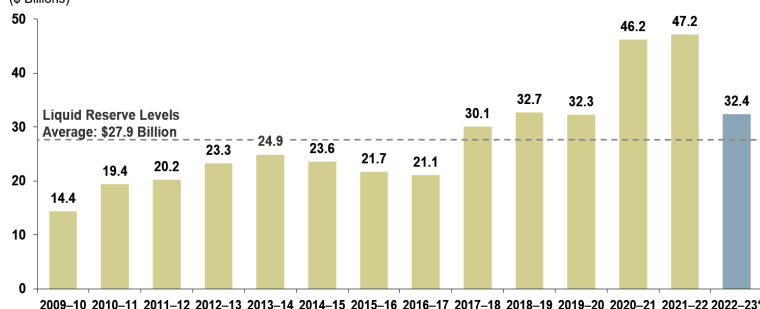
Note: Numbers may not add due to rounding.

Source: Ontario Financing Authority

Liquidity

- Ontario balances the objective of minimizing the cost of holding liquid reserves against the need to always have enough cash on hand to pay its bills, invest in capital assets, refinance maturing debt and pay interest.
- As of November 10, 2022, liquid reserve levels were \$36.8 billion.

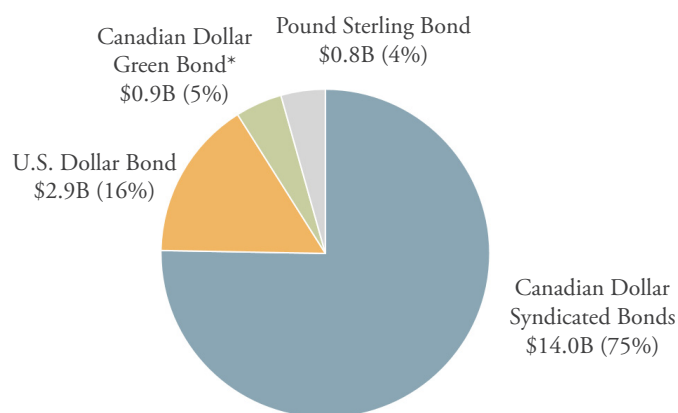
Average Unrestricted Liquid Reserve Levels
(\$ Billions)



*As of September 30, 2022.

2022–23 Borrowing Program

As of November 14, 2022, borrowing completed for 2022–23 totalled \$18.6 billion.



*Face value \$1.0 billion.

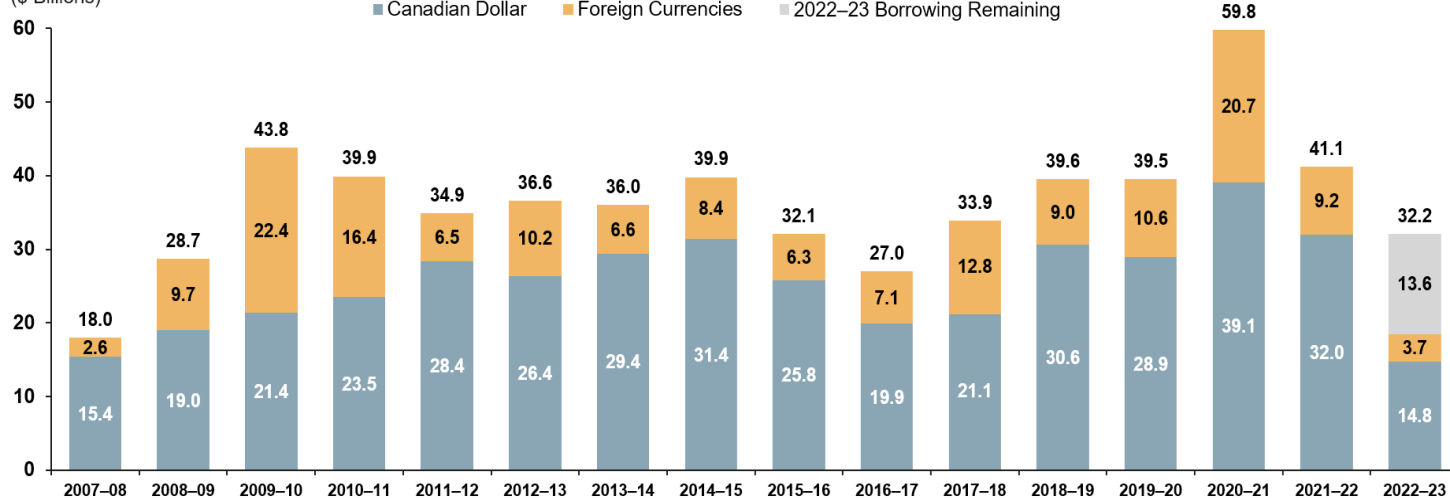
Note: Numbers may not add due to rounding.

