ONTARIO'S ECONOMIC OUTLOOK AND FISCAL PLAN

May 2, 2013

Ontario is a province with tremendous diversity and a strong economic foundation. In the face of global economic challenges, it continues to outperform many parts of the world.

As the province moves forward through a sensitive economic recovery, it is taking a balanced approach to eliminate the deficit and make smart investments for long-term economic growth. Eliminating the deficit strengthens the economy by helping to protect public services, like schools and hospitals, which matter to people. These investments will help Ontario seize opportunities to compete in the global economy and create jobs here at home.

While Ontario faces economic challenges such as a high dollar, the province's economic fundamentals are solid and its industries are well-positioned to take advantage of growing opportunities in the global economy.

Acknowledging these challenges and working with business, labour and other key partners to deal with them head-on will position Ontario for stronger growth in the future.

Economic growth and job creation are driven by business and entrepreneurs making investments. The government's efforts are best focused on creating a favourable economic environment.

Working with key partners, the government is laying out a six-part economic renewal plan that will help Ontario's economy seize new opportunities for growth and job creation:

- **competitive business climate** — supporting a competitive tax system and effective regulation promotes new business investment for job creation and economic growth;
- **modern infrastructure** — investing in transit, roads, schools and hospitals is a key foundation for a productive economy;
- **highly skilled workforce** — investing in skills and education, as well as youth employment, ensures the people of this province can work and prosper;

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- **promoting entrepreneurship and innovation** — strengthening Ontario's ability to transform ideas into innovative goods and services for the global economy;

- **going global** — working with business to expand market access for goods and services beyond Ontario's borders to other provinces, the United States and emerging economies; and

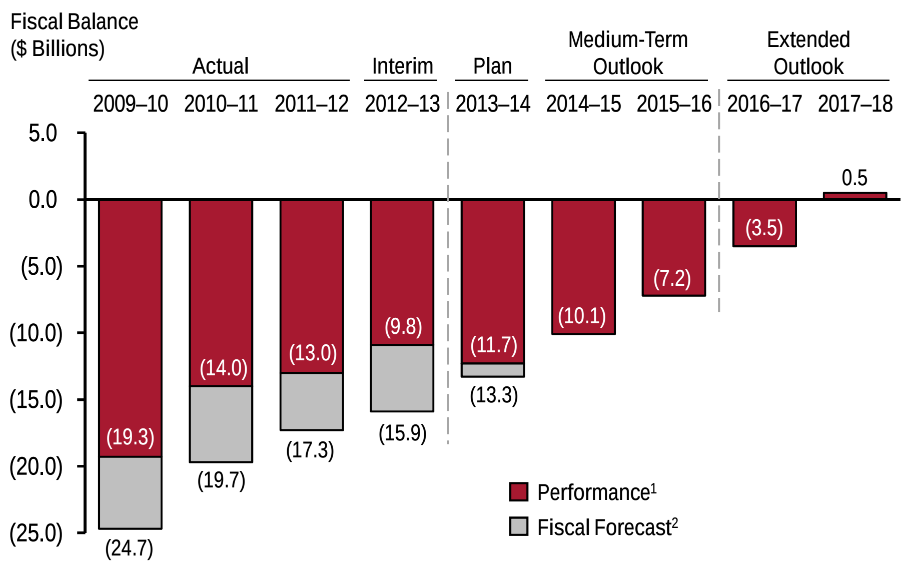
- **vibrant and strong communities** — helping all communities and regional economies benefit from opportunities for job creation and economic growth.

The single most important thing the government can do to secure Ontario's prosperity is to eliminate the deficit. The deficit for 2012-13 is now estimated to be $9.8 billion — a $5 billion improvement compared with the 2012 Budget forecast.

The fiscal year that just ended marks the fourth year in a row that Ontario has reported a lower deficit than forecast — the only government in Canada to achieve this level of success. It also marks the second year in a row where the rate of growth in program spending is projected to be less than one per cent. The deficit projection for 2013-14 is $11.7 billion, an improvement of more than $1 billion from the projection in last year's Budget.

