



**Province of Ontario Presentation**

August 12, 2020

Ontario Financing Authority  
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# Overview

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- The *2020–21 First Quarter Finances* provides an update to *Ontario’s Action Plan: Responding to COVID-19 (March 2020 Economic and Fiscal Update)* which outlined the Province’s initial response to the unprecedented global health and economic crisis caused by the global pandemic.
- The report updates the economic outlook with the most current available private-sector forecasts. It also reports on the additional actions the government has taken in response to COVID-19 since the *March 2020 Economic and Fiscal Update*.
- While acknowledging this remains a unique and unpredictable time, this update delivers on the government’s commitment to transparency and accountability as responsible managers of the public’s finances.
- The COVID-19 pandemic has reinforced the government’s commitment to managing the Province’s finances in a responsible and sustainable manner.
- This is reflected in the government’s approach to provide targeted time-limited funding to address the extraordinary needs of the health care system and to support people and jobs during this unprecedented global pandemic.
- The government remains committed to releasing a multi-year provincial budget by no later than November 15, 2020.

# Ontario's Updated Action Plan

## Ontario's Updated Action Plan: Responding to COVID-19



Support for Health Care  
**\$7.7 Billion**



Support for People and Jobs  
**\$11.0 Billion**

Total Direct Support  
**\$18.7 Billion**



Support for People and Businesses  
to improve Cash Flow  
**\$11.3 Billion**

**\$30.0 Billion in Total Supports**

# Ontario's Fiscal Plan

- The Province's 2020–21 deficit is projected to be \$38.5 billion — an increase of \$18.0 billion from the outlook published in the *March 2020 Economic and Fiscal Update*.
- The 2020–21 outlook also maintains a \$2.5 billion reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense forecasts for the remainder of the fiscal year.

<b>Fiscal Summary</b> (\$ Billions)	<b>March 2020 Update</b>	<b>Current Outlook<sup>1</sup></b>	<b>In-Year Change</b>
<b>Revenue</b>	<b>156.3</b>	<b>150.6</b>	<b>(5.7)</b>
<b>Expense</b>			
Programs	161.1	174.2	13.1
Interest on Debt	13.2	12.5	(0.7)
<b>Total Expense</b>	<b>174.3</b>	<b>186.7</b>	<b>12.4</b>
<b>Surplus/(Deficit) Before Reserve</b>	<b>(18.0)</b>	<b>(36.0)</b>	<b>(18.0)</b>
Reserve	2.5	2.5	-
<b>Surplus/(Deficit)</b>	<b>(20.5)</b>	<b>(38.5)</b>	<b>(18.0)</b>

<sup>1</sup> Current outlook reflects government decisions and information available as of June 30, 2020.

Note: Numbers may not add due to rounding.

Source: Ontario Ministry of Finance and Treasury Board Secretariat.

# Ontario's Economic Planning Projection

- The *2020–21 First Quarter Finances* is based on a real GDP planning scenario with a decrease of 6.7 per cent in 2020 and growth of 5.5 per cent in 2021, both slightly below the current private-sector average forecast to incorporate prudence.

<b>2020–21 First Quarter Finances</b> (Per Cent Change)	<b>2019a</b>	<b>2020p</b>	<b>2021p</b>
<b>Real GDP Growth</b>	1.7	(6.7)	5.5
<b>Nominal GDP Growth</b>	3.9	(5.3)	7.1
<b>Compensation of Employees</b>	4.2	(2.5)	5.5
<b>Net Operating Surplus – Corporations</b>	2.6	(14.1)	9.3
<b>Nominal Household Consumption</b>	3.6	(6.0)	8.3

