CEO's Corner Transcript – Public Accounts 2017

September 7, 2017

Hi, I'm Gadi Mayman, CEO of the Ontario Financing Authority. Thank you for joining me for the next few minutes.

Today I would like to take this opportunity to discuss the release of the Province's final 2016–17 financial statements – or Public Accounts as we call them – and also provide you with an update on our borrowing strategy.

Ontario's deficit for 2016–17, as reported in Public Accounts, was $1.0 billion, which is a $3.3 billion improvement from the $4.3 billion deficit forecast in the *2016 Budget,* The improvement was mainly due to revenues that were $2.2 billion above the plan and the budgeted reserve of $1.0 billion which was not needed to be used. Despite the challenges stemming from an uncertain global economic setting, Ontario's economy grew, with real gross domestic product (GDP) increasing by 2.7 per cent in 2016, above the forecast of 2.2 per cent in the *2016 Budget*.

There was a significant, but fiscally neutral, change in how we reported revenues and expenditures in the 2016–17 Public Accounts. Ontario now separates out third-party, or non-Government of Ontario, revenues for hospitals, school boards and colleges. Previously these revenues were netted against expenses in those sectors, and only the net amount was shown. The result of this change, which was made to comply with Public Sector Accounting Standards and puts Ontario's Public Accounts on the same footing as the other Canadian provinces, is that our revenues and expenses are both reclassified as being $7.9 billion higher than they would have been had these revenues remained netted out. There is no impact on the deficit, or the Province's debt, from these changes, as both revenue and expenditures are reclassified by the same amount. Public Accounts includes a restatement of revenues in previous years up to 2016–17.

This marks the eighth consecutive year that our final deficit was lower than forecast at the time of the Budget.

Now let's now turn to interest on debt. The Province's interest on debt expense in 2016–17, or IOD, was $11.7 billion. This is $0.7 billion below plan, after the reclassification of sector revenues and expenses that I described earlier, this was mainly as a result of lower-than-forecast interest rates, lower borrowing requirements as a result of lower-than planned deficit and cost-effective borrowing and debt management. Calculated as a percentage of the government's revenue, in 2016–17 IOD remained lower, at 8.3 per cent, than it was for the past 25 years. We are well aware of the risk of rising interest rates, so, since 2010–11, we have issued $66.5 billion of debt with a term of at least 30 years to lock in historically low long-term interest rates. The average term of Ontario debt issued in 2016–17 was 13.9 years, compared to only 8.1 years in 2009–10. Subject to market conditions, we will continue to focus on maximizing the term of our debt issuance. So far this year the average term has been 12.7 years.

Net debt for 2016–17 was $301.6 billion, $6.7 billion lower than projected in the 2016 Budget. Ontario's net debt-to-GDP ratio peaked in 2014–15 at 39.2 per cent and has trended downwards since then, now at 37.8 per cent in 2016–17, that's 1.8 percent lower than the forecast contained in the 2016 Budget. This ratio is on target with the forecast in the 2017 Budget and is forecast to continue to decline to 37.5 per cent in 2017–18, 37.3 per cent in 2018–19 and 37.2 per cent in 2019–20. The government has set an interim net debt-to-GDP ratio target of 35 per cent by 2023–24 and continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.

Now let's turn to the Borrowing Program. In terms of our borrowing strategy, as of September 6, 2017 we have issued $16.3 billion, or about 62 per cent of our long-term public borrowing requirement of $26.4 billion for this fiscal year, which puts our program well ahead of even pace. As has been our practice for the past number of years, we won't adjust our borrowing program for this fiscal year until we release our mid-year fiscal update, or Fall Economic Statement.

Our borrowing to date has mainly focused on the domestic market. We issued $9.8 billion, or 60 per cent of borrowing, in the domestic market, primarily through our syndicated issues. In August, we re-opened our 30 year benchmark bond for $600 million, as well as our 10 year benchmark bond for $1 billion. In terms of our borrowing strategy, we continue to forecast ending the year with about two-thirds of our funding done in Canadian dollars. We will regularly update this forecast to ensure that our funding is done in the most cost-effective manner over the long-term, while being responsive to investor demand.

While earlier in the fiscal year we had been quite active in the international markets, during the summer our primary focus was on the domestic Canadian market with over $7.0 billion borrowed in Canadian dollars over the past three months, bringing our total domestic borrowing to $9.8 billion this fiscal year. In addition, about $6.5 billion, or 40 per cent of our borrowing has been completed in foreign currencies. Taking advantage of borrowing opportunities as they arose, we came to market with sizeable transactions in Pound Sterling, USD, Euros, and Swiss Francs earlier in the year, and will continue to look to those markets as opportunities arise over the coming weeks in advance of our Fall Economic Statement.

In conclusion, if you'd like to receive notification of future CEO's Corners, of new issues and of fiscal and economic updates from Ontario, please click the "Email Alerts" button above to register.

Thank you very much for your time.