Beyond 2013-14, the government is on track to meet the steadily declining deficit targets outlined in the 2012 Budget and to return to balanced budgets beginning in 2017-18.

Ontario's Plan to Eliminate the Deficit



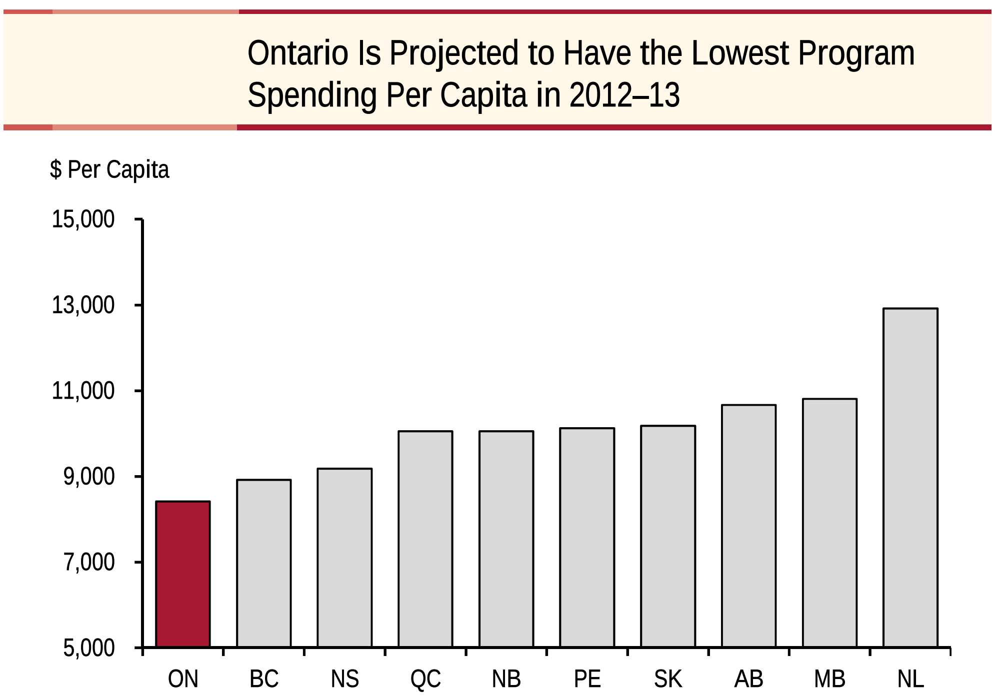
[1] Represents current forecast for 2012–13 to 2017–18. For 2009–10 to 2011–12, actual results are presented.
[2] Forecast for 2010–11 to 2013–14 based on the *2010 Budget*. Projection for 2009–10 from the *2009 Ontario Economic Outlook and Fiscal Review*.

The Ontario government is committed to eliminating the deficit by 2017-18 in a way that is both fiscally responsible and fair, while strengthening the economy and building a more prosperous and fair Ontario. As part of the province's plan to eliminate the deficit by 2017-18, the government will continue its consultations with the public after this Budget. Engaging the people of Ontario on the future of their public services requires ongoing dialogue. The government will announce further details later this spring.

2012-13 Interim Outlook

The deficit for 2012-13 is now projected to be $9.8 billion — a $5.0 billion improvement compared with the 2012 Budget forecast. In addition to beating the deficit target for 2012-13, the province is projecting an improvement of over $1.0 billion from the $12.8 billion deficit projected in the 2012 Budget for 2013-14. Achieving this forecast would represent the fifth year in a row the province has exceeded its fiscal targets. Beyond 2013-14, the government is on track to meet the steadily declining deficit targets outlined in the 2012 Budget and achieve a $0.5 billion surplus in 2017-18.

As the Commission on the Reform of Ontario's Public Services indicated, slowing the rate of growth in program spending is essential for balancing the budget by 2017-18. The government's plan for eliminating the deficit is to manage spending effectively. Growth in program spending is projected to be less than one per cent in 2012-13 for the second consecutive year. The majority of ministries, including Health and Education, contained growth in spending and managed well below their 2012-13 budgets. Ontario currently has the lowest program spending per capita among Canadian provinces.



