

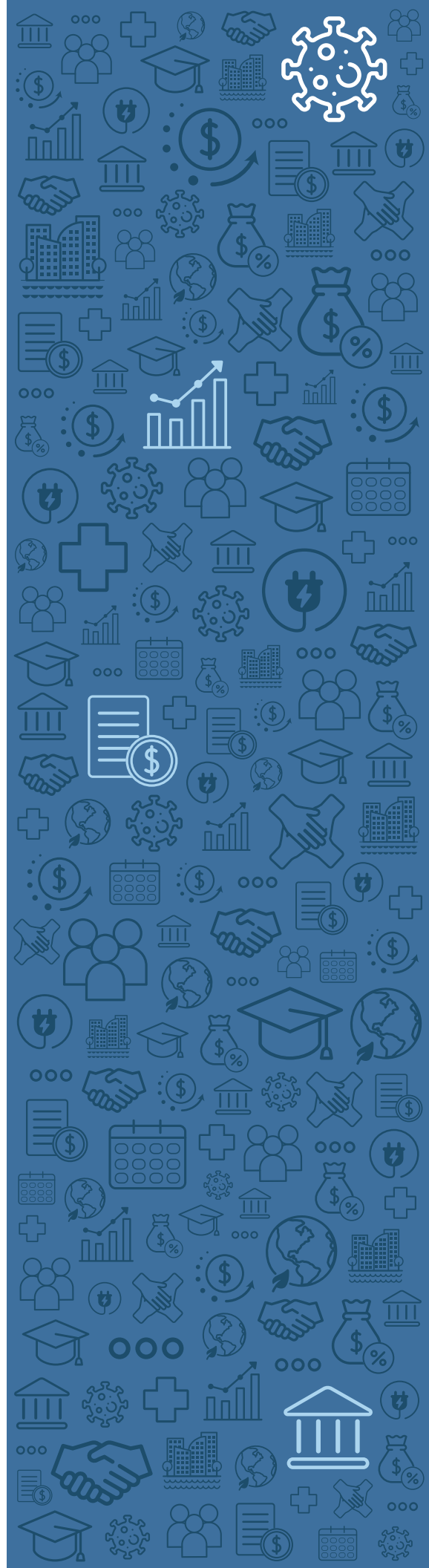
Ontario's Credit Rating

2021 Update



FAO

FINANCIAL ACCOUNTABILITY
OFFICE OF ONTARIO



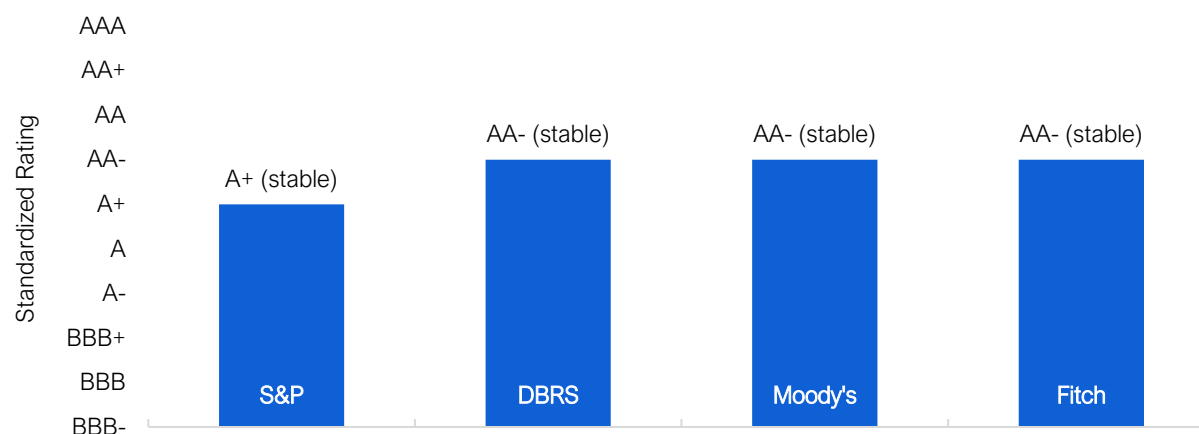
Summary

- Ontario's debt is rated by four principal international credit rating agencies,¹ based on their assessments of the province's economic and financial outlook, and future risks. These credit ratings represent the agencies' opinions on Ontario's ability to meet its debt-related financial obligations.
- Although the COVID-19 pandemic has weakened Ontario's fiscal position, the four credit rating agencies have all recently reaffirmed their ratings for the province in updated assessments and maintained the province's outlook as stable.
- As key strengths behind the province's credit rating, the agencies highlighted Ontario's large and diversified economy, the government's flexibility to adjust both tax policy and program spending, as well as the province's high liquidity and prudent debt management program. Weaknesses that negatively impact Ontario's credit rating include its elevated debt burden and prolonged period of budget deficits.
- All agencies highlighted risks to Ontario's credit rating that could result in a downgrade, specifically further increases in the debt burden or deteriorating debt affordability. Several agencies also highlighted that the government's extended recovery plan, which projects a balanced budget in 2029-30, puts the province's finances at risk from a potential future economic downturn.
- Although Ontario's credit rating has remained unchanged during the pandemic, several other provinces have seen their ratings downgraded. As a result, Ontario's rating relative to other provinces improved modestly in 2021, moving from the sixth to the fifth highest rated province.

Ontario's Credit Rating Reaffirmed

Despite a significant deterioration in Ontario's finances due to the COVID-19 pandemic, all four credit rating agencies have recently reaffirmed Ontario's credit rating and outlook. In general, the agencies continue to rate Ontario as an "extremely strong," investment-grade borrower.

Figure 1: Ontario's 2021 credit ratings unchanged during the COVID-19 pandemic



Source: S&P, DBRS, Fitch, Moody's and FAO.

¹ The four credit rating agencies are Moody's Investors Service (Moody's), S&P Global Ratings (S&P), DBRS Limited (DBRS) and Fitch Ratings (Fitch). The agencies continually review the province's credit rating and typically publish an update on their view of the Province's finances and credit quality annually, based on the government's latest financial reports or statements and their view of the outlook and risks.

