

2010 Ontario Budget

March 25, 2010

•• Fiscal Outlook

- The Province has introduced measures to achieve significant fiscal savings – both this year and over the medium-term – that have allowed it to achieve lower deficit projections than were published in the Fall *2009 Ontario Economic Outlook and Fiscal Review*.
- The Province is now projecting a \$21.3 billion deficit in 2009–10.
- The Province further projects diminishing deficits of \$19.7 billion in 2010–11, \$17.3 billion in 2011–12, and \$15.9 billion in 2012–13, with a balanced budget by 2017–18.
- In total, the fiscal outlook for the Province has improved by \$3.4 billion in 2009–10, \$1.4 billion in 2010–11, and \$2.1 billion in 2011–12, compared to the projections included in the Fall *2009 Ontario Economic Outlook and Fiscal Review*.
- The government will introduce legislation that would extend the freeze on Member of Provincial Parliament pay from one year to three years and freeze compensation structures for two years for non-bargained political and Legislative Assembly staff and non-bargained Broader Public Sector and Ontario Public Service employees. The government will respect all collective agreements. However, the fiscal plan provides no funding for incremental compensation increases for future collective agreements.
- The government will also freeze base operating expenses at or below 2010–11 levels over the medium-term and slow the pace of some long-term infrastructure investments.
- In 2009–10, the Province's total expense is projected to be about \$117.7 billion, a \$2.4 billion decrease (or 2.0 per cent) from the Fall *2009 Ontario Economic Outlook and Fiscal Review* forecast. Total expense is projected to increase by an average annual rate of 2.5 per cent from 2009–10 to 2012–13, which is about half of the projected growth in revenue over the same period.
- The Province's revenues have stabilized and are beginning to recover. In 2009–10, total revenue is estimated to be about \$96.4 billion. Revenues are projected to increase at an annual average rate of 5.1 per cent between 2009–10 and 2012–13.
- Ontario's tax plan introduced in the *2009 Budget* will significantly improve Ontario's competitiveness for new business investment and cut income taxes for people. Ontario's marginal effective tax rate, which measures the tax burden on new investment, will be cut in half by 2018, making Ontario one of the most attractive locations in the industrialized world for businesses to invest and create jobs.
- Recognizing that the fragility of the global economy is a threat to Ontario's continuing economic recovery, the *2010 Budget* includes prudence in the form of contingency funds of \$2.0 billion in 2010–11 to offset potential expense changes, and a reserve of \$0.7 billion in 2010–11 and \$1.0 billion in 2011–12 and 2012–13.

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Medium-Term Fiscal Plan and Outlook¹ (\$ Billions)

	Interim	Plan	Outlook	
	2009–10	2010–11	2011–12	2012–13
Total Revenue	96.4	106.9	107.7	112.0
Expense				
Programs	108.8	115.9	112.9	114.3
Interest on Debt	8.9	10.0	11.1	12.5
Total Expense	117.7	125.9	124.1	126.9
Reserve	–	0.7	1.0	1.0
Surplus/(Deficit)	(21.3)	(19.7)	(17.3)	(15.9)

Note: Numbers may not add due to rounding.

¹ Both revenue and expense have been restated to reflect a fiscally neutral accounting change for the revised presentation of education property taxes.

