

Ontario's Credit Rating

2024-25 Update

Briefing Deck



FAO

Financial Accountability
Office of Ontario

Background

- Ontario's debt is rated by four principal international credit rating agencies:
 - Morningstar DBRS
 - Fitch Ratings
 - Moody's Investors Service
 - S&P Global Ratings

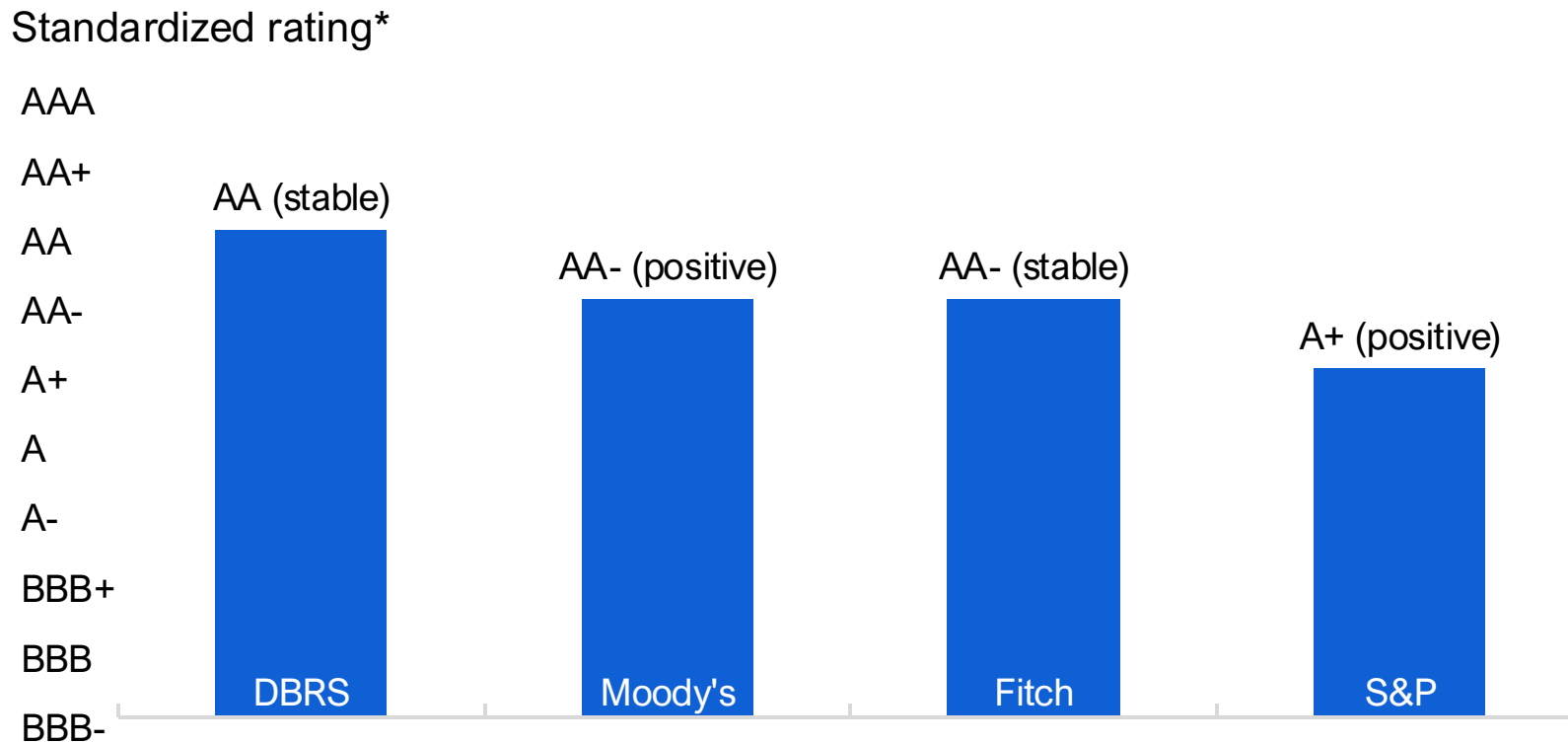
- Credit ratings represent the credit rating agencies' opinions on Ontario's ability to meet its debt-related financial obligations.

