FW: Post-Budget Commentaries by Moody's and DBRS

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Date:	Tue, 03 Apr 2018 08:55:49 -0400
Attachments:	Moody's comment on Ontario March 12.pdf (1.26 MB); Moody's credit opinion Feb 2 2018.pdf (1.38 MB)

From: Bonnie Lemcke
Sent: Tuesday, April 03, 2018 8:55:34 AM (UTC-05:00) Eastern Time (US & Canada)
To: Orsini, Steve (CAB)
Cc: Kwamena, Boafoa (CAB); Thompson, Scott (MOF); Davidson, Steven (CAB); Angus, Helen (TBS); McLean, David (MOF); Skoberne, Vivienne (TBS); Strathy, Anna (OFA); Mayman, Gadi (OFA)
Subject: RE: Post-Budget Commentaries by Moody's and DBRS

Her are the two additional Moody's reports. The comment was issued following the Minister's speech at the Empire Club. The credit opinion was updated in February following the release of Moody's rating on the Fair Hydro Trust. Moody's is now including debt issued by the Fair Hydro Trust in their key debt measure for Ontario. They note that the total financing required is "nonetheless fairly negligible given the province's high net direct and indirect debt level." They also note that they will review this treatment once revenues from the Clean Energy Adjustment charge is added to consumers' electricity bills in 2021.

Please let me know if you have any additional questions.

Bonnie

From: Gadi Mayman
Sent: Monday, April 02, 2018 11:36 PM
To: Steve Orsini (MOF) <Steve.Orsini@ontario.ca>
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Subject: Fwd: Post-Budget Commentaries by Moody's and DBRS

Hi Steve, here are the Moody's commentaries that you asked for, and the DBRS one as well. Neither of the other agencies has published anything post-Budget yet, but, as you'll see from Bonnie's introduction below, we are concerned about Fitch given their comments after the Minister's pre-conditioning speech at the Economics Club last month.

Gadi

Begin forwarded message:

> **From:** Bonnie Lemcke <Bonnie.Lemcke@ofina.on.ca>
> **Date:** March 29, 2018 at 11:40:19 AM EDT
> **To:** Gadi Mayman <Gadi.Mayman@ofina.on.ca>
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Subject: Post-Budget Commentaries by Moody's and DBRS

Attached are the commentaries that DBRS and Moody's have just issued on Ontario following the release of the 2018 Ontario Budget.

DBRS expects the ratings to remain stable in the near term, however, the outlook for the medium to longer term appear less certain. "Without a concerted effort to rebuild flexibility in the credit profile, the Province's ratings appear increasingly likely to come under pressure during the next recession if past policy actions are any indication of the future policy response."

Moody's states that "the return to deficit is credit negative as it raises the likelihood that the province faces a structural deficit in addition to increasing our forecast of the debt burden to accommodate the associated new borrowing." Moody's notes that the rise in debt will also coincide with a period in which interest rates are expected to rise, both of which will impact the province's interest expense. They now expect interest expenses to exceed 9% of revenues in 2019/20, up from the recent low of 8.5% in 2016/17.

As noted previously, Fitch had expressed concern following the Minister's remarks at the Economic Club on March 8th. They indicated that "a return to deficit borrowing during a period of economic growth would be inconsistent with Fitch's current rating expectations". We should be prepared for a rating action from them, whether it's an outlook change from stable, or something more significant, following the release of the Budget.

We will be meeting or speaking to all of the rating agencies over the next few weeks.

Please let me know if you have any questions.

Thanks,

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