Fitch: Ontario’s Finances May Weaken Regardless of Election Outcome

The Province of Ontario's financial performance and debt positions may weaken in the near term regardless of the outcome of June's provincial elections, although the extent and duration of the decline is uncertain at this time, Fitch Ratings says. The governing Liberal party has tabled a fiscal 2019 Budget expected to produce a $6.7 billion deficit in its first year and incur deficits until fiscal 2025. This represents a significant departure from previous plans to table modestly balanced budgets and bring the 38% ratio of net debt-to-GDP down to 27% by fiscal 2030. The stated positions of the two other major parties indicate that a deficit in fiscal 2019 is probable with one proposing deficits that run through fiscal 2023.

In addition to the budget direction, the ultimate outcome of two complex financial reporting questions may be affected by the election outcome. These include the recognition of pension surpluses in the province's public accounts, resulting in a qualified opinion in fiscal 2017, and the treatment of accounting expenditures related to the Fair Hydro Plan. Choices made by a future government on both could affect the province's reported balances and debt position. Since Fitch relies on reported financial figures in calculating financial and debt ratios, a revision in accounting treatment would also cause Fitch to re-examine the province's already high net debt-to-GDP ratio and reported accumulated deficit position.

Fitch continues to believe that a return to a budget deficit in the fiscal year that began on April 1, 2018, during a period in which economic and revenue gains have been robust, may result in negative pressure on the province's 'AA-' Long-term Issuer Default Rating. The Stable Outlook at the current rating level has assumed a continued focus on tabling balanced budgets and gradually lowering the burden of debt, consistent with the province's stated policy direction before the recently tabled budget. In Fitch’s view, a return to imbalanced operations, necessitating borrowing beyond an already sizable capital plan, would position the province for an even higher debt burden when an eventual economic slowdown takes place.

Fitch expects to review the province’s credit following the election on June 7, 2018, with a focus on the fiscal and debt policies of the governing party.

Contact:

Marcy Block
Senior Director
+1-212-908-0239
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Douglas Offerman
Senior Director
+1-212-908-0889