

Ontario credit rating: Gimme another 'A'

By Warren Lovely

In a move that comes as little surprise, S&P has upgraded Ontario a single notch to AA-. The short-term rating also got a one-notch boost at S&P to the maximum level of A-1+. The outlook—which S&P placed on 'positive' back in June 2023—has been returned to 'stable'.

So it's another 'A' for Ontario. And it means this bellwether credit—accounting for ~40% of all provincial direct and guaranteed bonds—is fully double-A at each of the four primary credit rating agencies. The upgrade follows Ontario's *Fall Economic Statement*, which revealed broad economic resilience, a relatively stronger budgetary path, incremental progress on the debt burden, an even more manageable interest bite and lower borrowing needs vs. prior guidance. It was clearly credit positive for a province already on 'positive' ([link](#)). Cue the S&P move, the rationale for the upgrade thus stated:

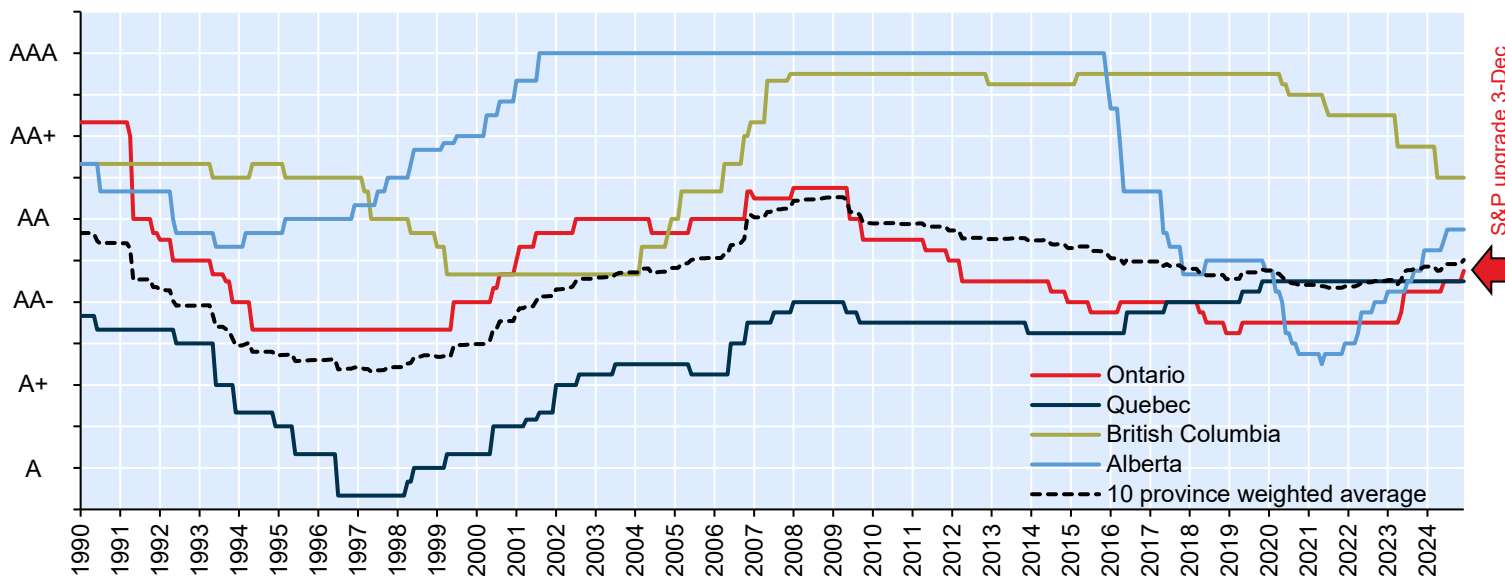
"We expect the Province of Ontario will maintain a solid foundation that will help buffer its fiscal outcomes from heightened economic uncertainty. | This expectation is supported by better-than-expected economic growth in Ontario and solid budgetary execution against targets with a commitment to stay on its debt sustainability path. | As a result, S&P Global Ratings raised its long-term issuer credit and senior unsecured debt ratings on Ontario to 'AA-' from 'A+'. At the same time, we raised our short-term issuer credit rating on the province to 'A-1+' from 'A-1'. | The stable outlook reflects that, despite increased economic risk, we project that Ontario will maintain relatively stable budgetary performance, with modest operating surpluses and after-capital deficits of about 7%."

This S&P upgrade could be good news for related entities. For example, **OMERS Administration Trust's** AA+ long-term rating at S&P is currently on 'positive' outlook. The 'upside scenario' flagged in the latest S&P rating snapshot (from 11-Jun-24) highlighted the potential for an upgrade if Ontario's rating were to be raised. Stay tuned then.