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•• Economic Outlook

- There are clear signs that the Ontario economy has stabilized and that a recovery is taking shape. All major indicators in Ontario have improved from lows posted during the recession.
- The Ministry of Finance is projecting real gross domestic product (GDP) growth of 2.7 per cent in 2010, 3.2 per cent in 2011, 3.2 per cent in 2012, and 3.0 per cent in 2013.
- Due to the sharp decline in GDP resulting from the global recession, Ontario real GDP is expected to remain below its pre-recession level until the first quarter of 2011. Since employment growth tends to lag real GDP growth, it is expected to take somewhat longer for the Province to see the same level of employment as before the global recession.
- Growth is expected to strengthen due to improving global demand for Ontario exports, government actions to support jobs and the economy, and policies to promote long-term competitiveness and growth.
- Ontario's export growth is reviving as the U.S. and global economies recover. The global rebound in auto sales is prompting a sharp turnaround in Ontario's auto exports. Ontario's trade with the rest of the world will benefit from increased demand for commodities, industrial goods, and machinery and equipment, particularly from emerging Asian markets. As well, growth in other provinces will support interprovincial exports.
- Improving business conditions are expected to support a strong rebound in corporate profits, which are projected to rise an average of 13.6 per cent annually between 2010 and 2013. The rebound in corporate profits, coupled with rising global demand due to tax reform introduced in the *2009 Budget*, is expected to support strengthening business investment over the coming years.
- Ontario's economic recovery continues to be supported by strong public-sector capital spending. Following strong growth in spending in 2009 (14.0 per cent), capital expenditure by the Province is expected to increase by a further 16.4 per cent in 2010, second among all provinces and well above the national average.

Ontario Economic Outlook (Per Cent)	2007	2008	2009	2010 _p	2011 _p	2012 _p	2013 _p
Real GDP Growth	2.3	(0.5)	(3.4e)	2.7	3.2	3.2	3.0
Nominal GDP Growth	4.5	0.4	(3.5e)	4.4	5.0	5.3	5.0
Employment Growth	1.6	1.4	(2.4)	1.1	2.1	2.3	2.0
CPI Inflation	1.8	2.3	0.4	1.9	2.1	2.0	2.0

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

•• Borrowing Update

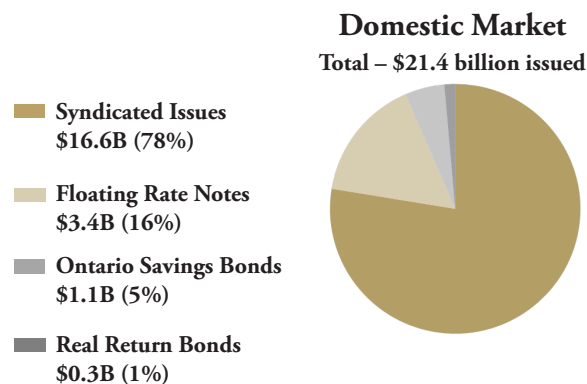
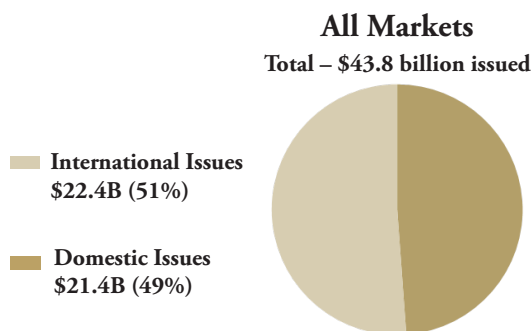
- The interim long-term borrowing for 2009–10 is \$43.8 billion. In 2009–10, 51 per cent (\$22.4 billion) was borrowed in international capital markets. Bonds issued in foreign currencies were Global bonds in U.S. dollars and Euro Medium-Term Notes (EMTNs) in euros, Swiss francs and Hong Kong dollars.
- The total funding requirement for 2009–10 has declined by \$6.0 billion since the Fall *2009 Ontario Economic Outlook and Fiscal Review* forecast primarily due to the decline in the projected deficit. This has allowed the Province to increase its cash balance, which will provide greater flexibility in meeting its funding requirement for 2010–11.
- Interest on debt expense is almost \$0.5 billion lower than forecast in Fall 2009, reflecting the impact of lower than forecast interest rates on floating rate debt, more financing at shorter-term maturities, and a lower deficit than forecast in Fall 2009.
- For fiscal years 2009–10 to 2011–12, the Province's total funding requirement has declined by a cumulative \$8.7 billion from the forecasts included in the Fall *2009 Ontario Economic Outlook and Fiscal Review*. This decrease is primarily due to lower than forecast deficits in these years.

