CEO's Corner – November 12, 2020

Hi, thank you for tuning in to watch my CEO's video update today. As you know, the Province of Ontario released its *2020 Budget* on November 5th. Over the next few minutes, I will provide an overview of Ontario's multi-year fiscal and economic outlook, our borrowing plans for 2020–21 and the medium-term, and I will answer questions submitted to us by investors along the way.

I'd like to start off with Ontario's fiscal plan and economic outlook.

The *2020 Budget* builds on the *March 2020 Economic and Fiscal Update*, which provided the Province's initial response to the COVID-19 pandemic. This was a one-year update, which made available $17 billion in total support.

The *2020–21 First Quarter Finances* released in August built on that plan and made available $30 billion as part of the Province's response to the global pandemic. The *2020 Budget* includes $15 billion in new supports, for a total of $45 billion in total supports over a three-year period.

Ontario's deficit in 2020–21 is projected to be $38.5 billion. The projected deficit is unchanged from the forecast at the time of the *2020–21 First Quarter Finances*.

Over the medium term, the government is forecasting deficits of $33.1 billion in 2021–22 and $28.2 billion in 2022–23.

Why isn't the government publishing a path to balance in the Budget?

Given the continued an unprecedented uncertainty and risk associated with the pandemic, the government is pausing the requirement to include a recovery plan in the 2020 Budget.

This responsible approach will allow the Province to continue assessing the volatile and uncertain economic situation and put forward a longer-term outlook and path to balance the budget, based on the most recent data, when the health and economic situation stabilizes.

Acknowledging the continued uncertainty of the global pandemic, the government plans to set a long-term target for the net debt-to-GDP ratio along with a path to balance in the *2021 Budget,* which will be presented by March 31, 2021.

Can you comment on the likelihood of Ontario utilizing the full $2.5 billion budget reserve for 2020–21?

Ontario incorporates prudence in the form of a reserve to protect the fiscal outlook against unforeseen adverse changes to the Province's revenue(s) and expense(s).

The reserve has been set at $2.5 billion in 2020–21, $2.0 billion in 2021–22, and $2.0 billion again in 2022–23. In addition to the reserves, the *2020 Budget* has made available time-limited funding and extraordinary contingencies of $13.3 billion in 2020–21, of which over $2.6 billion remains, and $5 billion in 2021–22 and $2.8 billion in 2022–23.

The balances remaining in these funds enable the government to continue to respond to COVID-19 and support the recovery for the Province.

So what are the economic forecasts that inform the government's planning assumptions?

On average, private sector forecasters expect Ontario's real GDP to contract 6.1 per cent in 2020, grow 5.0 per cent in 2021, 3.6 per cent in 2022 and 2.1 per cent in 2023. To be prudent, the government set real GDP projections below these averages, and used a planning assumption of a 6.5 per cent contraction in 2020, 0.4 percentage points below the private sector average for this year, and planning assumptions 0.1 percentage points below the private sector average for each of the next three years.

Unlike in previous budgets, in addition to the planning projection, the *2020 Budget* presents two plausible alternative paths that the economy could take over the next several years.

Why are you presenting alternative economic and fiscal scenarios?

The global economic disruptions caused by the COVID-19 pandemic have led to unprecedented uncertainty surrounding the economic forecast. Given this heightened uncertainty, the government is presenting two alternative economic scenarios, a Faster Growth and a Slower Growth scenario.

Under the Faster Growth scenario, the level of real GDP in 2023 is 2.4 per cent higher than the planning projection, while in the Slower Growth scenario the level of real GDP in 2023 is 4.5 per cent lower. With the Faster Growth scenario, the long-term borrowing of the Province would decrease by a total of $12.3 billion over the upcoming two fiscal years, while under the Slower Growth scenario, long-term borrowing would increase by a cumulative $7.7 billion over the same period.

These alternative scenarios shouldn't be considered the best case or worst case. Rather, they represent possible outcomes in this historic period of uncertainty, and the government has included them in the Budget in an effort to be as transparent as possible.

Are you assuming further lockdowns in the Slower Growth scenario?

There are a number of factors that could result in slower or faster economic growth than assumed in the planning assumptions. The Slower Growth scenario could result from purely economic factors such as consumer and business confidence, spending and investment, or global trade and productivity growth being moderately lower than the planning scenario on average over the forecast period.

Now let's turn to the borrowing program. The Province's 2020–21 borrowing program is forecast at $52.3 billion. This is $0.2 billion higher than the projection in the *2020–21 First Quarter Finances,* due to a planned increase in investments in capital infrastructure. The total long-term borrowing program will increase over the medium-term term to $58.6 billion and $59.3 billion in 2021–22 and 2022–23 respectively.

So where are we in terms of our borrowing program to date?