Meantime, the step up at Ontario brings to nine the total number of provincial credit rating upgrades (by all four rating agencies) since the start 2022. If you're counting, Ontario has been boosted twice now,

Chart 1: Average credit rating evolution at Canada's largest provinces, with Ontario getting a deserved lift from S&P

Provincial government average long-term credit rating, adjusting for rating trend/outlook | Reflecting all ratings from S&P, Moody's, Morningstar DBRS & Fitch

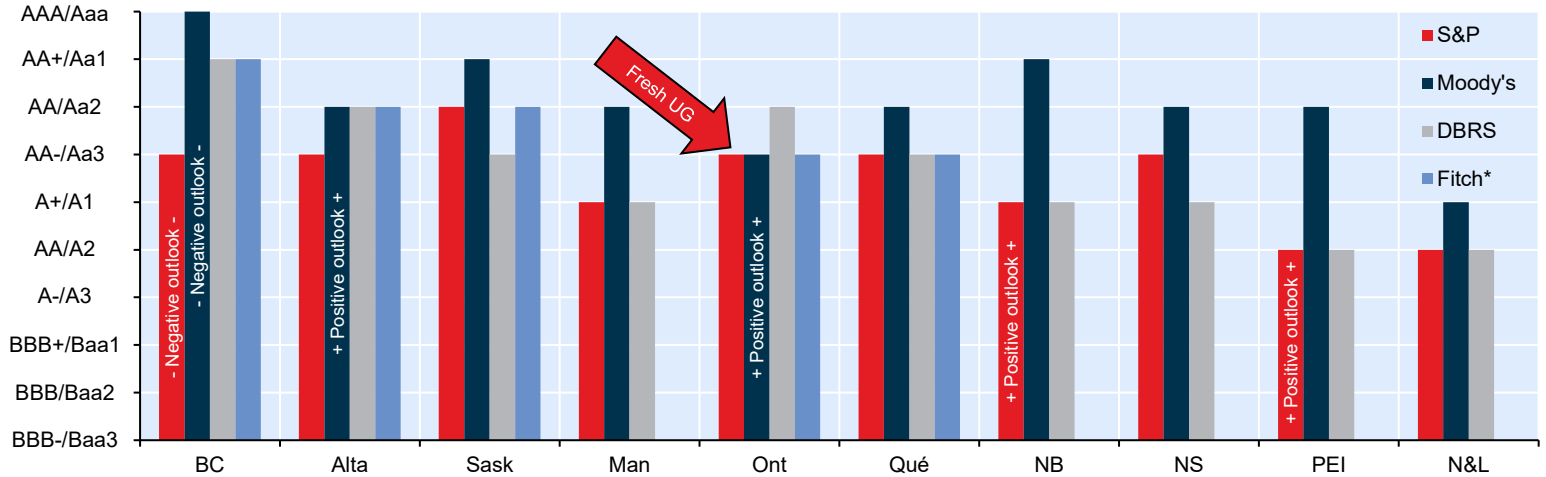


Source: NBC, S&P, Moody's, DBRS, Fitch | Note: A given province's rating is simple average of the 3-4 ratings assigned by the credit rating agencies, adjusting for positive/negative outlooks; 10 province average is weighted by monthly working age population; data are monthly as at 4-Dec-24



Chart 2: The provincial government long-term ratings landscape (with some outlooks still to be resolved)

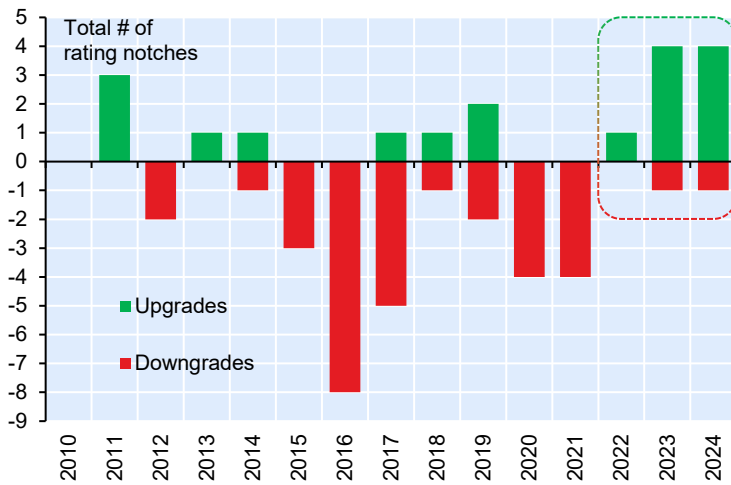
Provincial government long-term credit ratings, with four positive & two negative outlooks noted: As at 4-Dec-24



Source: NBC, S&P, Moody's, DBRS, Fitch | Note: Fitch currently assigns ratings to 5 of the 10 provinces