- Provinces with higher credit ratings tend to have lower borrowing rates.



Ontario's credit rating

- DBRS upgraded Ontario's credit rating from AA- to AA in June 2024.
- Moody's and S&P maintained their positive outlooks for the Province, indicating that continued fiscal progress could lead to a credit rating upgrade.



* Ratings are based on a standardized framework that aligns the credit ratings assigned by the four rating agencies to those of S&P and Fitch.
The credit rating agencies' outlook is shown in brackets
Source: Fitch, Moody's, DBRS, S&P and FAO.



Credit rating agencies' assessments: positive factors

- **Economy** – large and diversified economy, including both manufacturing and services sectors, strong trade relationships, and favourable demographics and wealth factors.
- **Liquidity and debt management** – large liquid reserves, strong access to borrowing markets and a prudent debt management program which seeks to limit the impact of risks related to refinancing, changes in interest rates and exchange rate fluctuations on its debt.
- **Canada's federal-provincial framework** – provides provinces with the flexibility to adjust both tax policy and program spending, in addition to predictable federal transfers.



Credit rating agencies' assessments: negative factors

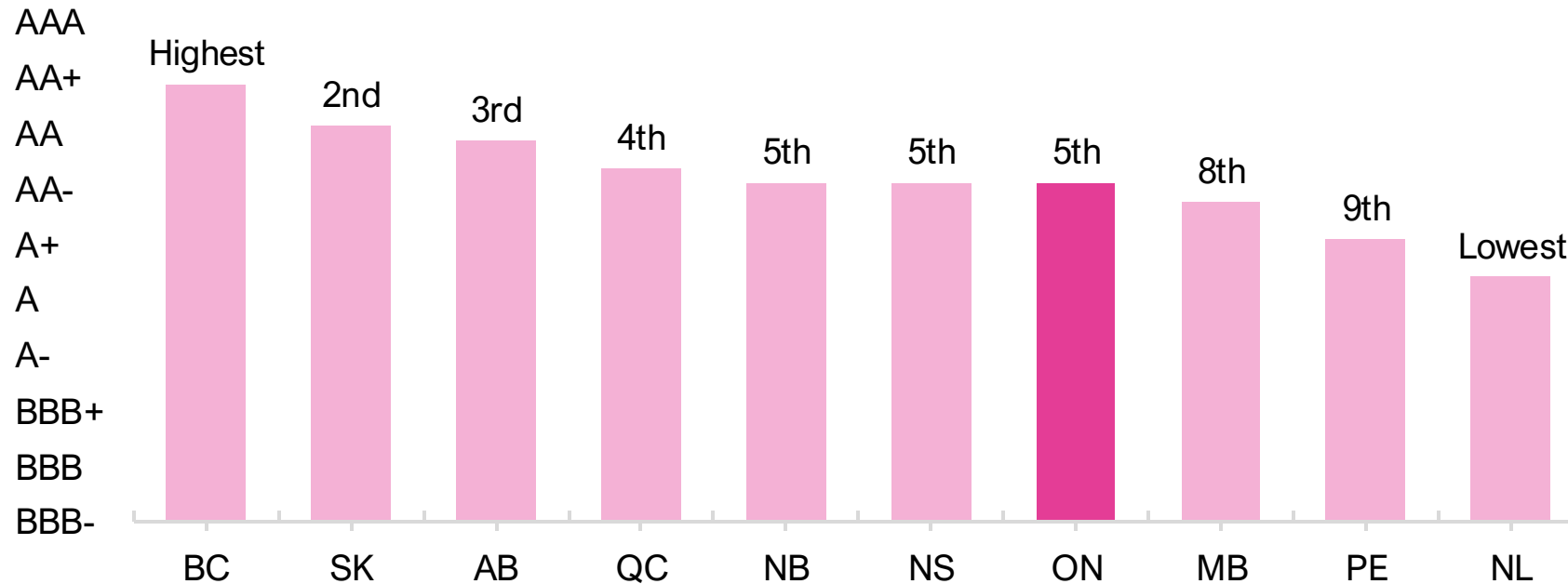
- **Macroeconomic conditions** – domestic and global macroeconomic conditions, including high interest rates, persistent inflation, slowing global trade and ongoing geopolitical instability are downward risks to the Province's fiscal projections.
- **Debt burden** – high debt burden means that if interest rates remain higher for longer than expected, the Province may face greater budgetary pressure from increased interest on debt expenses.
- **Spending pressures** – the government faces spending pressures from public-sector wage and salary demands caused by high inflation, health care sector staffing shortages and retroactive wage increases related to Bill 124.