Of the $34.7 billion issued in 2020–21 before the release of the Budget, about 79 per cent of 2020–21 borrowing has been completed in Canadian dollars through 25 syndicated issues and a Green Bond, and 21 per cent was completed in foreign currencies. This remains in line with the Province's target to issue 70 to 80 per cent of total long term borrowing in the Canadian dollar market. Ontario plans to maintain this target range for the remainder of the 2020–21 fiscal year, but adjust if necessary, depending on investor demand in the Canadian dollar and foreign currency markets.

Ontario will also continue to regularly borrow in currencies other than the Canadian dollar to ensure the continued diversification of its investor base. On September 29, 2020, Ontario issued a 10-year US$1.25 billion bond, the Province's second U.S. dollar bond for fiscal 2020–21.

Foreign currency borrowing helps reduce Ontario's overall borrowing costs and ensures the government will continue to have access to capital if domestic market conditions become more challenging. Ontario will also continue to regularly borrow in currencies other than the Canadian dollar to ensure the continued diversification of its investor base.

The Province introduced a new December 2030 ten-year benchmark maturity recently. Can you discuss Ontario's strategy to bifurcate its 10-year issuance and if there are plans to introduce a similar strategy to the other domestic benchmark maturities?

Our goal is to maintain large liquid benchmark issues. Given the anticipated size of our borrowing requirements, we felt that it was possible to have two benchmark 10-year bonds. We believe that these bonds would offer liquidity and enable us to better manage our maturity profile, cash flow and refinancing risks.

Ontario added the 7-yr maturity point to the rotation for domestic new issues. Do you have a comment on what has been driving this and any plans for other 'new maturities' the Province may look to issue (e.g. 3-year; 20-year; ultralongs)?

The OFA responded to market demand with a seven year issue. We have done this in the past and may expand on this term in the future if market conditions support. At this point in time we are not looking to issue bonds in the 3 or 20-year terms.

Have you seen any notable increase or decrease from certain investor types or regions in 2020?

We have noticed a couple of trends. In terms of investor type, bank treasuries continue to play an increasing role in primary foreign issues. As for the geographic distribution of investors, the domestic market is also seeing an increase in interest from Asian accounts.

Green Bonds remain a core component of Ontario's borrowing program and are an important tool to help finance public transit initiatives, extreme weather-resistant infrastructure, and energy efficiency and conservation projects.

Since launching the Program with an inaugural Green Bond in 2014, the Province has issued eight Green Bonds for a total of $6.75 billion and remains the largest issuer of Canadian dollar green bonds.

Ontario's Green Bonds have funded 23 projects across three Green Bond framework categories. Our most recent Green Bond was also the largest to date for $1.5 billion. Subject to market conditions, Ontario may issue another Green Bond this fiscal year.

Looking ahead, we will be publishing our 6th Green Bond newsletter before the end of 2020.

Does the Province plan to issue a Green Bond outside of Canada?

The Province monitors both domestic and international Green Bond issuance opportunities and issues bonds into markets that are supportive and cost effective. The plan is to issue multiple Green Bonds in any fiscal year while maintaining a flexible approach with respect to amount, tenor, currency etc.

It's important to measure the sustainability and affordability of Ontario's debt, particularly given that the response to the pandemic – in Ontario as in other jurisdictions – has driven up the deficit and debt levels of the Province. Prior to the pandemic, the government was making progress on reducing the net debt-to-GDP ratio, which was 39.7 per cent in 2019–20, a full percentage point lower than the *2019 Budget* forecast of 40.7 per cent.

This ratio is now forecast to be considerably higher due to the government's response to the pandemic, which has led to necessarily higher deficits combined with lower GDP forecasts. After the pandemic, the government's objective will be to slow the rate of increase in the net debt-to-GDP ratio, supported by GDP growth from the economic recovery. The government plans to set a long-term target for this ratio in the *2021 Budget*.

While net debt-to-GDP is the primary measure of the sustainability of Ontario's debt, a key measure of affordability of the debt is the Interest on debt, or IOD-to-revenue ratio. This ratio represents how much Ontario needs to spend on interest for every revenue dollar received.

The current forecast is 8.2 cents of interest cost for every dollar of revenue in 2020–21. Despite increases to forecasted deficits, the IOD-to-revenue ratio remains lower than forecasted in the *2019 Budget* through the medium-term, and remains in the same range as it has been for the past 15 years.

The continued relative affordability of the Province's debt burden in spite of higher deficits and debt can be explained by the fact that interest rates the Province must pay on new or refinanced debt remain near historic lows. Despite a $38.5 billion deficit forecast and $44.6 billion projected increase in net debt in this fiscal year, IOD remains unchanged from 2019–20 to 2020–21 at $12.5 billion. Ontario's average cost of borrowing in 2020–21 is forecast to be 1.60 per cent. Since the *2019 Budget*, the Province's borrowing rate assumptions have dropped by more than two percentage points for this fiscal year and two and a half percentage points for 2021–22.

Finally:

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.