Note: Some provinces' figures have been adjusted to improve comparability.
Sources: Provincial Budgets and Ontario Ministry of Finance.

Managing the growth in program spending will continue to be a key component of the province's fiscal plan moving forward. Program spending in 2013-14 is unchanged from the 2012 Budget projection. Between 2012-13 and 2017-18, program spending is projected to grow at an average annual rate of less than one per cent.

Revenues

Total revenue in 2012-13 is estimated to be $114,223 million. This is $1,650 million above the amount projected in the 2012 Budget. The increase is due to higher taxation revenues, higher net income from government business enterprises as well as higher other non-tax revenues. Lower Government of Canada transfers partially offset the overall increase.

Revenues are projected to increase at an average annual rate of 3.0 per cent over the 2012-13 to 2015-16 period.

Expenses

Total expense in 2012-13 is projected to be $2,387 million lower than forecast in the 2012 Budget, primarily due to the government's commitment to manage growth in program spending — projected to be held to less than one per cent for the second year in a row — along with lower-than-forecast interest on debt expense.

Program expense is $2,140 million lower than projected in the 2012 Budget. This change is a result of the one-time savings in the education sector, as well as efforts across all ministries to contain growth in spending and manage within their budgets. In fact, 16 of 25 ministries (or more than 60 per cent) are projected to spend below their 2012 Budget allocation in 2012-13, helping to hold growth in program spending to less than one per cent for the second year in a row.

The province's total expense outlook is projected to grow by an average annual rate of 1.8 per cent between 2012-13 and 2015-16. In addition, the total expense outlook is lower in each and every year compared with the medium-term forecast in the 2012 Budget — representing a projected cumulative reduction in total expense of $3.8 billion over three years.

A Responsible, Respectful and Fair Approach to Public Sector Compensation

Compensation costs account for more than 50 per cent of Ontario-funded program spending, either paid directly through the Ontario Public Service (OPS) or as part of the government's transfer payments to schools, hospitals and other public-sector partners. All public-sector partners — including employers and bargaining agents — need to work together to control current and future compensation costs, including wages, benefits and pensions.

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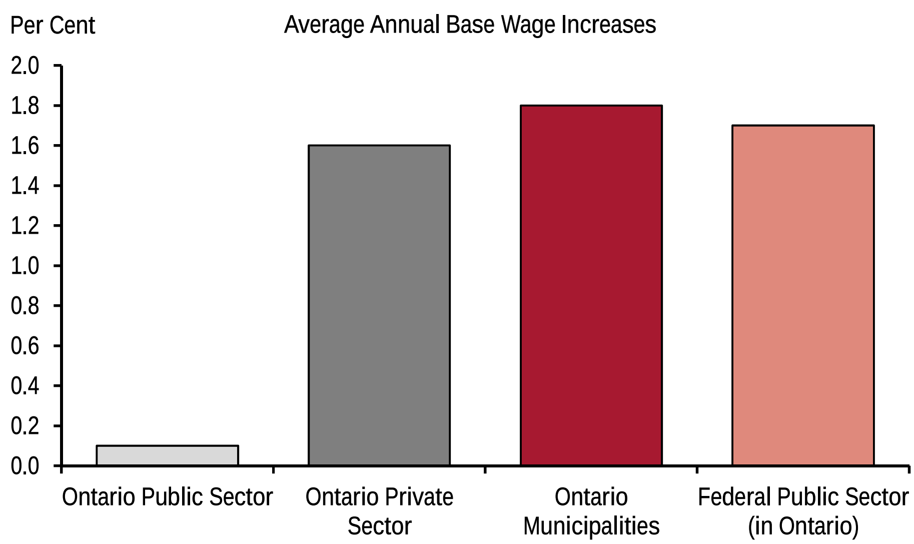
Additionally, an advisory panel will be appointed to review compensation practices for senior executives in the broader public sector. The panel's mandate will include the consideration of hard caps on compensation while recognizing the need to hold senior executives accountable for results.