Ontario is the fifth highest rated province

- Ontario's average credit rating improved to the fifth highest rated province (tied with New Brunswick and Nova Scotia), up from its ranking of sixth highest in the FAO's 2023-24 report.

Average credit rating*



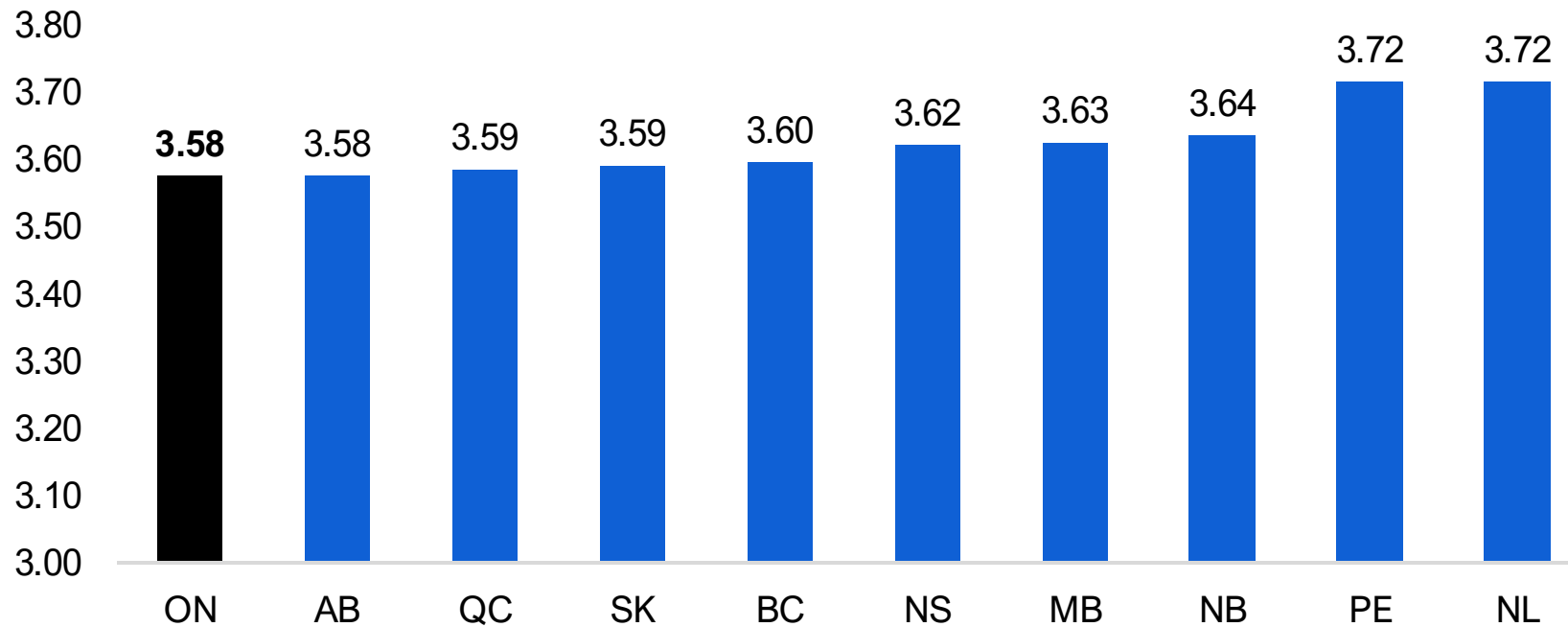
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Source: Fitch, Moody's, DBRS, S&P and FAO.



Ontario's borrowing rate lowest among the provinces

- Despite having the fifth highest credit rating, Ontario's borrowing costs are the lowest among the provinces (tied with Alberta).

Borrowing rate* (per cent)



* Borrowing rates are shown as the yields on 10-year bonds, as of September 16, 2024.
Source: Information provided by the Province and FAO.



Thank you!



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