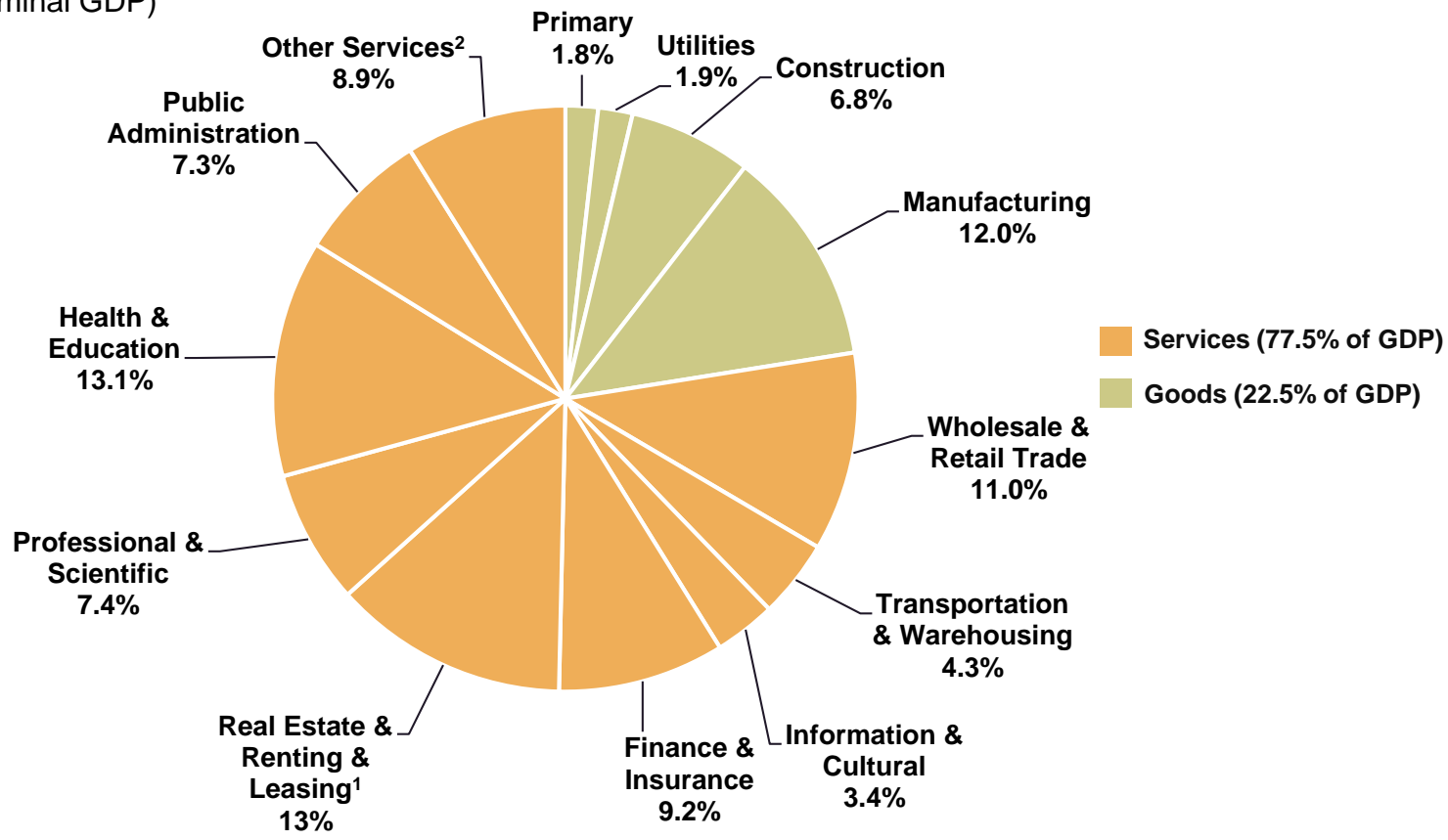
Source: Ontario Ministry of Finance.

a = actual; p = Ontario Ministry of Finance planning projection.

# Ontario's Diverse Economy

- Ontario has a diverse economy, with extensive financial and business services, manufacturing and a smaller primary sector compared to the rest of Canada

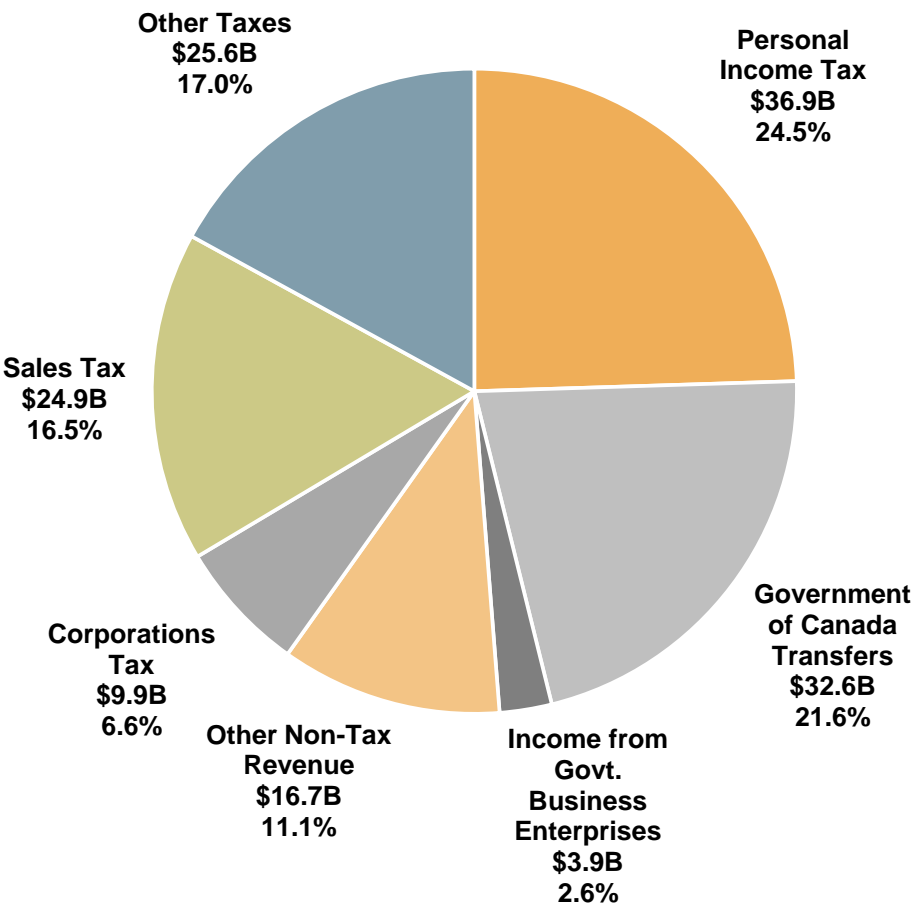
**Structure of the Ontario Economy, 2019**  
(Per Cent Share of Nominal GDP)



<sup>1</sup> Includes estimate of imputed rental income from owner occupied dwellings.  
<sup>2</sup> Other services include: management of companies and enterprises; administrative and support, waste management and remediation services; arts, entertainment and recreation; accommodation and food services; and other services.  
Source: Statistics Canada.  
Note: Numbers may not add due to rounding.