The government respects collective agreements and the collective bargaining process, and will not over-ride existing collective agreements. Such actions would not only create significant legal risks, they would also undermine the ability of responsible employers and bargaining agents to increase productivity, maintain services and ensure fiscal sustainability through respectful bargaining that reflects Ontario's economic circumstances.

Salaries have been frozen for designated executives at hospitals, universities, colleges, school boards and provincially owned electricity companies. All aspects of compensation plans are frozen, and base salaries cannot be increased. In addition, the overall performance pay envelopes at designated employers are frozen. These restraint measures will be in place until the Budget is balanced in 2017-18. Members of Provincial Parliament will also continue to see their wages frozen — bringing the total length of the freeze to five years.

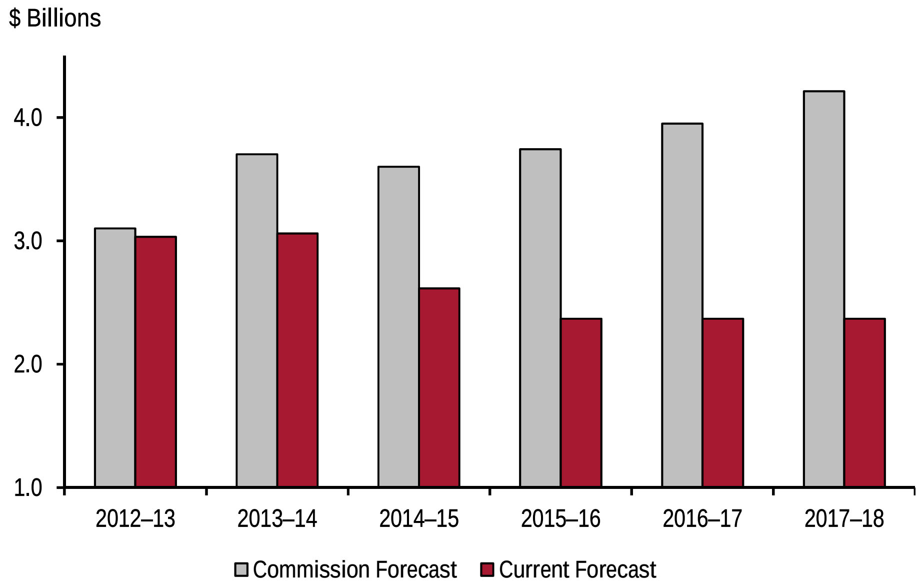
Ontario public-sector settlements are now below the average of those in the private sector, municipal sector and the federal public sector. Pension expense forecasts are down, in part, as a result of successful efforts to contain public-sector wage growth. These results have been achieved while protecting jobs and services.

Ontario Wage Settlements



Note: Data are for agreements with over 150 employees, ratified between July 17, 2012 and April 3, 2013.
Source: Ontario Ministry of Government Services.

Difference in Projected Pension Expense versus
Commission on the Reform of Ontario's Public Services Forecast



Going forward, compensation costs must be addressed within Ontario's existing fiscal framework, which includes no funding for incremental compensation increases for new collective agreements. The government is confident that broader public sector partners can work together to achieve outcomes that remain within the fiscal plan while protecting services. In future rounds of bargaining, the government is willing to work with employers and bargaining agents to look at mechanisms such as productivity improvements as a way to achieve fiscal and service-delivery goals.

Economic Growth

Ontario's economy is expected to grow at a moderate pace over the next several years. Business investment is helping Ontario's economy adopt new technologies to produce more innovative goods and services and to expand into new trade markets. Trade is expected to be a key contributor to growth over the medium term. In particular, Ontario will benefit from stronger exports to the United States, as the U.S. economic recovery gains momentum.

While a forecast of sustained moderate growth is a reasonable basis for planning, there are considerable risks in the global economy. Economic and fiscal uncertainty in Europe and the United States continues to pose significant risks for Ontario's economy.

For planning purposes, the Ministry of Finance is assuming real gross domestic product (GDP) growth of 1.5 per cent in 2013, 2.3 per cent in 2014, and 2.4 per cent in both 2015 and 2016.

