Post-Budget Commentaries by Moody's and DBRS

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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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