Long-Term Borrowing

- Approximately \$14.8 billion or 80 per cent of 2022–23 borrowing was completed in Canadian dollars, with the remaining \$3.7 billion or 20 per cent completed in U.S. dollars and pound sterling.
- Ontario has continued to extend the term of its debt, when investor demand allows, to reduce refinancing risk on maturing debt. This also protects the interest on debt forecast against further increases in interest rates. Ontario has issued \$121.2 billion of bonds, or more than one-quarter of total debt, with maturities of 30 years or longer since 2010–11. This includes \$7.3 billion so far in 2022–23.

Total Long-Term Borrowing

(\$ Billions)



Foreign	14%	34%	51%	41%	19%	28%	18%	21%	19%	26%	38%	23%	27%	35%	22%	20%
Domestic	86%	66%	49%	59%	81%	72%	82%	79%	81%	74%	62%	77%	73%	65%	78%	80%
Weighted-Average Term	12.1	8.6	8.1	12.8	13.0	12.4	13.6	14.1	14.2	13.9	12.1	12.9	14.5	12.0	14.5	16.9
Debt Portfolio Average Term	10.7	10.4	9.7	10.0	10.1	10.1	10.4	10.7	10.9	10.9	10.7	10.7	10.9	10.8	10.9	11.3*

*As of September 30, 2022.

Note: Numbers may not add due to rounding. As of November 14, 2022.

Canadian Dollar Issuance

- Ontario accounted for 63.8 per cent of Canadian provincial bond trading in 2021. As of December 31, 2021, Ontario accounts for 15.7 per cent of the FTSE Russell Universe Bond Index, 15.4 per cent of the FTSE TMX Mid Bond Index, and 22.6 per cent of the FTSE TMX Long Bond Index.
- Regular issuance of 5-year, 7-year, 10-year and 30-year issues, which are re-opened to achieve benchmark size (18 syndicated issues so far in 2022–23).

Canadian Dollar Benchmark Bonds (as of November 10, 2022)

Term	Ontario		Canada	
5 yr (old)	1.35% September 8, 2026	\$1.25B	1.25% March 1, 2027	\$17.00B
5 yr (new)	3.60% March 8, 2028	\$1.00B	2.75% September 1, 2027	\$16.00B
7 yr	2.70% June 2 2029	\$9.33B	2.25% June 1, 2029	\$12.30B
10 yr (old)	2.25% December 2, 2031	\$6.35B	1.50% December , 2031	\$32.00B
10 yr (new)	3.75% June 2, 2032	\$5.75B	2.00% June 1, 2032	\$24.00B
Long (old)	2.55% December 2, 2052	\$8.25B	2.00% December 1, 2051	\$51.80B
Long (new)	3.75% December 2, 2053	\$6.45B	2.00% December 1, 2053	\$30.50B

Foreign Issuance

- The Province regularly accesses foreign markets to diversify its borrowing program and expand its investor base. Dependant on market conditions the Province borrows in U.S. dollars, euros, Japanese yen, pound sterling, Swiss francs and Australian dollars.

