



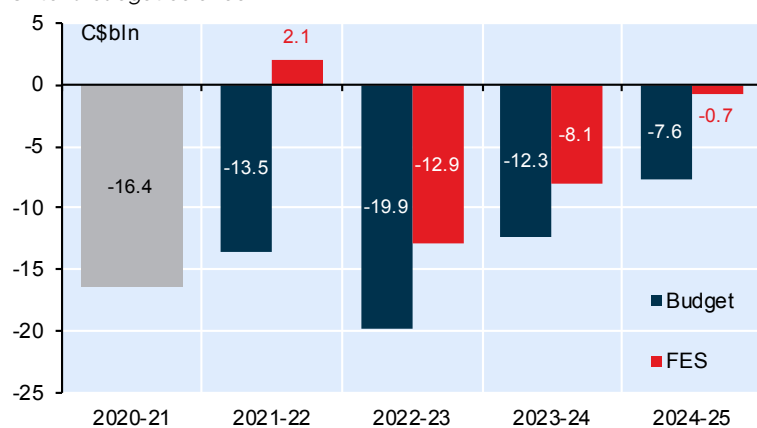
Ontario FES: Where the rubber meets the road

By Warren Lovely

We don't necessarily consider ourselves fiscal crusaders. Nevertheless, from time to time, we find ourselves setting (and keeping) the record straight on budgetary developments. In the wake of Ontario's *Fall Economic Statement* we assess how much fiscal/financial progress there is to show for a heretofore-impressive expansion. Answer: Plenty. Notwithstanding a surplus in 2021-22, Ontario still expects to run deficits from 2022-23 through 2024-25. Projected shortfalls have, however, been marked down an average \$6 billion/year, an all-but-balanced position eyed in the final year of the planning horizon (Chart 1). Notably, 95% of the extra revenue identified vs. Budget 2022 has been allocated to the bottom line (Chart 2), an orientation that could be fairly described as 'conservative' or 'prudent'. For investors, it's important to understand how the revised fiscal trajectory alters debt and borrowing. This is where the proverbial rubber meets the road. Upgraded budgetary figures are fully reflected in net debt, which after controlling for 2021-22's base effect has been placed on a much-improved trajectory (Chart 3). Some \$22 billion of long-term borrowing has been erased over three years. Strip out retirements and the net supply of marketable Ontario bonds will be largely non-existent in 2022-23 and sufficiently contained thereafter (Chart 4). This is perhaps the most telling aspect of Ontario's new-and-improved fiscal reality. We won't minimize the economic risks ahead, which could complicate the budgetary outlook here and elsewhere. But even under a 'slower growth' scenario Ontario looks to be bettering the budget on certain key leverage/debt sustainability metrics.

Chart 1: Improved fiscal trajectory despite growth hiccup

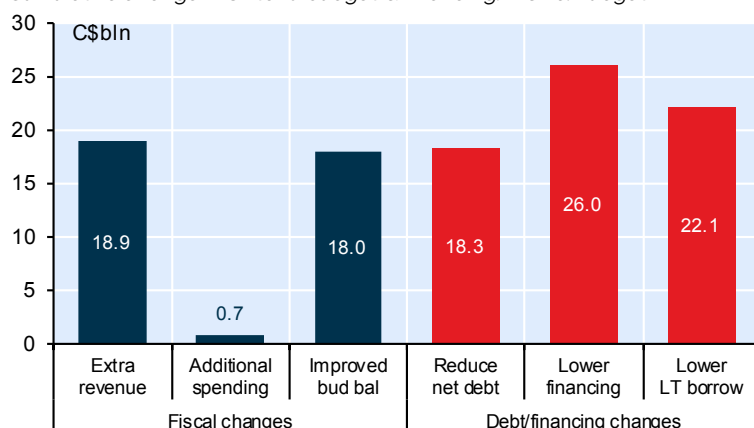
Ontario budget balance



Source: NBF, Ontario | Note: 22-23 to 24-25 budget projections are after reserves