# Composition of Revenue 2020–21

## Revenue \$150.6 Billion



- Revenue sources are diversified.
- Taxation revenues account for 64.7 per cent of total revenues.
- Government of Canada transfers including the Canada Health Transfer and Canada Social Transfer account for 21.6 per cent of total revenues.
- Net Income from Government Business Enterprises (Liquor Control Board of Ontario, Ontario Lottery and Gaming Corporation, Hydro One Ltd, Ontario Power Generation Inc. and Ontario Cannabis Store) accounts for 2.6 per cent of total revenues.
- Other Non-Tax Revenues such as Fees, Donations and Other Revenues from the broader public sector, Vehicle and Driver Registration fees, and Sales and Rentals, account for 11.1 per cent of total revenues.

Source: Ontario Ministry of Finance.  
Note: Numbers may not add due to rounding

# Key Changes to 2020–21 Total Expense Projections

## Safe Restart Framework

**+\$4B**  
For  
Municipalities  
and Transit

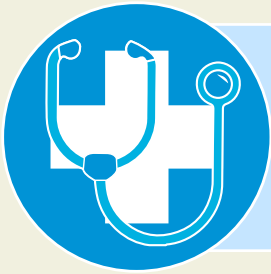
\$2.4B net increase in  
program expense

## Pandemic Pay

**+\$1.55B**  
For  
Pandemic Pay

\$1.1B net increase in  
program expense

## Increased Contingencies



**+\$4.3B**

Increase in  
Health  
Contingency  
Fund



**+\$3.0B**

Increase in  
Support for  
People and  
Jobs Fund



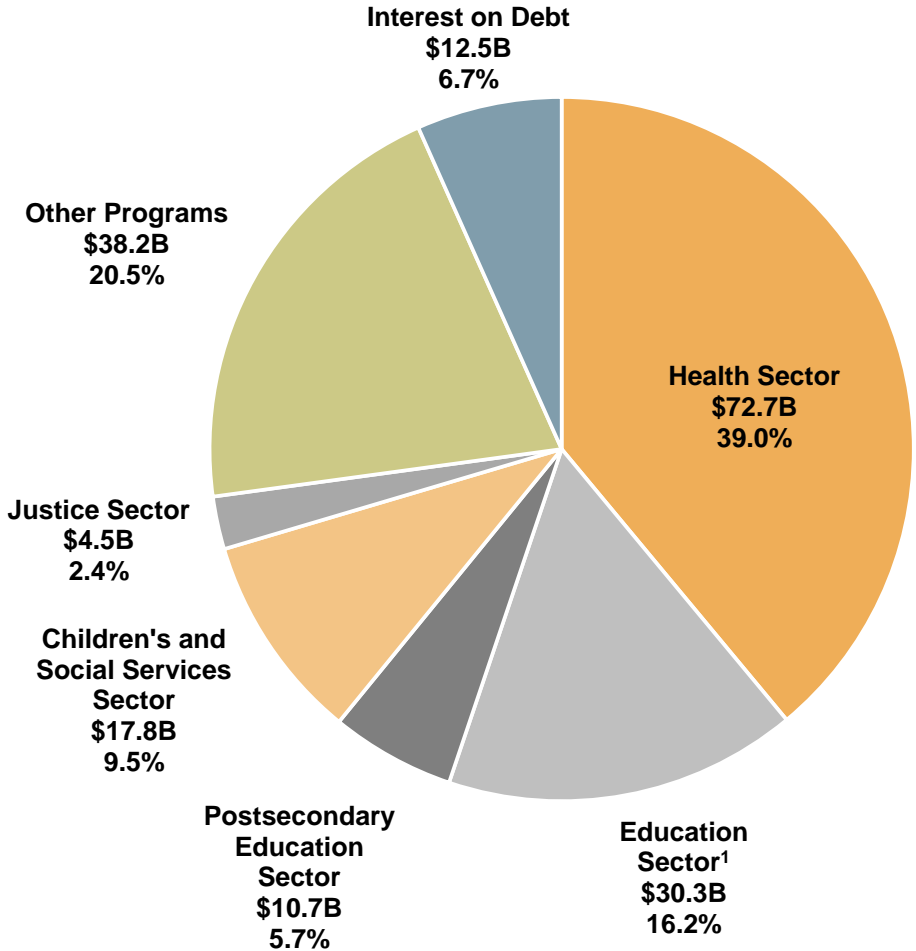
**+\$2.2B**

Increase in  
Standard  
Contingency  
Fund



# Composition of Total Expense 2020–21

**Total Expense \$186.7 Billion**



- The largest expense is the Health Sector at \$72.7 billion, accounting for about 39 per cent of total expense.
- Interest on Debt, included as part of total expense, is \$12.5 billion, or 6.7 per cent of total expense.

<sup>1</sup> Excludes Teachers' Pension Plan. Teachers' Pension Plan expense is included in Other Programs.

Source: Ontario Ministry of Finance and Treasury Board Secretariat.

# Ontario Bonds

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- **Bond Offerings**

- Wide range of offerings provide extensive investment and trading opportunities across the yield curve.

- **Liquid**

- Strong liquidity in secondary markets and large benchmark issues.

- **Attractive Spreads**

- Ontario spreads give investors opportunities to enhance their returns.

- **Safe**

- A diverse economy with direct taxation powers and stable growth.

- **Borrowing Program**

- Diverse program investor base continues to develop in size and diversification.