EMTN Issues

Term	Issue Date and Coupon	Amount (Euros/Sterling)
4-year	2.25% May 17, 2022	£0.50B
10-year	0.25% June 1, 2021	€1.00B
5-year	0.25% January 6, 2021	£1.75B
10-year	0.01% November 17, 2020	€2.50B

U.S. Dollar Issues

Term	Issue Date and Coupon	Amount (U.S.\$)
5-year	3.10% May 12, 2022	\$2.25B
10-year	2.13% January 13, 2022	\$1.50B
10-year	1.80% October 6, 2021	\$1.00B
5-year	1.05% April 7, 2021	\$3.00B

Green Bonds

- Ontario remains the largest issuer of Canadian dollar Green Bonds, totalling \$13.5 billion with \$13.0 billion outstanding. A total of 28 projects have received or will receive funding from Ontario's twelve Green Bond issues, with funding allocated towards clean transportation, energy efficiency and conservation, and climate adaptation and resilience projects.
- On October 5, 2022, the Province issued its first Green Bond in fiscal 2022–23, and twelfth Green Bond overall. This issue was for \$1.0 billion.
- Ontario is considering updating its Green Bond Framework. The update may include better alignment of framework categories with the Green Bond Principles through standardized wording, as well as the possible expansion from green to sustainable to allow for a greater breadth of potential bond offerings in the future.
- Ontario plans to continue its leadership role in the Canadian dollar Green Bond market and, subject to market conditions, will issue multiple Green Bonds each fiscal year, including in 2022–23.

Features:

- Carry the full faith and credit of the Province of Ontario
- Rank pari passu with Ontario's other bonds and are payable without any preference or priority
- Are direct unsecured obligations of the Province of Ontario and investors do not assume any specific risk related to the funded projects
- Serve as an important tool to help finance public transit initiatives, extreme-weather resistant infrastructure, and energy efficiency and conservation projects

Assurances:

- Ontario's Green Bond Framework was developed in consultation with the Center for International Climate and Environmental Research — Oslo (CICERO)
- Ontario's Green Bond program aligns with the Green Bond Principles maintained by the International Capital Market Association
- An assurance audit is performed by the Auditor General of Ontario verifying amounts allocated to selected projects and tracking the amount of Green Bond proceeds

Fiscal Outlook

- The 2022–23 total revenue outlook is \$186.8 billion, \$7.0 billion higher than projected in the *2022 Budget*, primarily due to higher-than-expected taxation revenues indicated by tax return processing and higher than projected nominal GDP and inflation in 2022. Over the medium term, revenue is forecast to be \$192.9 billion in 2023–24 and \$204.1 billion in 2024–25, an improvement of \$4.7 billion and \$7.1 billion, respectively, relative to the outlook presented in the *2022 Budget*.
- The program expense outlook remains largely unchanged from the *2022 Budget* as new initiatives have been primarily funded using existing contingencies. Over the outlook, program expense is projected to grow from \$185.2 billion in 2022–23 to \$188.3 billion in 2024–25.
- The reserve has been maintained as part of the current fiscal outlook, at \$1.0 billion in 2022–23 and \$1.5 billion in 2023–24 and 2024–25.

Fiscal Plan (\$ Billions)	Actuals									Current Outlook	Medium-Term Outlook	
	2013–14	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25
Revenue	123.0	126.2	136.1	140.7	150.6	153.7	156.1	164.9	185.1	186.8	192.9	204.1
Expense												
Programs	123.3	126.2	129.9	131.5	142.4	148.8	152.3	169.0	170.5	185.2	185.0	188.3
Interest on Debt	11.2	11.2	11.6	11.7	11.9	12.4	12.5	12.3	12.6	13.6	14.5	14.9
Total Expense	134.5	137.4	141.5	143.2	154.3	161.1	164.8	181.3	183.0	198.8	199.5	203.2
Reserve	—	—	—	—	—	—	—	—	—	1.0	1.5	1.5
Surplus/(Deficit)	(11.5)	(11.3)	(5.3)	(2.4)	(3.7)	(7.4)	(8.7)	(16.4)	2.1	(12.9)	(8.1)	(0.7)