Chart 3: It's been more up(grade) than down(grade) on ratings

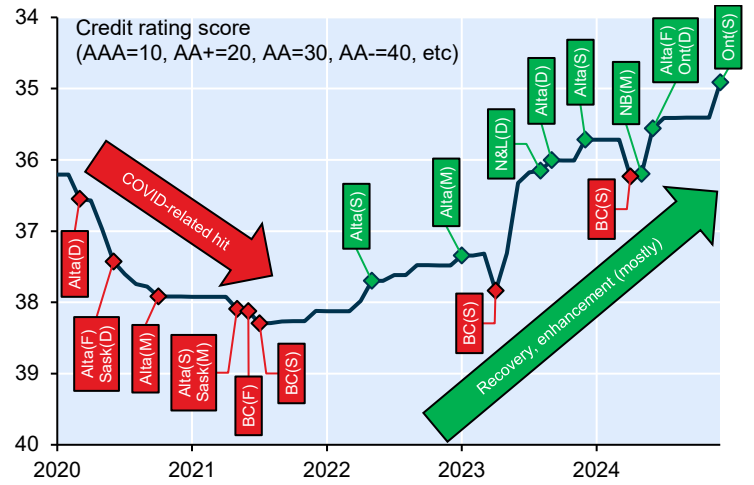
Provincial gov't long-term credit rating changes by calendar year



Source: NBC, S&P, Moody's, DBRS, Fitch | Note: Total change in long-term rating notches by 4 rating agencies on annual basis; 2024 as at 3-Dec-24

Chart 4: More than full recovery in average credit quality

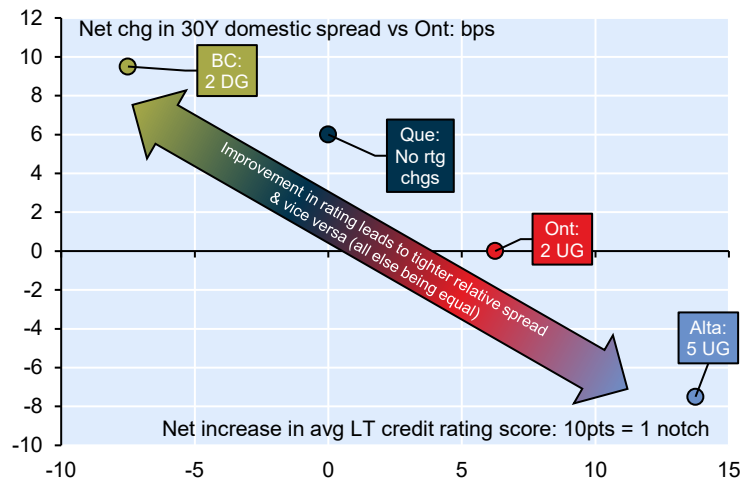
Weighted average provincial gov't long-term credit rating score



Source: NBC, S&P, Moody's, DBRS, Fitch | Note: Linear conversion of ratings/outlooks; based on 35 ratings weighted by population; markers denote upgrades/downgrades

Chart 5: Rating evolution contributes to relative re-pricing

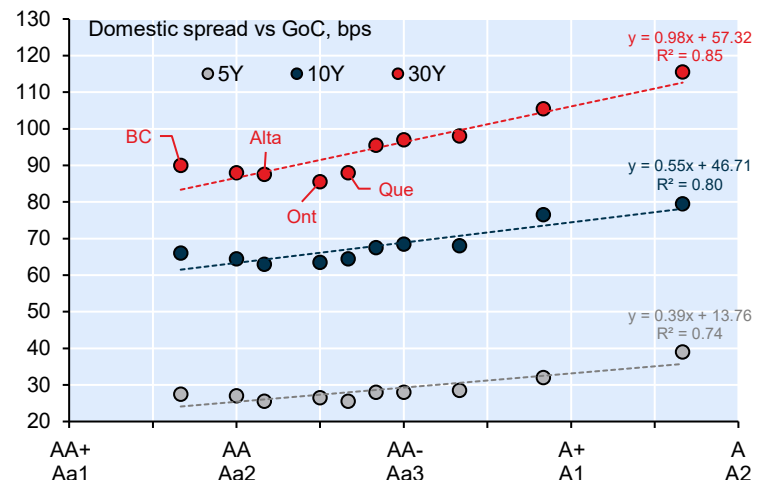
Net change in average rating & relative bond spread: Dec-24 vs. Dec-21



Source: NBC, S&P, Moody's, DBRS, Fitch | Note: Based on net change from end of 2021 to current (4-Dec-24); credit rating score change controls for positive/negative outlooks

Chart 6: Ratings-spread snapshot in domestic bond market

Provincial gov't domestic spread indication vs. average long-term credit rating



Source: NBC, Moody's, DBRS | Note: Ratings (horizontal axis) reflect simple average of 3 assigned ratings, controlling for positive/negative outlooks; as at 4-Dec-24



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