# Ontario's Borrowing Outlook

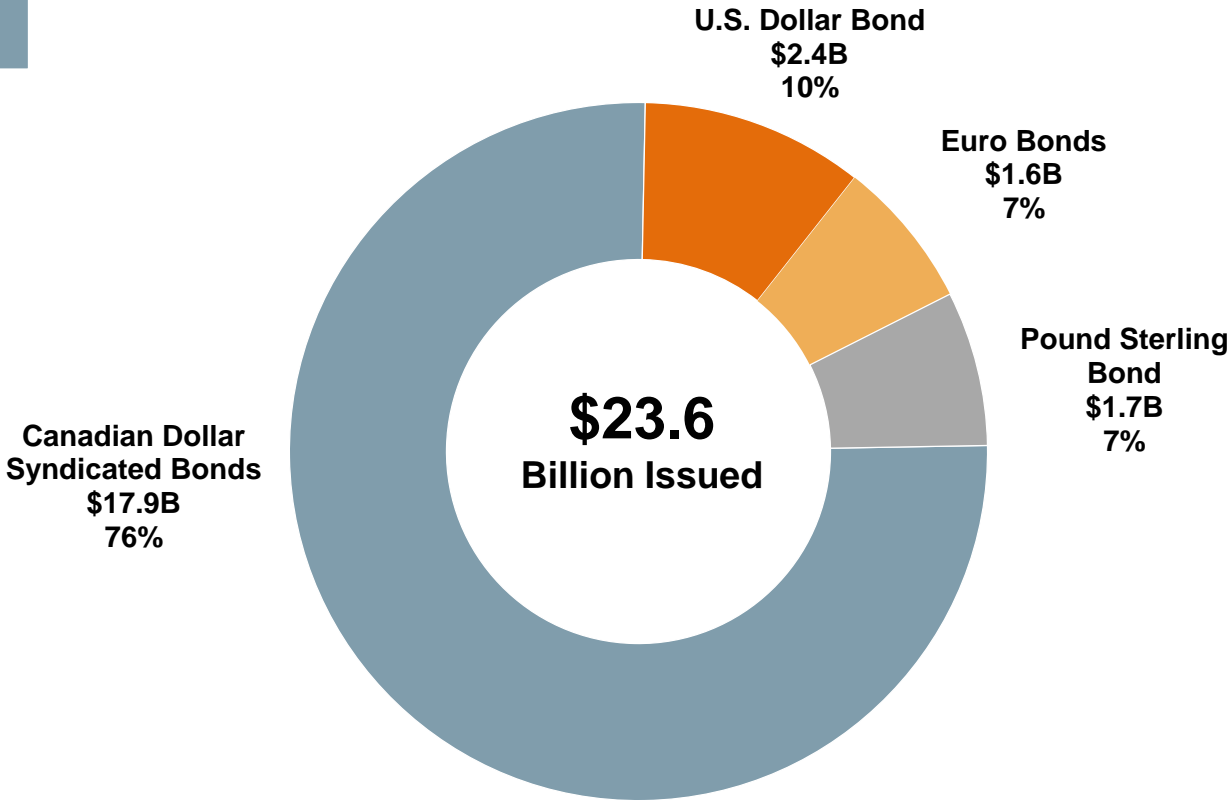
(\$ Billions)	2020–21		
	March 2020 Update	Current Outlook	In-Year Change
Deficit/(Surplus)	20.5	38.5	18.0
Investment in Capital Assets	10.4	10.4	–
Non-Cash Adjustments	(9.2)	(9.2)	–
Loans to Infrastructure Ontario	0.3	(0.0)	(0.3)
Other Net Loans/Investments	1.2	0.5	(0.7)
Debt Maturities/ Redemptions	26.6	26.6	–
<b>Total Funding Requirement</b>	<b>49.7</b>	<b>66.7</b>	<b>17.0</b>
Decrease/(Increase) in Short-Term Borrowing	(2.0)	(7.0)	(5.0)
Increase/(Decrease) in Cash and Cash Equivalents	–	–	–
Pre-Borrowing from 2019–20	(4.1)	(7.6)	(3.5)
<b>Total Long-Term Public Borrowing</b>	<b>43.6</b>	<b>52.1</b>	<b>8.5</b>

Note: Numbers may not add due to rounding.

Source: Ontario Financing Authority.

