CEO's video update - Ontario's 2020–21 First Quarter Finances

On August 12, the Province released its *2020–21 First Quarter Finances.* I would like to take this opportunity to provide you with an update on the Province's finances and borrowing program. As reported in the release, the Province's deficit for 2020–21 is now projected to be $38.5 billion, an increase of $18.0 billion from the forecast in the *March 2020 Fiscal and Economic Update*.

The COVID-19 pandemic has resulted in significant and unprecedented impacts on economies around the world, including, of course, Ontario's. Private sector economists are now, on average, forecasting Ontario's real GDP will decline by 6.6 per cent in 2020, followed by an increase of 5.6 per cent in 2021. For this fiscal update, the Province is basing its revenue forecast on a 6.7 per cent decline in real GDP in 2020 and growth of 5.5 per cent in 2021, both slightly below the private sector forecast to incorporate prudence.

Ontario's Action Plan, as announced in March, made $17 billion available to support health care, people and businesses. Since March 25, 2020, the government has announced additional initiatives to respond to COVID-19, and in its *2020-21 First Quarter Finances* is adding further flexibility, bringing the latest COVID-19 response to a projected $30 billion. This includes: $7.7 billion to support health care, $11.0 billion to support people and protect jobs, for a total of $18.7 billion in direct supports; plus, $11.3 billion to support people and businesses to improve their cash flows.

Program expenses in the 2020-21 fiscal year are now projected to be $13.1 billion higher than in the March Update, primarily due to temporary supports for the pandemic recovery period and the safe restart and reopening of the province.

Ontario's Action Plan in March contained historic levels of prudence, including a dedicated $1 billion COVID-19 health contingency fund, a standard contingency fund of $1.3 billion, a $2 billion Support for People and Jobs Fund, and an unprecedented reserve of $2.5 billion, the largest in Ontario's history. Building on the March Update, as part of the *2020-21 First Quarter Finances,* the government has included one-time top-ups to the various dedicated contingency funds for any emerging needs to support the Province's response to the pandemic and our reopening. This includes an increase of $4.3 billion in the COVID-19 Health Contingency Fund; a $3 billion increase to the Support for People and Jobs Fund; and, a $2.2 billion increase in the standard Contingency Fund. The result is additional prudence of almost $9.6 billion. The Reserve has been maintained at $2.5 billion.

The 2020–21 revenue outlook is projected to be $150.6 billion, $5.7 billion lower than forecast in the *March 2020 Economic and Fiscal Update*. The lower revenue forecast largely reflects the adverse impact of COVID-19 on the provincial economy, partially offset by higher transfers from the federal government.

Reflecting the increase in the projected deficit, the Province's total long-term public borrowing for this fiscal year is now forecast to be $52.1 billion, up from $43.6 billion in the March Update. The planned increase in our long-term borrowing is significantly less than the increase in the deficit because we were able to complete an additional $3.5 billion in pre-borrowing following the release of the March Update, and we will be increasing our short-term borrowing by $5 billion through the Bank of Canada's Provincial Money Market Purchase Program or PMMP.

The Bank of Canada's introduction of their PMMP and the Provincial Bond Purchase Program (or PBPP) implemented in early March and May respectively, have helped infuse liquidity into the Canadian provincial bond and Treasury Bills markets. By keeping the publicly auctioned amounts of Treasury Bills unchanged from the plan released in March, we will now be able to raise an additional $5 billion in short term borrowing by having the Bank of Canada purchase up to an additional 20 per cent of Ontario money market auctions under the PMMP facility.

While the PBPP facility does not make primary market purchases of provincial bonds, we expect the amount of secondary market purchases of our bonds under that program will be far in excess of the $8.5 billion increase in our long-term public borrowing requirement since the March 2020 Update.

I'd like to again thank the Bank of Canada for these programs, and for its commitment to providing liquidity to support the functioning of the Canadian financial market system. Thanks to the PMMP and PBPP, spreads on Ontario's Treasury Bills and bonds are back to roughly where they were at the end of February.

Interest on debt expense is projected to be $12.5 billion, a savings of $0.7 billion relative to the forecast of $13.2 billion in the *March 2020 Economic and Fiscal Update*. Despite a $17 billion increase in the funding requirement, the IOD forecast has decreased because interest rates have remained substantially lower than expected at that time and are projected to remain lower over the balance of the fiscal year.

Borrowing rates for Ontario debt are now expected to be over a percentage point lower than where they were forecast in March, and more than two percentage points lower than forecast in the 2019 Budget.

As of August 12, we had issued $23.6 billion this fiscal year, of our currently forecast 2020–21 borrowing program of $52.1 billion. Our ability to remain ahead in the borrowing program has ensured the Province's solvency has been safeguarded with adequate liquidity, currently over $40 billion, to meet any unforeseen economic or public health circumstances.

Approximately $17.9 billion, or 76 per cent, of our long-term borrowing was completed in Canadian dollars, while $5.8 billion, or 24 per cent, was completed in US dollars, Euros and Pound Sterling.

Looking ahead, we plan to launch our 8th Green Bond in the fall, and possibly another one before the end of this fiscal year if market conditions allow. We will continue to focus on the Canadian dollar market as our primary source of funding, but will take advantage of opportunities in foreign currencies as they arise. While our target remains to complete 70 to 80 per cent of our long-term funding in Canadian dollars, we will respond to market conditions and investor demand and adjust this target if it’s necessary.

Before I wrap up, I would like to again thank investors for supporting our borrowing program in the midst of an evolving economic situation and very volatile market conditions.

You can find additional information in our Investor Relations Presentation and Fact Sheet, which are posted on this website.

Thank you very much for your time.