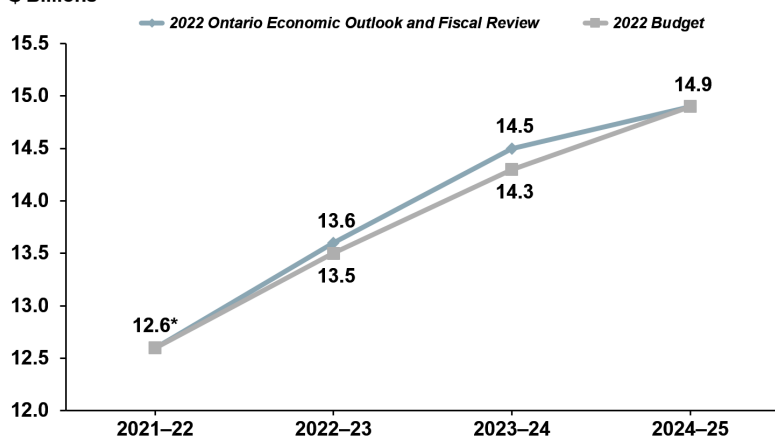
Note: Numbers may not add due to rounding.
Sources: Ontario Treasury Board Secretariat and Ontario Ministry of Finance.

Interest on Debt (IOD) Expense

- IOD in 2022–23 is forecast to be \$13.6 billion, up from the *2022 Budget* forecast of \$13.5 billion, as a result of higher-than-projected interest rates.
- The Province will continue to monitor movements in long-term interest rates and reflect any changes and their impact on IOD costs in future fiscal updates.

Comparison of IOD Expense Forecast

\$ Billions



*As of the *Public Accounts of Ontario 2021–2022*.
Source: Ontario Ministry of Finance

Short-Term Borrowing

- Ontario treasury bills and U.S. commercial paper are very well received in the money markets and provide additional borrowing capacity if required.
- As of October 31, 2022, capacity for short-term borrowing: \$61.0 billion authorized and \$27.8 billion outstanding, leaving \$33.2 billion available.

Risk Management

	Exposure ¹	Policy Limit
Foreign Exchange	0.13%	3.0%
Net Interest Rate Resetting	9.2%	35.0%

¹ Of outstanding debt, interim as of October 31, 2022.

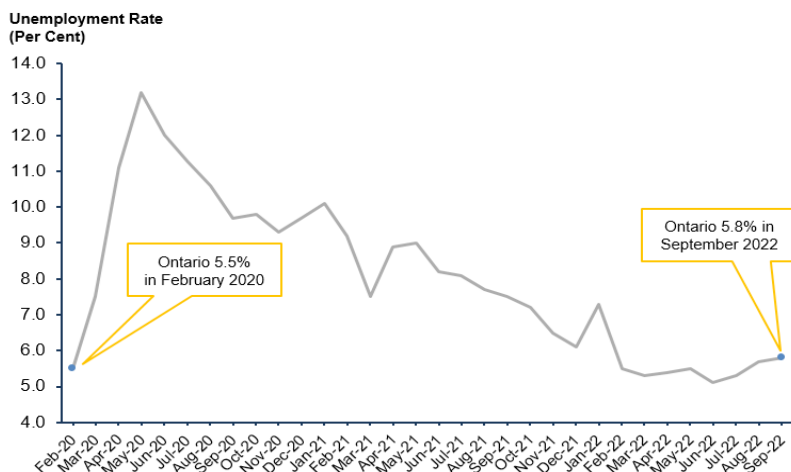
Credit Ratings (Long-Term/Short-Term)