# 2020–21 Borrowing Program

**Canadian Dollar**  
**\$17.9B**  
**76%**



**Foreign Currencies**  
**\$5.8B**  
**24%**

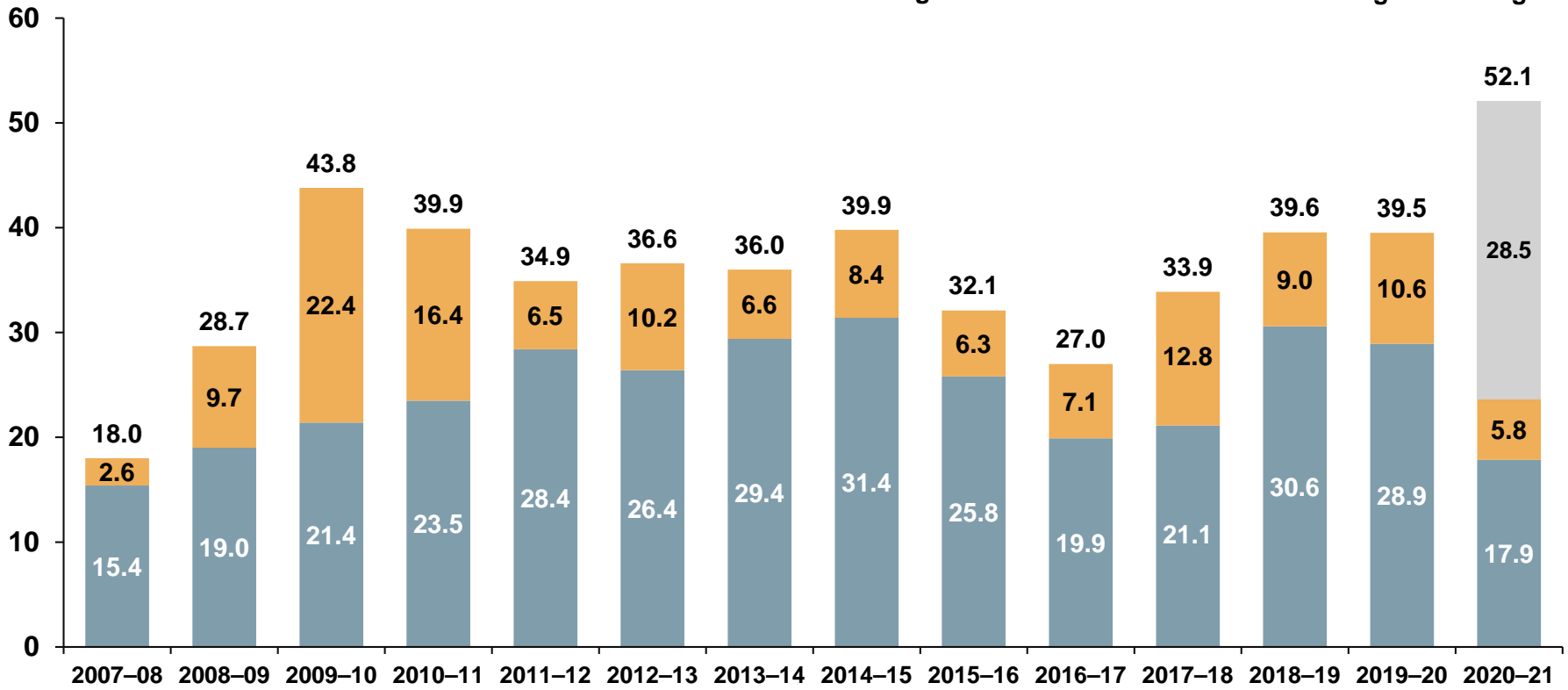
# Domestic and International Borrowing

As of August 12, 2020

## Total Long-Term Borrowing

(\$ Billions)

■ Canadian Dollar ■ Foreign Currencies ■ 2020–21 Borrowing Remaining



	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Foreign	14%	34%	51%	41%	19%	28%	18%	21%	19%	26%	38%	23%	27%	24%
Domestic	86%	66%	49%	59%	81%	72%	82%	79%	81%	74%	62%	77%	73%	76%
Weighted-Average Term	12.1	8.6	8.1	12.8	13.0	12.4	13.6	14.1	14.2	13.9	12.1	12.9	14.5	11.0

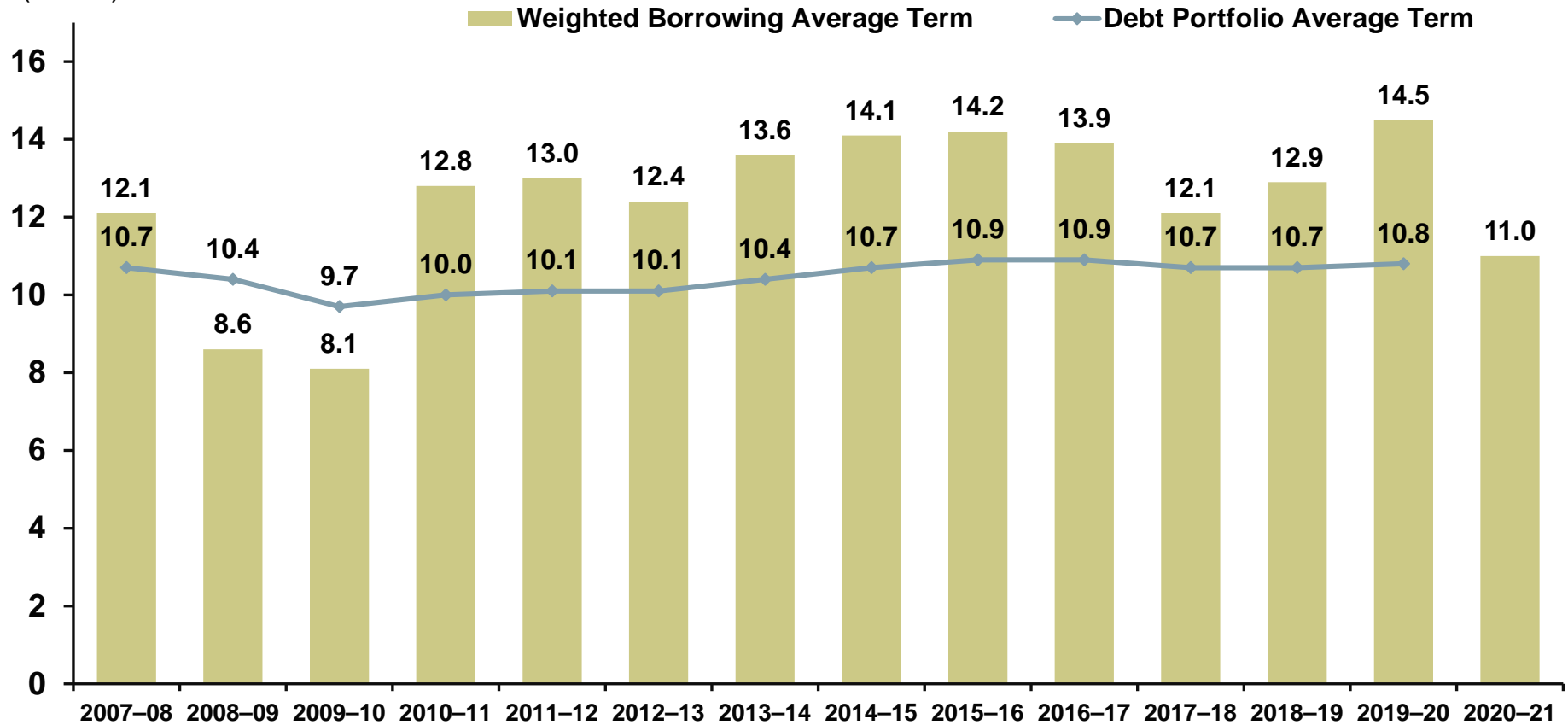
Note: The \$39.5 billion borrowing completed in 2019–20 includes \$7.6 billion in pre-borrowing for 2020–21. Numbers may not add due to rounding.