Based on a standardized scale,² Ontario's debt is currently rated AA- (fourth highest rating) by three of the four credit rating agencies and A+ (fifth highest) by S&P. All agencies indicated that Ontario's credit outlook remains stable, indicating a low likelihood of a rating change over the medium term.

The four agencies noted that Ontario's strong credit rating is supported by the province's large and diversified economy, the government's flexibility to adjust both tax policy and program spending, as well as the province's high liquidity³ and prudent debt management program. The agencies also identified challenges that negatively impact Ontario's credit rating, including the province's elevated debt burden and prolonged period of budget deficits, both of which deteriorated substantially because of the COVID-19 pandemic.

The province's credit rating also reflects agencies' belief that as the impacts of the pandemic subside, Ontario's fiscal performance will improve. Stronger economic growth is expected to help boost revenues, while temporary COVID-related spending will decline, resulting in a lower deficit and reduced borrowing. Agencies also expect the government to resume its pre-pandemic spending restraint, which was put on hold during the pandemic.⁴

Prior to the release of Ontario's 2021 budget, all four credit rating agencies highlighted that the province's future credit rating was highly contingent on having a fiscal consolidation plan for the post-pandemic period. While the budget provided a recovery plan to balance the budget by 2029-30, most agencies indicated that they would continue to monitor the province's future fiscal and economic updates to gain more clarity on how this consolidation will occur.

Risks for Ontario's Credit Rating

The agencies noted that Ontario's credit rating is subject to both downside and upside risks. Downside risks that could result in a negative credit rating action include:

- **Further increases in the debt burden:** This could stem from weak fiscal performance or policy risks⁵ resulting in either reduced revenues or increased expenditures.
- **Deteriorating debt affordability:** Larger than expected increases in the level of debt or interest rates could boost interest payments, making Ontario's debt less affordable.
- **Extended recovery plan:** The government's plan to balance the budget by 2029-30 is subject to significant uncertainty and leaves little fiscal flexibility in the event of a future economic downturn.

