ANNEX IV
Borrowing and Debt Management

LONG-TERM PUBLIC BORROWING

As an agency of the Ministry of Finance, the Ontario Financing Authority (OFA) manages the borrowing, debt, investment and cash management activities of the Province and the Ontario Electricity Financial Corporation (OEFC) in a cost-effective manner.

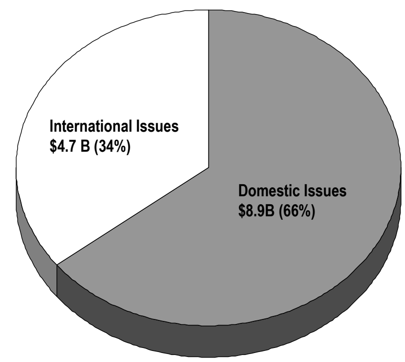
The interim long-term public borrowing requirement for 2008–09 is $24.8 billion.

Global financial markets are facing unprecedented challenges. The Province is not immune to these conditions. However, the OFA has been able to maintain the pace of its borrowing program.

As at October 10, 2008, $13.6 billion, or 55 per cent, of the long-term borrowing requirement was completed.

Borrowing — All Markets Chart 1

C$13.6 Billion Issued

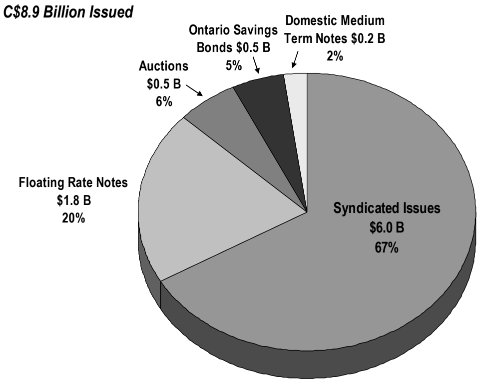


Source: Ontario Financing Authority.

Despite extremely difficult financial market conditions, the Province maintained a flexible approach to borrowing, monitoring both domestic and international capital markets for cost-effective borrowing opportunities.

Borrowing — Domestic Market Chart 2

C$8.9 Billion Issued



Note: Numbers may not add due to rounding.
Source: Ontario Financing Authority.

The Province typically targets 25 per cent of its borrowing from international markets. About $4.7 billion, or 34 per cent, of borrowing has been raised from international markets so far in 2008–09, compared to 14 per cent for the entire 2007–08 fiscal year. Bonds issued in foreign currencies were:

- three Global bond issues in U.S. dollars
- Euro Medium-Term Notes (EMTNs) in sterling, Swiss francs and U.S. dollars
- one Japanese yen loan.

About $8.9 billion, or 66 per cent, of borrowing was completed in the domestic market through a number of instruments, including:

- syndicated issues
- bond auctions
- floating rate notes
- Ontario Savings Bonds
- domestic medium-term notes.

2008–09 Borrowing Program: Province and OEFC ($ Billions) **Table 1**

	Budget Plan	Current Outlook	In-Year Change
Deficit/(Surplus)	0.0	0.5	0.5
Non-Cash Adjustments	(0.9)	2.0	2.9
Investment in Capital Assets	4.9	4.9	0.0
Net Loans/Investments	1.3	1.1	(0.2)
Debt Maturities	20.5	20.5	0.0
Debt Redemptions	1.0	0.6	(0.4)
Total Funding Requirement	**26.9**	**29.6**	**2.7**
Canada Pension Plan Borrowing	(0.6)	(0.5)	0.1
Decrease/(Increase) in Short-Term Borrowing	(2.0)	(2.9)	(0.9)
Increase/(Decrease) in Cash and Cash Equivalents	0.0	(1.4)	(1.4)
Total Long-Term Public Borrowing Requirement	**24.3**	**24.8**	**0.5**

Note: Numbers may not add due to rounding.

Deficit

The total long-term public borrowing requirement of $24.8 billion is $0.5 billion higher than the Budget Plan and the First Quarter Ontario Finances, due to the projected deficit.

