

## CEO's Video Update – March 25, 2021

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

With the release of the Province's *2021 Budget* yesterday, I would like to take this opportunity to update you on the Province's finances and borrowing program.

As reported in the *2021 Budget*, Ontario's deficit for 2020–21 is projected to remain unchanged from the forecast in the *2020 Budget* at \$38.5 billion. Over the medium term, the government projects steadily declining deficits of \$33.1 billion in 2021–22, \$27.7 billion in 2022–23 and \$20.2 billion in 2023–24.

These deficits are based on projected real GDP growth of 4.0 per cent in 2021, 4.3 per cent in 2022, 2.5 per cent in 2023 and 2.0 per cent in 2024. The Province has also included alternative economic scenarios in the *2021 Budget*. Under the Faster Growth scenario, the deficit outlook may improve by a cumulative \$13.2 billion over the three years included in the medium-term outlook, while under the Slower Growth scenario, these cumulative deficits may increase by \$10.9 billion over the same period.

The total long-term borrowing requirements for 2021–22 and 2022–23 are forecast to be \$54.7 billion and \$59.1 billion, respectively, lower by \$3.9 billion and \$0.2 billion compared to the *2020 Budget* forecast for those fiscal years. Under the Faster or Slower Growth scenarios, the borrowing program would decrease or increase by the same amount as the change in deficits under those scenarios.

Looking back, the Province's long-term borrowing program for 2020–21 was \$59.0 billion. This is \$6.7 billion higher than the *2020 Budget* forecast primarily due to pre-funding of \$5.2 billion for this fiscal year and a \$1.4 billion increase in investments in capital assets.

### **Speaking of the borrowing program —**

Canadian dollar borrowing totalled \$38.3 billion, or 65 per cent of the borrowing completed. This was primarily through 37 syndicated issues, including the largest issue ever by a province in the Canadian dollar bond market and the two largest Canadian dollar Green Bonds issues to-date.

The remaining \$20.7 billion, or 35 per cent of this year's program, includes foreign currency issues in U.S. dollars, Euros and Pounds sterling.

In the *2020 Budget*, we said our target was to issue between 70 to 80 per cent in the domestic market with the remaining 20 to 30 per cent internationally, subject to market conditions. The strong demand for Ontario in the international marketplace allowed us to launch a number of record sized issues. These included the largest ever by a province in the Euro denominated bond market, the Pound sterling bond market, and the second largest in the U.S. dollar bond market.

Based on the 2020–21 experience, we have adjusted our target range for domestic borrowing to 65 to 80 per cent for the 2021–22 fiscal year. This range will be further adjusted, if necessary, in response to evolving investor demand in the Canadian dollar and foreign currency debt markets.

As I previously mentioned, this year we issued the two largest Canadian dollar Green Bonds ever launched. At the end of January, we issued our ninth Green Bond for \$1.25 billion, which followed a \$1.5 billion Green Bond launched in October 2020. Nine projects have been selected as eligible to receive funding from Ontario’s latest Green Bond, with an emphasis on clean transportation, energy efficiency and conservation, and climate adaptation and resilience categories.

Ontario remains the largest issuer of Canadian dollar Green Bonds totaling \$8.0 billion since 2014–15, with \$7.5 billion outstanding. Subject to market conditions, we plan to continue to issue multiple Green Bonds each fiscal year, including in 2021–22.

As a result of lower than projected interest rates, Ontario’s current interest on debt (IOD) forecast remains below the levels projected in the pre-pandemic *2019 Budget*, despite significantly higher deficits, borrowing and debt levels than forecast at that time. The IOD forecast for 2020–21 remains unchanged from the *2020 Budget* forecast, while the medium-term IOD outlook is now projected to be slightly lower than forecast at that time.

Due to the COVID-19 pandemic, the net debt-to-GDP ratio has increased from 39.6 per cent in 2019–20. Ontario’s net debt-to-GDP is now forecast to be 47.1 per cent in 2020–21, and 48.8 per cent in 2021–22, marginally higher than forecasts of 47.0 per cent and 48.5 per cent, respectively, at the time of the 2020 Budget because of the Province’s increased investments in capital assets since then.

Ontario has set the objective to slow the rate of increase in the net debt-to-GDP ratio, supported by GDP growth, along with a target to not exceed 50.5 per cent over the medium-term outlook. Over the longer term, this ratio will begin to decrease once the growth in the province’s economic output begins to outpace the growth of debt.

The net debt-to-GDP ratio has been one of the most commonly used key fiscal anchors for measuring debt sustainability. For that reason, the Fiscal Sustainability, Transparency and Accountability Act, enacted in 2019, legislates that Ontario report on this ratio.

However, recent research from bank economists and academia have suggested the use of additional and/or alternative measures of debt sustainability. With net debt-to-GDP, we are comparing the stock of debt in Ontario to the flow of GDP in a single given year. This is a bit of an apples to oranges comparison, or to be a little more technical, comparing a balance sheet item to one on an income statement.

Thus, we are now reporting on additional measures of debt sustainability in the *2021 Budget*. In addition to net debt-to-GDP, Ontario is also reporting on net debt-to-revenue and IOD-to-revenue.

I want to focus for a moment on the IOD-to-revenue ratio, as it measures the ratio of two flows, rather than a stock to a flow. The current forecast is 8.5 per cent in 2021–22, and our objective will be to slow the rate of increase of this ratio, supported by GDP growth. Despite the increases in forecasted deficits and borrowing requirements due to the pandemic, IOD-to-revenue over the medium-term remains lower than forecasted when compared to both the pre-pandemic *2019 Budget* and to the *2020 Budget*, demonstrating the continued relative affordability of Ontario's debt. More significantly, in a historical context, this ratio is forecast to remain below the peak reached following the global financial crisis in 2008–09, and lower than the levels in the early 1990s through to the mid-2000s.

You can find further fiscal and economic information on the *2021 Budget* on the Ministry of Finance's website. You can also find updated borrowing information in our Investor Relations Presentation and Fact Sheet, posted on this OFA website.

Thank you very much for your time.