Moody's	Aa3 / P-1
Fitch	AA- / F1+
DBRS	AA (low) / R-1 (mid)
S&P	A+ / A-1

Ontario's Economic Update

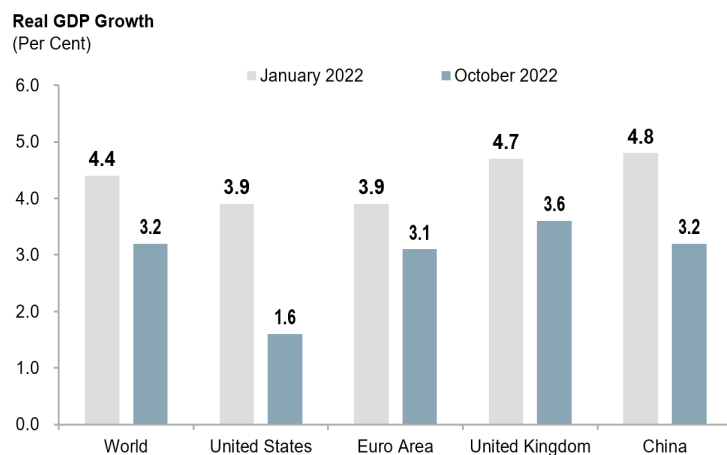
- The Ontario labour market remains strong, with high levels of employment and a low unemployment rate. The unemployment rate was 5.8 per cent as of September 2022, well below the pandemic peak of 13.2 per cent in May 2020.
- While Ontario experienced strong economic growth through 2021 and in the first half of 2022, there is economic uncertainty on the horizon.
- The 2022 *Ontario Economic Outlook and Fiscal Review* planning assumption for real GDP growth is 2.6 per cent in 2022, 0.5 per cent in 2023, 1.6 per cent in 2024 and 2.1 per cent in 2025.
- Ontario's nominal GDP is projected to rise 9.2 per cent in 2022, 3.5 per cent in 2023, 3.8 per cent in 2024 and 4.1 per cent in 2025.
- For the purposes of prudent fiscal planning, these projections were set slightly below the average of private-sector forecasts.
- Supply chain disruptions continue to affect the global economy, including impacts from the invasion of Ukraine by Russia as well as disruptions to economic activity from recent outbreaks of COVID-19.

Ontario Labour Market Remains Resilient



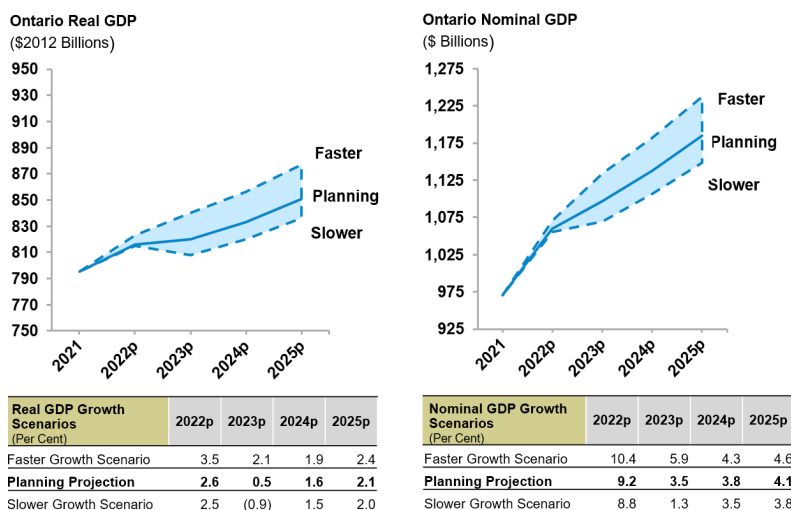
Source: Statistics Canada.

Weakening Global Economic Growth Outlook in 2022



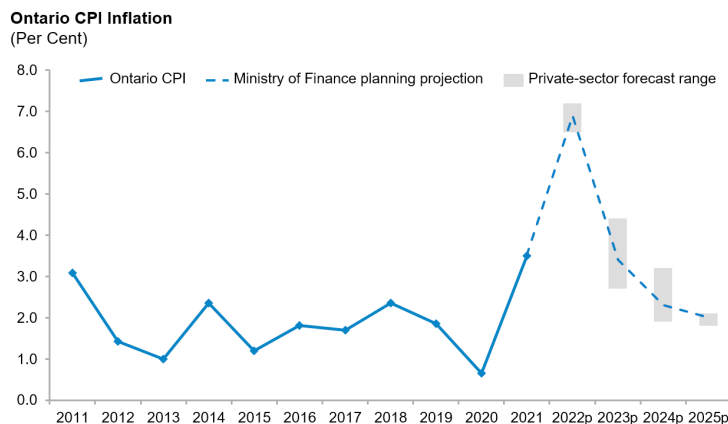
Sources: International Monetary Fund (January and October 2022) and Blue Chip Economic Indicators (January and October 2022).

Ontario Medium-Term Outlook Scenarios



p = Ontario Ministry of Finance planning projection and alternative scenarios.
Source: Ontario Ministry of Finance.

Inflation Expected to Slow but Uncertainty Persists



p = Ontario Ministry of Finance planning projection based on external sources as of September 29, 2022.

Sources: Ontario Ministry of Finance and Ontario Ministry of Finance Survey of Forecasters.

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

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