Accumulated deficit is the difference between total liabilities and total assets. It is projected to be $106.1 billion as at March 31, 2009, compared to $105.6 billion as at March 31, 2008. The accumulated deficit is forecast to increase by the amount of the deficit.

Total debt is also expected to increase due to the government's capital investments in key priority areas, loans to school boards for capital projects and increased short-term borrowing to maintain cash levels. The increase in net debt is primarily a result of the government's capital investments.

Other Changes in the Financing Table

As at March 31, 2008, cash and cash equivalents were $1.4 billion higher than forecast in the 2008 Budget as the OFA-funded expenditures that had been anticipated to flow by the end of 2007–08 did not flow until 2008–09.

The increase in short-term borrowing is aimed at funding the timing difference between accrual expenditures and cash outflows, while targeting liquid reserves at $5.4 billion as at March 31, 2009, unchanged from the Budget Plan.

Debt redemptions are down $0.4 billion due to lower redemptions of Ontario Savings Bonds. The $0.2 billion decrease in net loans/investments is mainly the result of a decrease in loans to Ontario Power Generation Inc. (OPG). Canada Pension Plan borrowing of $0.1 billion was used to buy back less cost-effective debt.

The restructuring of the frozen asset-backed commercial paper (ABCP) market in Canada has received all court approvals, and the Province expects to receive its restructured notes within the next month. The Province plans to hold these notes to maturity and no further writedown is expected at this time.

It is expected that by holding on to the restructured notes to maturity, the Province will recover most of the accounting writedown taken last fiscal year.

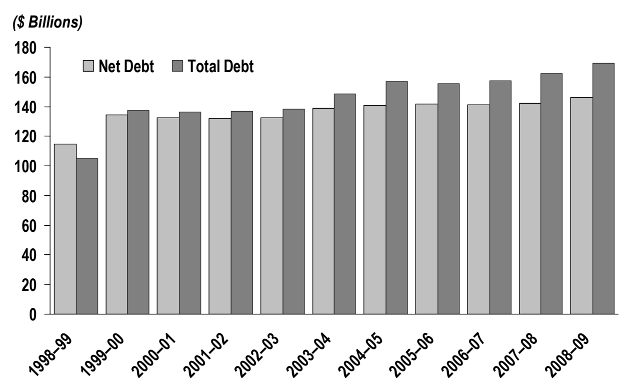
In the last fiscal year, final Interest on Debt charges totalled $209 million less than forecast in the 2007 Budget, even after the Province took a $107 million writedown related to its ABCP holdings. This $209 million saving allowed the Province to make further investments in priority areas such as health care, education and infrastructure.

Debt

Total debt, which represents all borrowing without offsetting financial assets, was $172.3 billion as at September 30, 2008. Total debt as at March 31, 2009 is projected to be $169.4 billion, compared to $162.2 billion as at March 31, 2008.

Ontario's net debt, the difference between total liabilities and total financial assets, is projected to be $146.3 billion as at March 31, 2009, compared to $142.4 billion as at March 31, 2008.

Debt **Chart 3**



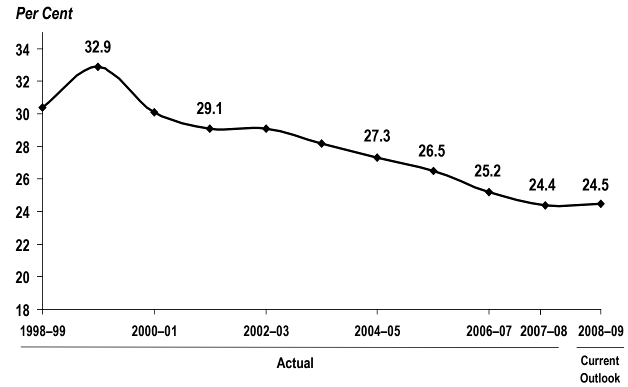
Sources: Ontario Public Accounts 1999–2008, Ontario Ministry of Finance and Ontario Financing Authority.