Ontario Economic Outlook (Per Cent)	2010	2011	2012	2013p	2014p	2015p	2016p
Real GDP Growth	3.2	1.8	1.6	1.5	2.3	2.4	2.4
Nominal GDP Growth	5.2	4.7	2.9	3.0	4.1	4.2	4.2
Employment Growth	1.7	1.8	0.8	1.2	1.4	1.5	1.5
CPI Inflation	2.5	3.1	1.4	1.5	2.0	2.0	2.0

p = Ontario Ministry of Finance planning projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

The Ministry of Finance consults with private-sector economists and tracks their forecasts in order to inform the government's planning assumptions. All of these private-sector economists are forecasting continued growth for the Ontario economy in 2013 and the following three years. On average, private-sector forecasters are projecting growth of 1.6 per cent in 2013, 2.4 per cent in 2014, and 2.5 per cent in both 2015 and 2016.

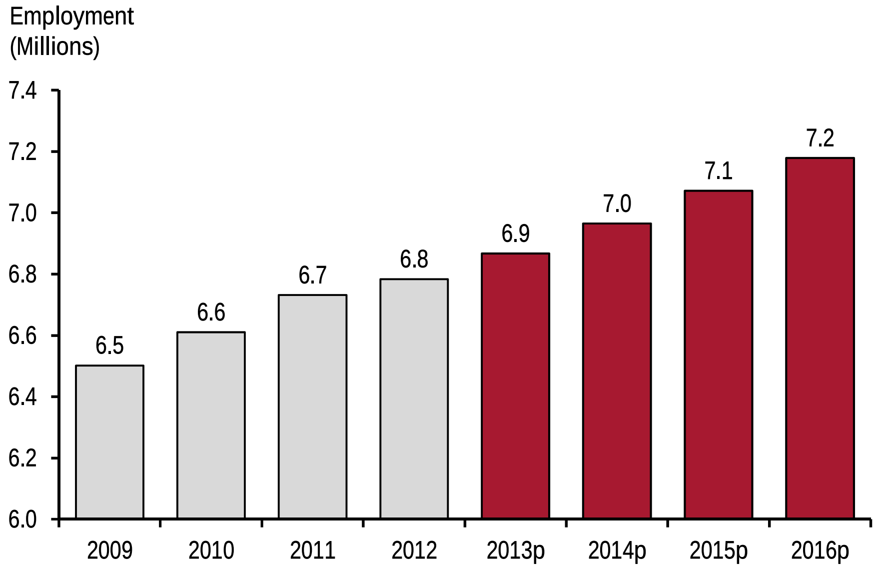
Jobs

The government's role in job creation is to encourage the right environment for businesses and entrepreneurs to take risks, make investments, create jobs and drive innovation.

Ontario has created almost 400,000 jobs since June 2009, recovering all the jobs lost during the recession. The pace of job creation in Ontario since June 2009 is ahead of the Organisation for Economic Co-operation and Development (OECD) average and that of the United States. Ontario's strong economic fundamentals, as well as government actions, have helped its economy recover from the global recession.

Job creation is expected to strengthen over the medium term, with employment increasing by 1.2 per cent in 2013, 1.4 per cent in 2014, and 1.5 per cent in both 2015 and 2016. By 2016, Ontario will have created nearly 400,000 net new jobs compared to 2012. The solid gains in employment will allow the unemployment rate to decline steadily from 7.7 per cent in 2013 to 6.6 per cent by 2016.