# Weighted-Average Term of Borrowings

- Going back to the beginning of fiscal 2010–11, Ontario has issued \$96.4 billion of bonds 30 years or longer to lock in low interest rates.

As of August 12, 2020

**Average Term**  
(Years)



# Domestic Borrowing Program

- Ontario bonds accounted for 67.2 per cent of Canadian provincial bond trading in 2019.<sup>1</sup>
- Ontario accounts for 14.6 per cent of the FTSE TMX Universe Bond Index, 16.5 per cent of the FTSE TMX Mid Bond Index and 20.6 per cent of the FTSE TMX Long Bond Index.<sup>2</sup>
- Large and diverse domestic underwriting syndicate of 12 dealers make active markets in Ontario bonds.
- Regular issuance of 5-year, 10-year and 30-year issues, which are re-opened to achieve benchmark size.
- Large Order Procedure (carve-outs) to accommodate large investors (11 issues totalling \$5.2 billion so far in 2020–21).

## Canadian dollar Benchmark Bonds (As of August 12, 2020)

Term	Ontario		Canada	
5 yr (old)	2.30% September 8, 2024	\$2.75B	1.25% March 1, 2025	\$17.30B
5 yr (new)	1.75% September 8, 2025	\$9.05B	0.50% September 1, 2025	\$37.50B
10 yr (old)	2.70% June 2, 2029	\$9.325B	2.25% June 1, 2029	\$12.30B
10 yr (new)	2.05% June 2, 2030	\$9.40B	1.25% June 1, 2030	\$34.20B
Long (old)	2.90% June 2, 2049	\$13.25B	2.75% December 1, 2048	\$14.90B
Long (new)	2.65% December 2, 2050	\$14.10B	2.00% December 1, 2051	\$21.80B

<sup>1</sup> Investment Industry Regulatory Organization of Canada (IIROC) Market Trade Reporting System - Provincial Bond Total Trading.

<sup>2</sup> PC Bond, as of December 31, 2019.

# U.S. Dollar Borrowing

- Fixed Global Bonds in 3, 5, 7 and 10 years, with benchmark size of U.S.\$1.0B plus.
- Total U.S. denominated bonds of C\$44.7B outstanding as of March 31, 2020.
- U.S. commercial paper (1-270 days), with about C\$3.5B outstanding as of August 4, 2020.
- Global Bonds are offered in SEC-registered format.
- Ontario bonds are included in a number of bond market indices and sub-indices including BofA Merrill Lynch, Citi, and Barclays Capital.

## Recently Issued U.S. Dollar Bonds

Term	Issue Date	Amount (U.S.\$)	Coupon
7 year	May 14, 2020	1.75 billion	1.05%
3 year	January 16, 2020	3.00 billion	1.75%
10 year	September 25, 2019	1.25 billion	2.00%
7 years	June 13, 2019	1.75 billion	2.30%
3 years	April 17, 2019	1.75 billion	2.55%
5 years	January 29, 2019	2.50 billion	3.05%
5 years	October 10, 2018	2.50 billion	3.40%
3 years	February 6, 2018	3.00 billion	2.55%
5 years	September 26, 2017	2.00 billion	2.20%

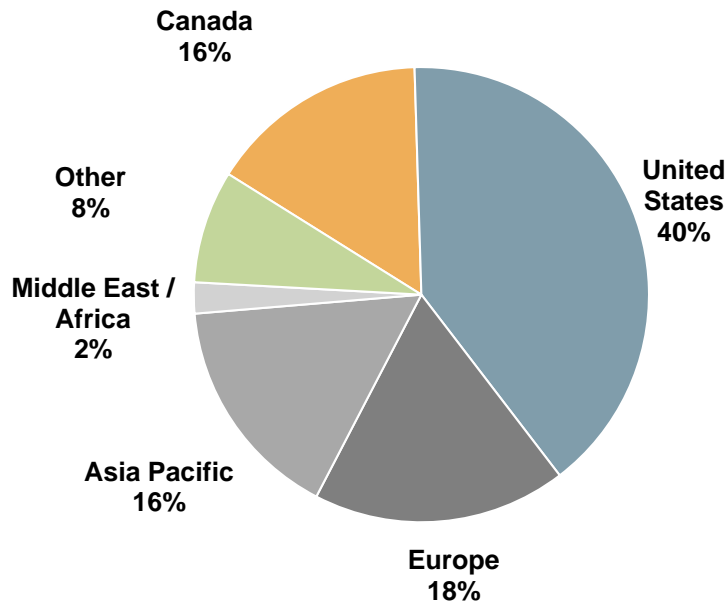
Sources: Bloomberg, Ontario Financing Authority.



