

## 2009–10 Second Quarter Ontario Finances

October 22, 2009

### • Fiscal Outlook

- Since the 2009 Budget, the fiscal projections for all G7 economies have deteriorated, resulting in higher deficit-to-GDP ratios across the board. Despite revisions to Ontario's projections, the deficit in 2009–10 relative to the size of the economy, at 4.4 per cent, is still low compared with other industrialized jurisdictions impacted by the global economic crisis.
- The latest economic forecasts indicate that the Ontario economy is beginning to stabilize, having benefited from the government's stimulus initiatives and increased household spending.
- The government is now projecting deficits of \$24.7 billion in 2009–10, \$21.1 billion in 2010–11 and \$19.4 billion in 2011–12. The medium-term outlook now reflects further deterioration in Ontario revenue as a result of the deep global recession, as well as the impact on expenditures of policy measures taken by the government. Corporate tax revenues fell last year by an unprecedented 48.1 per cent - or over \$6.0 billion.
- Over the medium-term, total provincial revenues are projected to increase from \$90.2 billion in 2009–10 to \$100.0 billion in 2011–12. As economic conditions improve and the government implements its expenditure management plan, deficits are projected to decline.
- Total expense over the medium-term is projected to increase from \$113.7 billion in 2009–10 to \$118.2 billion in 2011–12. Investments in skills training, increased expenditures for social assistance, in addition to higher interest on debt expense, have led to increased spending since the 2009 Budget.
- The 2009 Budget plan also included a \$1.2 billion reserve to protect against adverse changes in the Province's revenue and expense outlook, including those resulting from changes in Ontario's economic performance. The Province continues to maintain this reserve, as well as significant contingency funds, in recognition of the continued economic uncertainty that could further impact Ontario's finances.

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#### Medium-Term Fiscal Projections (\$ Billions)

	Actual 2008–09	Projected Outlook		
		2009–10	2010–11	2011–12
<b>Revenue</b>	<b>90.5</b>	<b>90.2</b>	<b>99.3</b>	<b>100.0</b>
<b>Expense</b>				
Programs	88.3	104.3	108.6	106.3
Interest on Debt	8.6	9.4	10.6	11.9
<b>Total Expense</b>	<b>96.9</b>	<b>113.7</b>	<b>119.2</b>	<b>118.2</b>
Reserve	–	1.2	1.2	1.2
<b>Surplus/(Deficit)</b>	<b>(6.4)</b>	<b>(24.7)</b>	<b>(21.1)</b>	<b>(19.4)</b>

Note: Numbers may not add due to rounding.

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## •• Economic Outlook

- Recent economic data provide early signs that the economy is beginning to stabilize. Financial markets have normalized to a large degree while equity markets and housing sales have moved higher.
- Based on the most up-to-date information, Ontario's economy is expected to grow by a modest 2.0 per cent in 2010 and then by 3.0 per cent in 2011 and 3.3 per cent in 2012. Despite this growth, it will take Ontario considerable time to regain its pre-recession level of activity.
- Because employment tends to lag GDP growth during a recovery, employment is not projected to reach its pre-recession level until late 2011.
- The Ministry of Finance's key economic planning assumptions, finalized on October 15, 2009, are more conservative than the average private-sector forecasts available at that time.
- Private-sector forecasters estimate Ontario's decline in real GDP in 2009 to be similar to that of the neighbouring Great Lakes States – Ontario's major competitors – though larger than that of the United States as a whole. Ontario has seen less severe declines in employment so far this year (-2.6 per cent) than neighbouring Great Lakes States and the United States as a whole (-3.8 per cent).

Ontario Economic Outlook (Per Cent)	2005	2006	2007	2008	2009p	2010p	2011p	2012p
Real GDP Growth	2.9	2.4	2.1	(0.5)	(3.5)	2.0	3.0	3.3
Nominal GDP Growth	4.1	4.1	4.5	0.5	(3.8)	3.6	4.7	5.1
Employment Growth	1.3	1.5	1.6	1.4	(2.6)	0.6	2.3	2.5
CPI Inflation	2.2	1.8	1.8	2.3	0.4	1.9	2.5	2.0