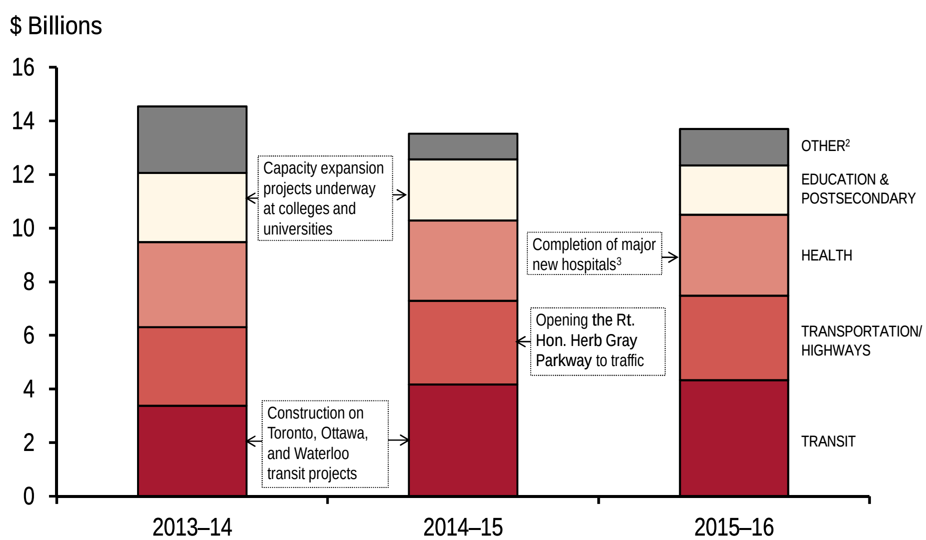
Employment Expected to Rise Over the Medium Term



p = Ontario Ministry of Finance planning projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

The government's economic plan for jobs and growth includes infrastructure investments of more than $35 billion over the next three years, in critical areas such as transportation, health care and education, to support over 100,000 jobs on average each year across the province.

Highlights of Planned Infrastructure Expenditures by Sector[1]



[1] Includes third-party contributions to capital investment (in consolidated schools, colleges, hospitals and provincial agencies), and federal government transfers for capital investments.
[2] Other includes investments in the water/environment sector, justice facilities, and municipal and local infrastructure.
[3] Examples of major new hospitals include New Oakville Hospital and Humber River Regional Hospital in Toronto.

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Borrowing and Debt

Ontario successfully completed its annual borrowing program in 2012-13, despite continuing challenges in global financial markets. The province borrowed $36.6 billion in 2012-13, including financing for capital and refinancing of maturing debt, taking advantage of the historically low interest rate environment and strong demand for Ontario bonds.

The province's total borrowing requirement in 2013-14 has been reduced by $7.2 billion compared to the 2012 Budget forecast because of lower deficits. This reduction will impact both long-term and short-term borrowing. Long-term public borrowing in 2013-14 is now $5.7 billion lower than the forecast contained in the 2012 Budget, and short-term borrowing is forecast to be $1.5 billion lower.

Strong global investor demand for Canadian-dollar assets, the liquidity of Ontario benchmark bonds and continuing confidence in the province allowed Ontario to borrow 72 per cent in the Canadian-dollar market in 2012-13. This is consistent with the target of at least 70 per cent set out in the 2012 Budget, down from 81 per cent in 2011-12.

In 2013-14, the province plans to borrow at least 70 per cent in the Canadian-dollar market. This is in line with the historical average of issuing approximately three-quarters in that market, and continues to represent a decline in the reliance on foreign markets seen during the financial crisis. In 2009-10, at the peak of the crisis, only 49 per cent of the province's issuance was in the Canadian-dollar market.

The province borrows to fund the deficit, investments in capital and to refinance maturing debt. Ontario's net debt is projected to be $252.8 billion as at March 31, 2013 and the accumulated deficit is projected to be $168.2 billion as at March 31, 2013. The $84.6 billion difference is primarily due to the province's net investments in infrastructure. Infrastructure investments would remain focused on the most critical areas such as transportation, health care and education, consistent with the government's long-term infrastructure plan, *Building Together*.

After eliminating the deficit by 2017-18, overall spending increases will be restricted to one per cent below GDP growth until the province's net debt-to-GDP ratio returns to the pre-recession level of 27 per cent.

FOR MEDIA INQUIRIES ONLY:
Susie Heath, Minister's Office, 416-325-3645
Scott Blodgett, Ministry of Finance, 416-325-0324

FOR PUBLIC INQUIRIES CALL:
1-800-337-7222
TTY: 1-800-263-7776