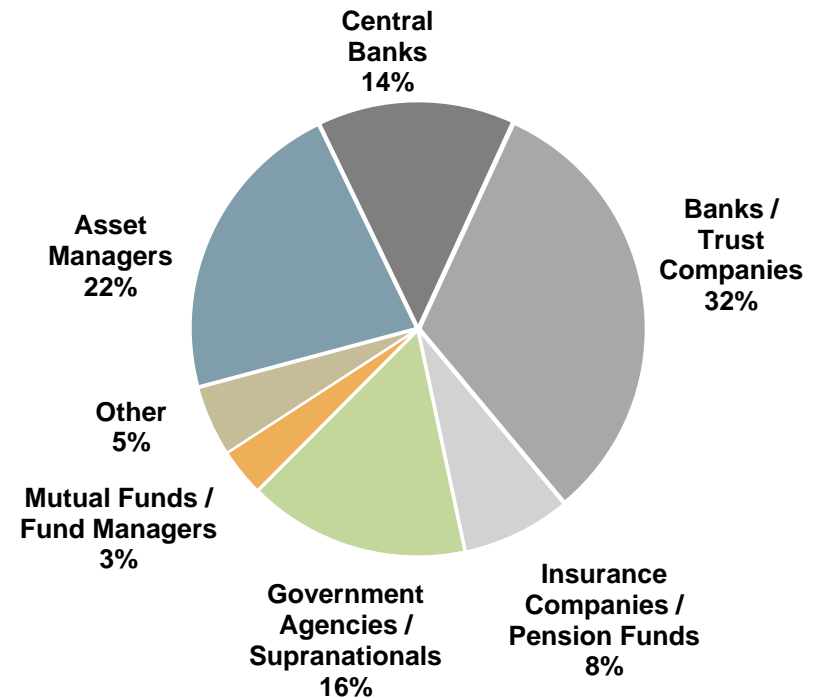
# U.S. Dollar Market

- Core market with annual issuance since 1991.
- Right-sized bond issues to meet demand.
- U.S. dollar investors diversified both geographically and by type.

## USD by Geography



## USD by Investor Type



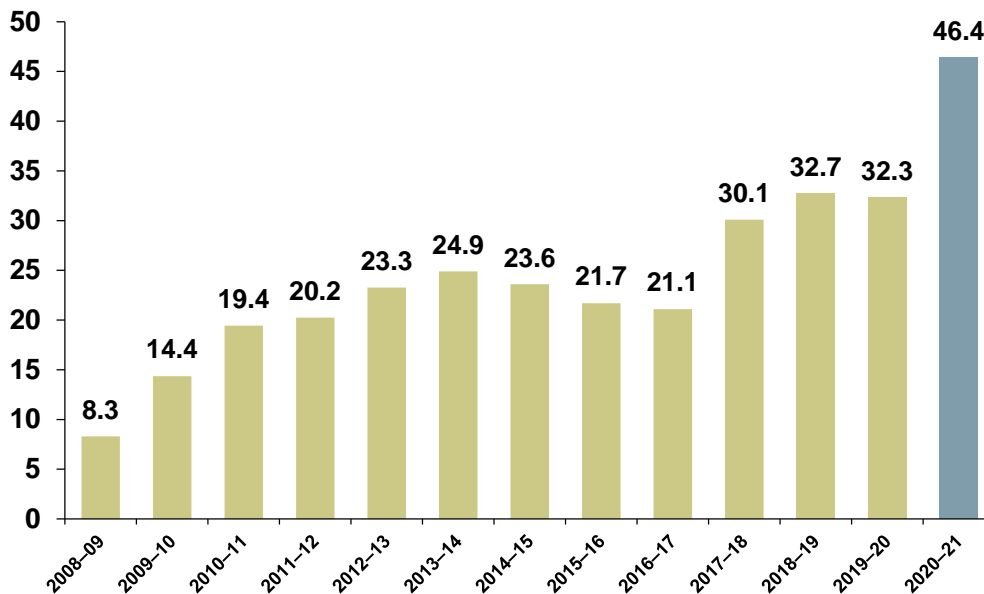
Note: Data for USD by Geography and Investor Type since 2010.

Source: Ontario Financing Authority.

# Liquidity and Short-Term Borrowing Capacity

- The Province has large liquid reserve levels to withstand periods of financial market volatility, such as currently being experienced.
- Ontario treasury bills and U.S. commercial paper are very well received in the money markets and provide additional borrowing capacity if required.
- Large capacity for short term borrowing: \$61.0 billion authorized, \$28.0 billion outstanding, and \$33.0 billion available.
- As of August 11, 2020, liquid reserve levels were \$43.4 billion.