2009–10 Borrowing Program — Province and OEFC (\$Billions)

	Fall Outlook	Interim	In-Year Change
Deficit	24.7	21.3	(3.4)
Investment in Capital Assets	9.5	8.5	(1.0)
Non-Cash Adjustments	0.5	(0.6)	(1.1)
Net Loans/Investments	1.6	1.3	(0.3)
Debt Maturities	14.7	14.6	(0.1)
Debt Redemptions	0.4	0.4	–
Total Funding Requirement	51.5	45.5	(6.0)
Canada Pension Plan Borrowing	(1.1)	(1.1)	–
Decrease/(Increase) in Short-Term Borrowing	(7.8)	(6.0)	1.8
Increase/(Decrease) in Cash and Cash Equivalents	–	5.5	5.5
Total Long-Term Public Borrowing	42.6	43.8	1.2

Note: Numbers may not add due to rounding.

•• Borrowing Update (Con't.)



•• Medium–Term Borrowing Outlook

Province and OEFC (\$ Billions)	2010–11	2011–12	2012–13
Deficit	19.7	17.3	15.9
Investment in Capital Assets	9.8	10.6	10.4
Non-Cash Adjustments	(1.7)	(3.0)	(2.8)
Net Loans/Investments	1.9	1.8	1.0
Debt Maturities	15.6	14.0	17.3
Debt Redemptions	0.4	0.4	0.5
Total Funding Requirement	45.6	41.1	42.2
Canada Pension Plan Borrowing	(0.8)	(1.1)	(0.8)
Decrease/(Increase) in Short-Term Borrowing	(1.6)	(1.2)	(1.2)
Increase/(Decrease) in Cash and Cash Equivalents	(3.5)	–	–
Total Long-Term Public Borrowing	39.7	38.8	40.2

Note: Numbers may not add due to rounding.

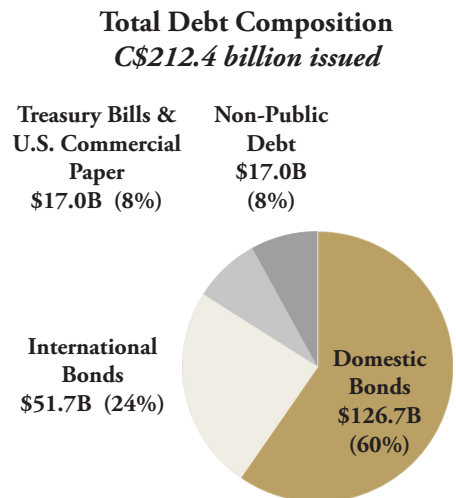
- The 2010–11 borrowing requirements are primarily the result of the deficit, investments in capital assets and the refinancing of debt maturities. To meet the borrowing requirements, Ontario will continue to be flexible, monitoring domestic and international markets, issuing bonds in different terms and currencies, and responding to investor preferences.
- Diversification of borrowing sources will continue to be a primary objective in 2010–11. Depending on market conditions, the Province plans to borrow at least 50 per cent in the domestic market.

•• Debt Portfolio

- Starting in 2009–10, the broader public sector's (BPS) (hospitals, school boards and colleges) net debt is included in the Province's net debt because of the adoption of a revised presentation of BPS revenue, expense, assets and liabilities in the Province's consolidated financial reports. This change does not impact the Province's annual surplus/deficit result or accumulated deficit.
- Ontario's net debt is projected to be \$193.2 billion as at March 31, 2010. This figure includes BPS net debt of \$11.6 billion.
- Total debt of \$212.4 billion projected as at March 31, 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.