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

## •• Borrowing Update

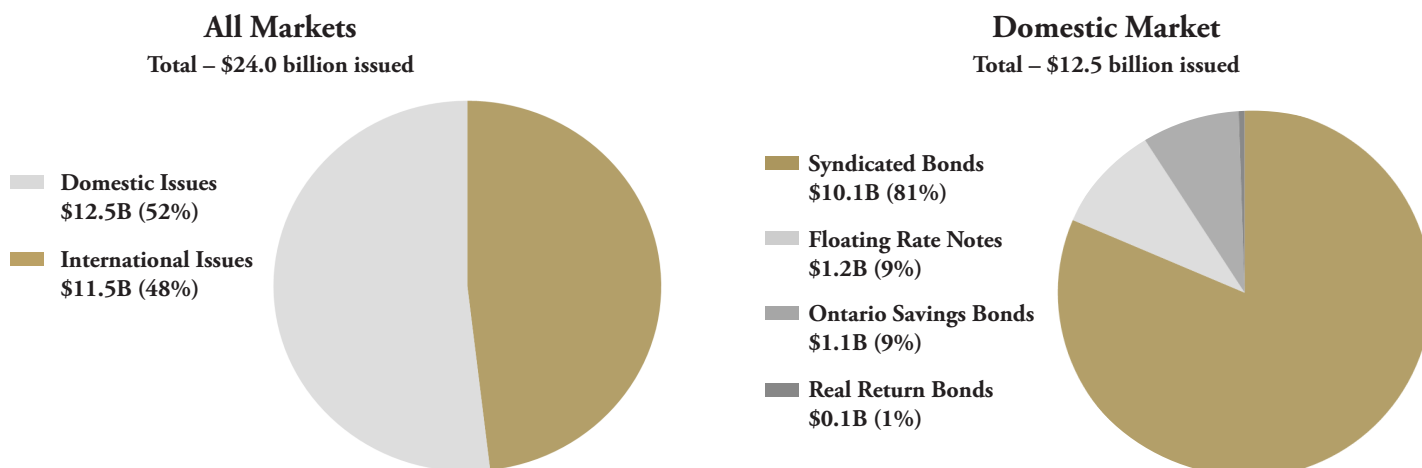
- The total long-term public borrowing requirement of \$42.6 billion for 2009–10 is \$7.8 billion higher than the 2009 Budget Plan, and \$3.4 billion higher than reported in the First Quarter Ontario Finances. Short-term borrowing will increase by \$4.7 billion over the 2009 Budget Plan, but will remain less than nine percent of the Province's total debt.
- The borrowing program is projected to be \$39.7 billion in 2010–11 and \$39.1 billion in 2011–12.

2009–10 Borrowing Program: Province and OEFC (\$ Billions)	2009–10		
	Budget Plan	Current Outlook	In-Year Change
Deficit/(Surplus)	14.1	24.7	10.6
Non-Cash Adjustments	(2.0)	0.5	2.5
Investment in Capital Assets	9.5	9.5	0.0
Net Loans/Investments	1.9	1.6	(0.3)
Debt Maturities	14.6	14.7	0.1
Debt Redemptions	0.4	0.4	0.0
<b>Total Funding Requirement</b>	<b>38.5</b>	<b>51.5</b>	<b>13.0</b>
Canada Pension Plan Borrowing	(0.7)	(1.1)	(0.4)
Decrease/(Increase) in Short-Term Borrowing	(3.0)	(7.8)	(4.7)
Increase/(Decrease) in Cash and Cash Equivalents	0.0	0.0	0.0
<b>Total Long-Term Public Borrowing Requirement</b>	<b>34.8</b>	<b>42.6</b>	<b>7.8</b>

Note: Numbers may not add due to rounding.

## •• Borrowing Approach

- Despite difficult financial market conditions, the Province maintains a flexible approach to borrowing, monitoring both domestic and international capital markets for cost-effective borrowing opportunities.
- Depending on market conditions, the Province plans to borrow 35 to 50 per cent from international markets. This range was announced in the 2009 Budget, and is higher than in previous years due to the size of the borrowing program and the capacity of domestic capital markets.



Note: Numbers may not add due to rounding.

As at October 7, 2009, about \$11.5 billion, or 48 per cent, of borrowing was completed in the international capital markets.

## •• Debt Statistics

Debt		Risk Exposure (% of debt)		Current	Policy Limit
Total Debt <sup>1</sup>	\$213.2 billion	<b>Province</b>			
Net Debt <sup>1</sup>	\$184.1 billion	Net Interest Rate Resetting Exposure		13.1	35.0
Accumulated deficit <sup>1</sup>	\$138.0 billion	Foreign Exchange Exposure		0.2	5.0
Net Debt <sup>1</sup> /GDP	32.6%	<b>OEFC</b>			
Accumulated deficit <sup>1</sup> /GDP	24.4%	Net Interest Rate Resetting Exposure		18.5	35.0
<b>Debt Statistics</b>		Foreign Exchange Exposure		0.0	5.0
Percentage Publicly Held	91%				
Percentage Issued in Canadian Dollars	61.4%				
Effective Interest Rate (Weighted Average)	4.85%				

As at September 30, 2009.

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.

<sup>1</sup> Projected to March 31, 2010.