Three agencies indicated possible conditions for a positive rating action. Moody's noted a fiscal plan that resulted in a material downward trajectory of the debt burden could lead to an upgrade, while S&P indicated that establishing sustainable fiscal performance and stabilizing the debt burden may result in a positive outlook or rating upgrade. Fitch indicated that stronger economic growth, improved revenue performance, or lower federal deficits (Fitch incorporates the pro-rata share of federal debt attributable to Ontario in its credit quality assessment) could all lead to positive rating developments.

² See Table 2: The Agencies' Credit Rating Scales in the Appendix for the scale used by each agency. The FAO's standardized rating scale is based on the rating classifications used by S&P and Fitch.

³ Agencies also regard the high likelihood of support from the federal government in the event of a liquidity crisis as having a positive impact on Ontario's rating.

⁴ Fitch assumes that spending will be lower than the levels presented in Ontario's 2021 budget from 2022-23 onwards.

⁵ Moody's cited financial pressure on Ontario households from the high cost of living, including housing prices, postsecondary education costs and electricity rates, as well as other issues such as under-staffing in long-term care homes and lack of paid sick leave. Addressing these issues might require increased program spending or a reduction in tax revenues.

Ontario's Rating Relative to Other Provinces Improves

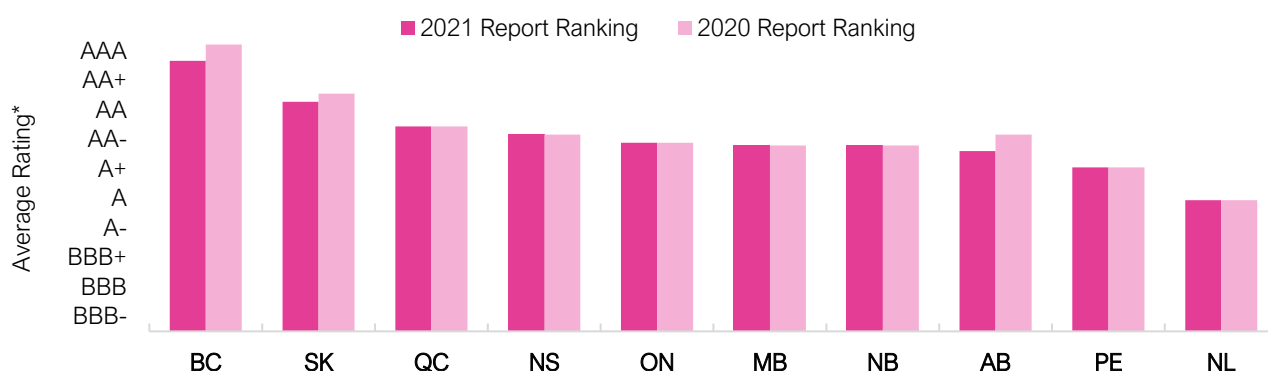
Although Ontario's current and projected deficits and debt have increased markedly due to the COVID-19 pandemic, the province's credit rating has not changed so far. This has not been the case for other provinces. Since the last credit update published by the FAO in August 2020, three provinces – Alberta, British Columbia, and Saskatchewan – have seen their ratings downgraded.

Downgrades for the two highest-rated provinces (British Columbia and Saskatchewan) caused the rating differences between provinces to narrow. Alberta's average credit rating fell below Ontario's, which moved Ontario up to the fifth highest rated province.

The downgrades all reflect the deterioration in provincial fiscal balance sheets resulting from the impact of the pandemic.

- Alberta was downgraded by Moody's⁶ in October 2020 from AA to AA- (fourth highest rating) and by S&P⁷ in May 2021 from A+ to A (sixth highest rating). Both agencies noted the impact of the pandemic on the province's budgetary deficits, which prior to the pandemic had still not recovered from the decline in oil prices that began in 2014. On the positive side for the province, Fitch updated Alberta's credit outlook from negative to stable, based on recent trends indicating a stronger recovery than projected in the Alberta budget.⁸
- British Columbia was downgraded by Fitch⁹ in June 2021 and by S&P¹⁰ in July 2021 – both agencies lowered the province's rating from AAA to AA+ (second highest rating) based on the pandemic's impact on B.C.'s debt burden.
- Saskatchewan was downgraded by Moody's¹¹ in May 2021 from AAA to AA+ (second highest rating). Moody's cited multi-year budget deficits, which combined with elevated capital spending, result in an increased debt burden for the province. The downgrade also reflected Saskatchewan's lower liquidity levels.