Debt-to-GDP Ratios

Net debt-to-GDP peaked at 32.9 per cent in 1999–2000, the year the Province first consolidated the unfunded liability (or "stranded debt") of the OEFC. Since then, Ontario's net debt-to-GDP ratio has trended downward. The current outlook projects a ratio of 24.5 per cent in 2008–09.

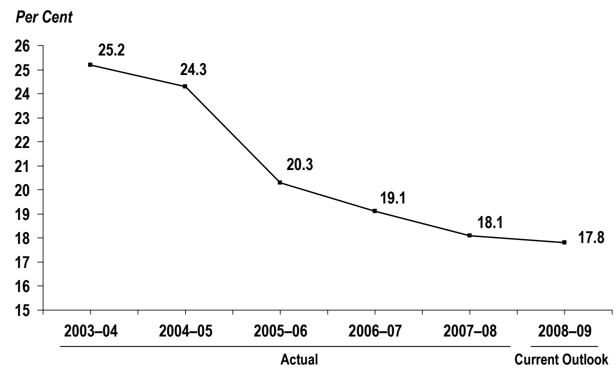
The Province's accumulated deficit-to-GDP ratio is forecast to improve from 25.2 per cent in 2003–04 to a forecast of 17.8 per cent in 2008–09.

Net Debt-to-GDP **Chart 4**



Source: Ontario Ministry of Finance.

Accumulated Deficit-to-GDP[1] **Chart 2**



[1] The substantial decline in 2005–06 was primarily due to a one-time reduction of $16.3 billion to the Province's accumulated deficit resulting from the inclusion of hospitals, school boards and colleges in the Province's financial statements, reflecting the balance of the sectors' assets less their liabilities as at April 1, 2005.

Total Debt Composition

Total debt is composed of bonds issued in both the short- and long-term public capital markets and non-public debt.

Public debt totals $152.4 billion, primarily consisting of bonds issued in the domestic and international long-term public markets in 11 currencies. Ontario also has $19.9 billion outstanding in non-public debt issued in Canadian dollars. Non-public debt consists of debt instruments issued to public-sector pension funds in Ontario and the Canada Pension Plan Investment Board (CPPIB). This debt is not marketable and cannot be traded.

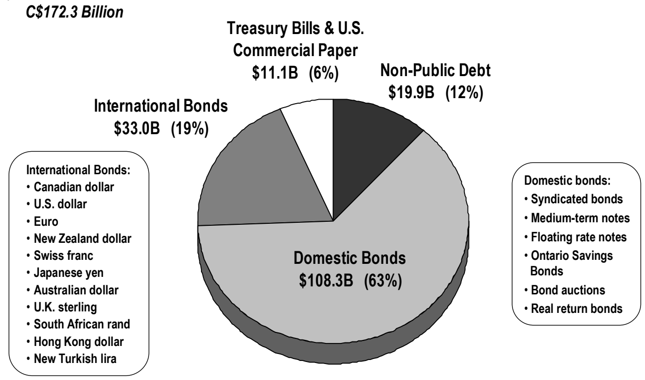
Debt Management

The Province limits itself to a maximum net interest rate resetting exposure of 35 per cent of debt issued for Provincial purposes and a maximum foreign exchange exposure of five per cent of debt issued for Provincial purposes. As at September 30, 2008, the net interest rate resetting exposure was 13.4 per cent and foreign exchange exposure was 0.1 per cent.

All exposures have remained well below policy limits in 2008–09.

Total Debt Composition Chart 6

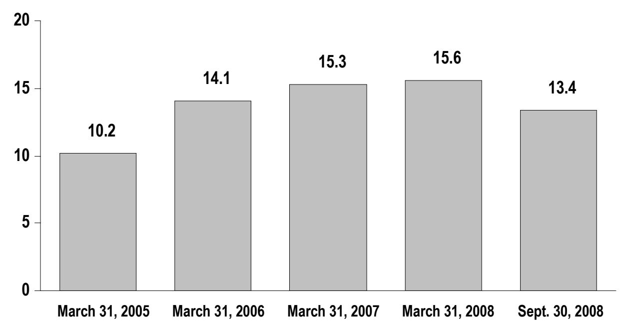
C$172.3 Billion



Source: Ontario Financing Authority (September 30, 2008).