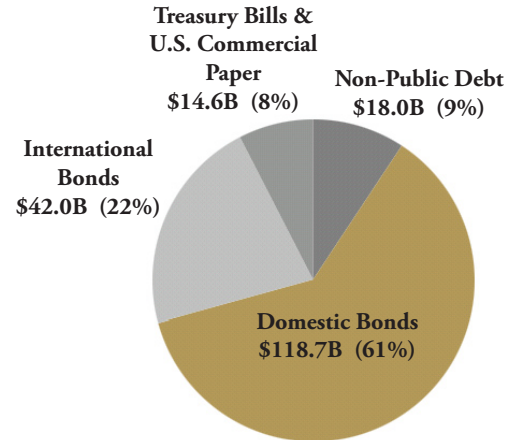
## Debt Portfolio

- Total debt of \$193.3 billion (as at September 30, 2009) 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 \$175.3 billion, primarily consisting of bonds issued in the domestic and international long-term public markets in 10 currencies.
- Ontario also has \$18.0 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

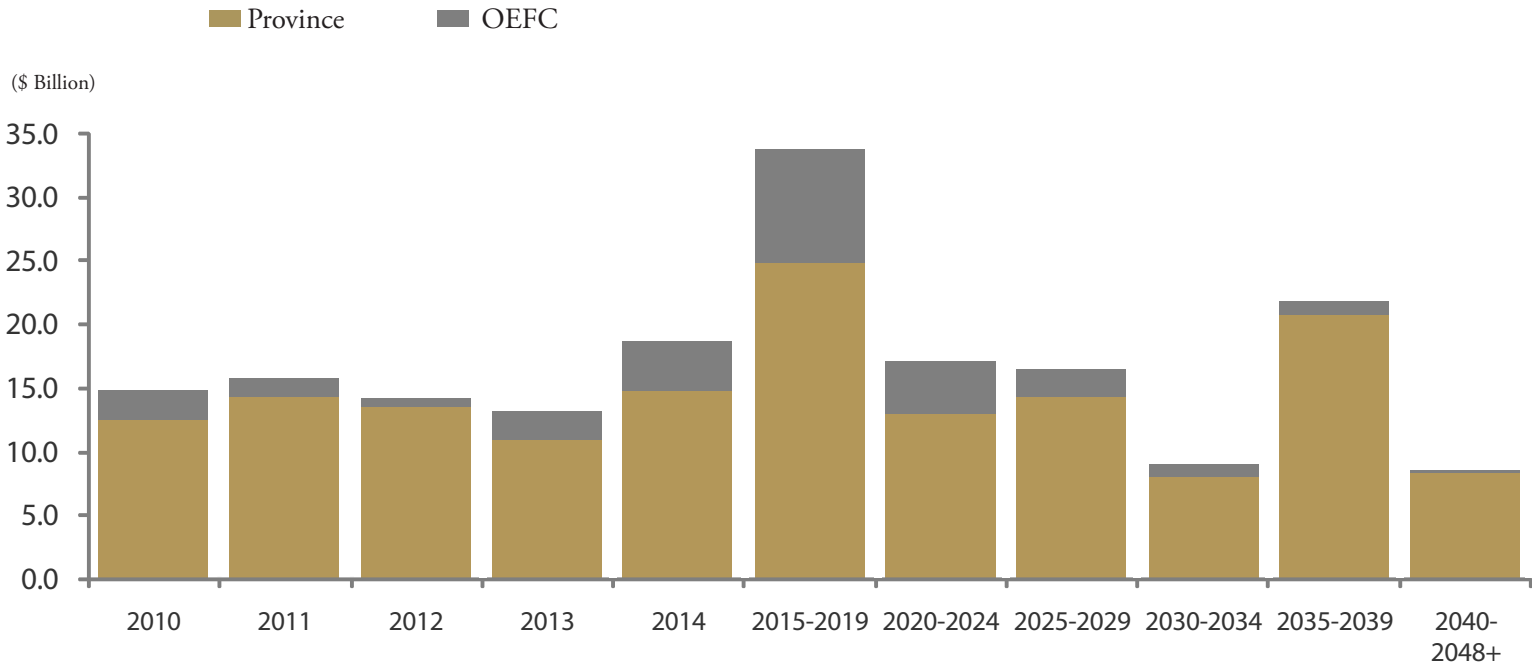
- Canadian dollar
- U.S. dollar
- Euro
- New Zealand dollar
- Swiss franc
- Japanese yen
- Australian dollar
- U.K. sterling
- South African rand
- Hong Kong dollar

## Total Debt Composition C\$193.3 billion



As at September 30, 2009

## 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.

### Contact Us

Investor Relations  
Ontario Financing Authority  
One Dundas Street West, Suite 1400  
Toronto, Ontario M7A 1Y7  
Canada

Telephone (416) 325-1661  
Fax (416) 204-6694  
[www.ofina.on.ca](http://www.ofina.on.ca)  
[investor@ofina.on.ca](mailto:investor@ofina.on.ca)