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



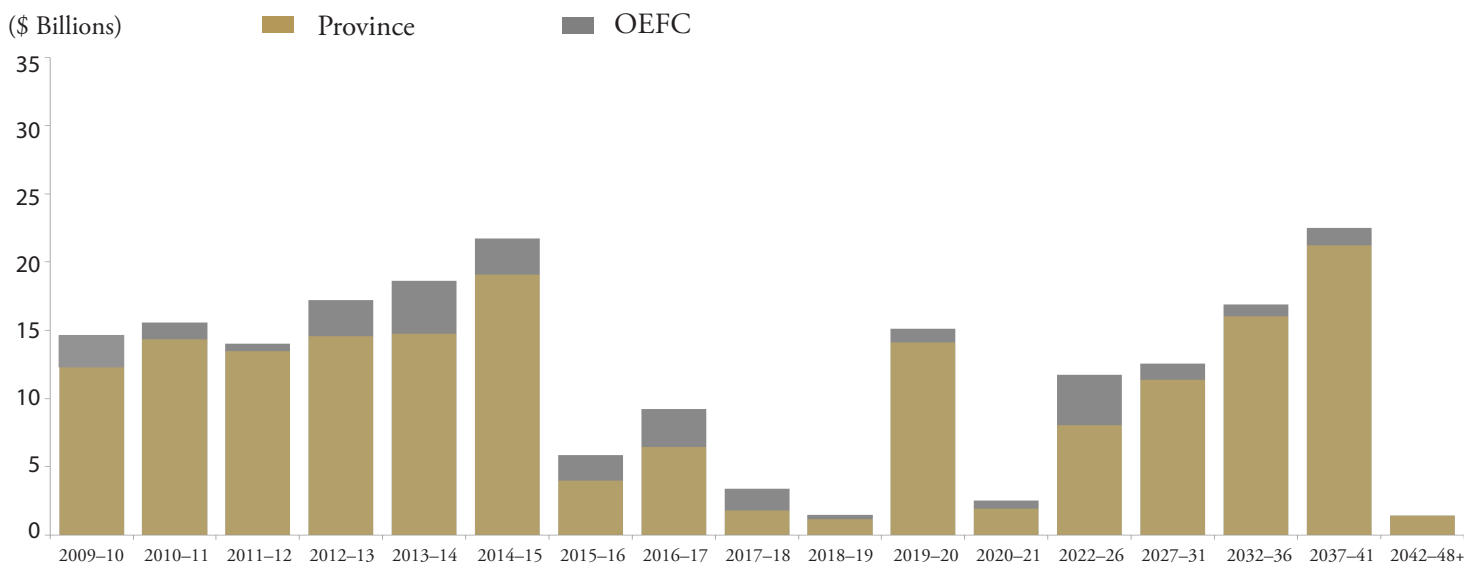
Debt Statistics

Debt		Risk Exposure (% of debt)		Current	Policy Limit
Total Debt	\$212.4 billion	Province			
Net Debt ¹	\$193.2 billion	Net Interest Rate Resetting Exposure		11.1	35.0
Accumulated deficit	\$134.6 billion	Foreign Exchange Exposure		0.1	5.0
Net Debt ¹ /GDP	34.1%	OEFC			
Accumulated deficit/GDP	23.7%	Net Interest Rate Resetting Exposure		16.5	35.0
Debt Statistics		Foreign Exchange Exposure		0.0	5.0
Percentage Publicly Held	92.0%				
Percentage Issued in Canadian Dollars	76.6%				
Effective Interest Rate (Weighted Average)	4.57%				
Projected to March 31, 2010.		As at February 28, 2010.			

(\$ Billions)	Interim	Plan	Medium-Term Outlook	
	2009–10	2010–11	2011–12	2012–13
Net Debt ¹	193.2	220.0	245.0	267.8
Accumulated Deficit	134.6	154.3	171.6	187.5

¹ Ontario's net debt is the difference between total liabilities and total financial assets, which now includes BPS net debt.

Debt Maturities



As at February 28, 2010

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
investor@ofina.on.ca