**Average Unrestricted Liquid Reserve Levels**  
(\$ Billions)



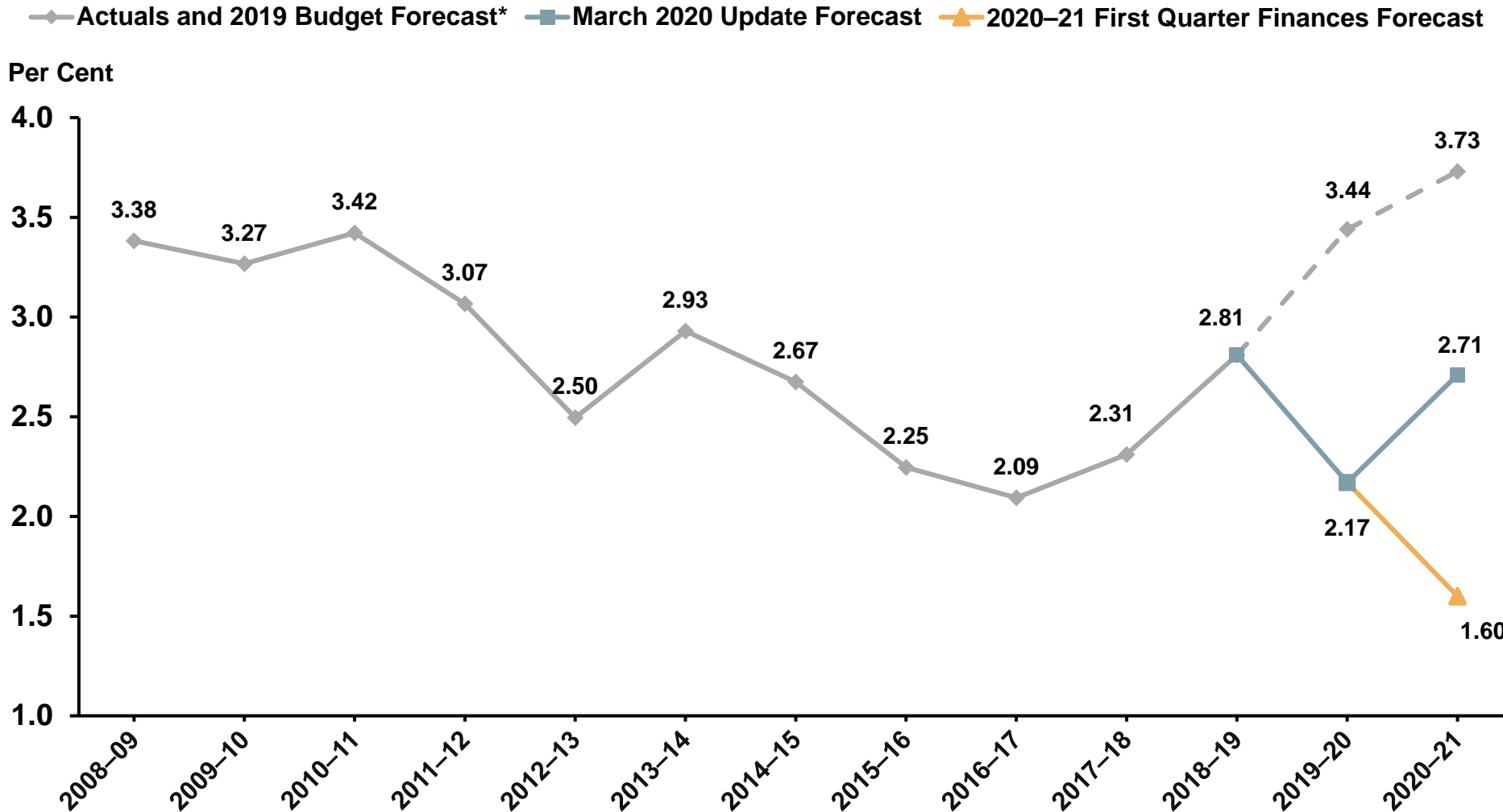
Note: 2020-21 as of July 31, 2020.

(\$ Billions)	C\$ T-Bill Program	U.S.\$ Commercial Paper Program	Total
<b>Currency</b>	Canadian Dollars	U.S. Dollars	–
<b>Maturity</b>	1 day-3 years*	1-270 day(s)	–
<b>Authorized</b>	C\$46.0	C\$15.0	C\$61.0
<b>Outstanding</b>	C\$24.5	C\$3.5	C\$28.0
<b>Available</b>	C\$21.5	C\$11.5	C\$33.0

\*Regular issuance of 3M, 6M and 1Y T-Bills

Note: As of August 4, 2020. Numbers may not add due to rounding.

# Average Annual Ontario Borrowing Rates



\*2019-20 and 2020-21 are 2019 Budget forecasts.  
 Sources: Public Accounts of Ontario and Ontario Financing Authority.

# Risk Management





- Monitor and manage debt maturity profile to limit refinancing risk.
- Maintain a high level of liquid reserves and short term borrowing capacity.
- Enforce strict credit limits for financial and investment counterparties.
- Have collateralized swap agreements in place for most swap counterparties.

	<b>Exposure</b>	<b>Policy Limit</b>
Foreign Exchange	0.2%	3.0%
Net Interest Rate Resetting	9.7%	35.0%

Of outstanding debt, as of July 31, 2020

*Note:* Excludes Ontario Electricity Financial Corporation debt.

# Credit Ratings

Rating Agencies	Long-term Rating	Short-term Rating	Outlook
	<b>Aa3</b>	<b>P-1</b>	<b>stable</b>
	<b>AA-</b>	<b>F1+</b>	<b>stable</b>
	<b>AA (low)</b>	<b>R-1 (mid)</b>	<b>stable</b>
	<b>A+</b>	<b>A-1</b>	<b>stable</b>



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