Net Interest Rate Resetting Exposure Chart 7

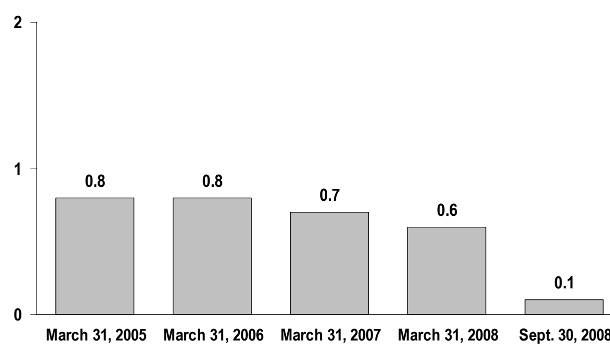
Percentage of Debt Issued for Provincial Purposes



Source: Ontario Financing Authority. Excludes OEFC debt.

Foreign Exchange Exposure Chart 8

Percentage of Debt Issued for Provincial Purposes

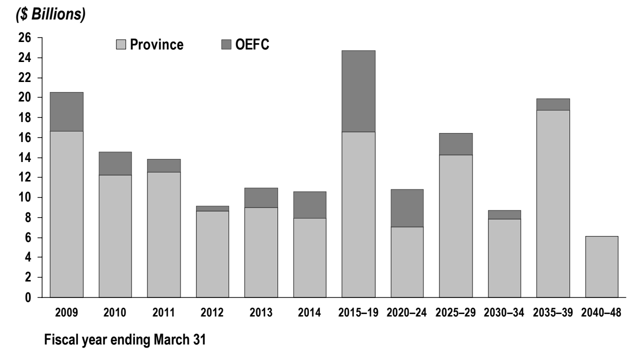


Source: Ontario Financing Authority. Excludes OEFC debt.

Debt Maturities

The largest component of the borrowing program is the refinancing of maturing debt. The year-to-year variation in debt maturities largely reflects past borrowing activities. The Province will continue to aim for a balanced maturity profile and take advantage of opportunities to schedule maturities into years that currently have lower levels of maturing debt.

Debt Maturities **Chart 9**

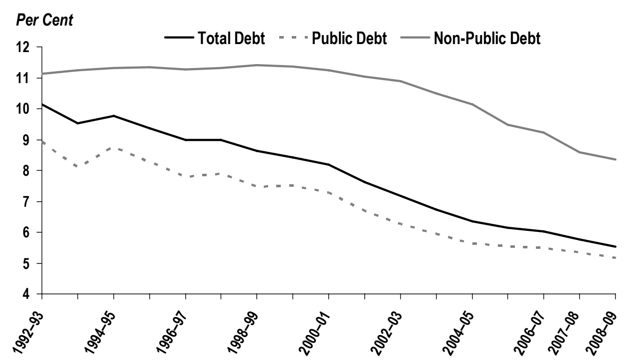


Excludes short-term debt and other liabilities and the incremental impact of future financing.
Assumes issues with options will be retired at the earliest possible date.
Source: Ontario Financing Authority.

Cost of Debt

The effective interest rate (on a weighted-average basis) on total debt was 5.53 per cent as at September 30, 2008 (March 31, 2008, 5.76 per cent). For comparison, as at March 31, 1993, the effective interest rate on total debt was 10.14 per cent.

Effective Interest Rate (Weighted Average) of Debt **Chart 10**



Sources: Ontario Public Accounts 1993–2007 and Ontario Financing Authority (September 30, 2008).

The effective interest rate on public debt was 5.16 per cent as at September 30, 2008, compared to 5.35 per cent as at March 31, 2008. The effective interest rate on non-public debt was 8.35 per cent as at September 30, 2008, compared to 8.59 per cent as at March 31, 2008.