Figure 2: Downgrades since 2020 have brought provincial ratings closer to one another



* See Table 2 for rating conversion table.

Source: DBRS, Fitch, Moody's, S&P and FAO.

⁶ See [Moody's Alberta credit report](#) for more details.

⁷ See [S&P's Alberta credit report](#) for more details.

⁸ Fitch's reaffirmed Alberta's AA- credit rating (fourth highest rating). See [Fitch's Alberta credit report](#) for more details.

⁹ See [Fitch's British Columbia credit report](#) for more details.

¹⁰ See [S&P's British Columbia credit report](#) for more details.

¹¹ See [Moody's Saskatchewan credit report](#) for more details.

Appendix

Table 1: Provincial Credit Ratings as of July 2021

Province	S&P	DBRS	Moody's	Fitch	Average Rating (1 = highest rating)
British Columbia	AA+ (stable)	AA high (stable)	Aaa (stable)	AA+ (stable)	1.75
Alberta	A (stable)	AA low (negative)	Aa3 (stable)	AA- (stable)	4.50
Saskatchewan	AA (stable)	AA low (stable)	Aa1 (stable)	AA (stable)	3.00
Manitoba	A+ (stable)	A high (stable)	Aa2 (stable)		4.33
Ontario	A+ (stable)	AA low (stable)	Aa3 (stable)	AA- (stable)	4.25
Quebec	AA- (stable)	AA low (stable)	Aa2 (stable)	AA- (stable)	3.75
New Brunswick	A+ (stable)	A high (stable)	Aa2 (stable)		4.33
Nova Scotia	AA- (stable)	A high (stable)	Aa2 (stable)		4.00
Newfoundland & Labrador	A (negative)	A low (negative)	A1 (negative)		6.00
Prince Edward Island	A (stable)	A (stable)	Aa2 (stable)		5.00

Red represents a downgrade in credit rating over the last year, while blue represents a positive change in the rating outlook (negative to stable or stable to positive)
 Source: S&P, DBRS, Fitch, Moody's and FAO.

Table 2: The Agencies' Credit Rating Scales

Rating Description	Credit Quality	S&P	DBRS	Moody's	Fitch	
		Long Term	Long Term	Long Term	Long Term	Ranking
Investment-grade	Extremely Strong	AAA	AAA	Aaa	AAA	1
		AA+	AA high	Aa1	AA+	2
		AA	AA	Aa2	AA	3
		AA-	AA low	Aa3	AA-	4
	Very Strong	A+	A high	A1	A+	5
		A	A	A2	A	6
		A-	A low	A3	A-	7
	Strong	BBB+	BBB high	Baa1	BBB+	8
		BBB	BBB	Baa2	BBB	9
		BBB-	BBB low	Baa3	BBB-	10
Non-investment-grade	Speculative	BB+	BB high	Ba1	BB+	11
		BB	BB	Ba2	BB	12
		BB-	BB low	Ba3	BB-	13
		B+	B high	B1	B+	14
		B	B	B2	B	15
		B-	B low	B3	B-	16
		CCC	CCC	Caa	CCC	17

Note: The FAO's standardized rating scale is based on S&P's and Fitch's credit rating classifications.
 Source: TD Securities and FAO.

About this Document

Established by the *Financial Accountability Officer Act, 2013*, the Financial Accountability Office (FAO) provides independent analysis on the state of the Province's finances, trends in the provincial economy and related matters important to the Legislative Assembly of Ontario.

Prepared by:

[Nicolas Rhodes](#) (Senior Economist) under the direction of [Paul Lewis](#) (Chief Economist).



Financial Accountability Office of Ontario

2 Bloor Street West, Suite 900 Toronto, Ontario M4W 3E2 | fao-on.org | info@fao-on.org | 416-644-0702

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