Chart 2: Extra revenue applied to balance, taking debt down

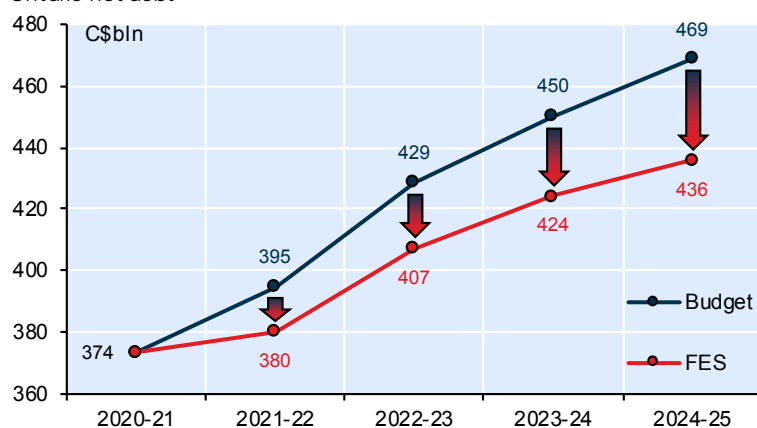
Cumulative change in Ontario budget & financing: FES vs. Budget



Source: NBF, Ontario | Note: Cumulative change for 3FY period covering 22-23 to 24-25

Chart 3: Net debt level highlights cumulative progress

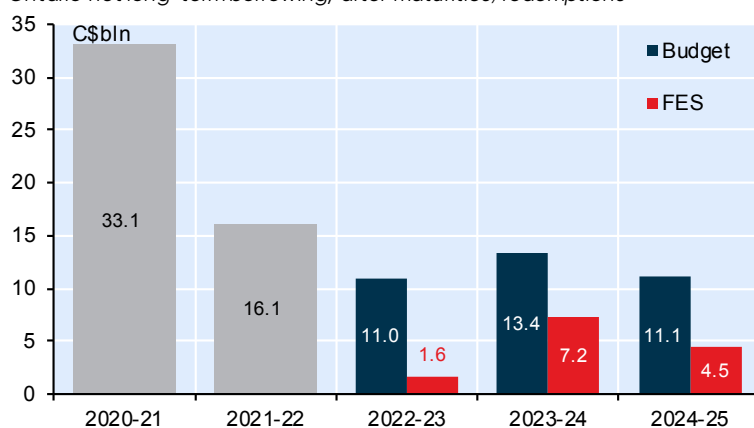
Ontario net debt



Source: NBF, Ontario | Note: 23-24 & 24-25 FES levels inferred from debt-to-GDP ratio

Chart 4: Not much net long-term borrowing to do

Ontario net long-term borrowing, after maturities/redemptions



Source: NBF, Ontario | Note: Gross long-term issuance less maturities/redemptions

Table: Even under 'slower growth' scenario, Ontario looks to be ahead of the game on some key leverage metrics

Ontario debt sustainability measures: FES projections (including slower growth scenario) vs. Budget 2022 & stated targets

%	Net debt-to-GDP			Net debt-to-revenue			Interest on debt-to-revenue			Debt maturities-to-net debt		
	2022-23	2023-24	2024-25	2022-24	2023-25	2024-26	2022-25	2023-26	2024-27	2022-26	2023-27	2024-28
Target	<42.0%			<250%			<8.0%			<10.0%		
Budget	41.4	41.4	41.3	238	239	238	7.5	7.6	7.5	7.1	6.9	5.9
FES: Planning projection	38.4	38.7	38.3	218	220	214	7.3	7.5	7.3	7.5	7.3	6.4
FES: Slower growth scenario	38.7	40.4	40.8	221	231	230	7.4	7.9	7.9	7.5	7.2	6.2
Minimum buffer vs. target	3.3	1.6	1.2	29	19	20	0.6	0.1	0.1	2.5	2.7	3.6

Source: NBF, Ontario | Note: Targets as per Debt Burden Reduction Strategy set out in Budget 2022; minimum buffer compares highest level from FES scenarios vs. target

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