Research Update:

Province of British Columbia Downgraded To 'A+' From 'AA-' On Continued Record Deficits; Outlook Negative

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Overview

- The Province of British Columbia (B.C.) continues to sustain a fiscal mismatch in its operations and spend record levels for capital, leading to considerable operating and after-capital deficits and relatively rapid debt accumulation through to fiscal 2028.
- As a result, S&P Global Ratings lowered its long-term issuer credit and senior unsecured debt ratings on B.C. to 'A+' from 'AA-'. At the same time, we lowered our short-term issuer credit rating on the province to 'A-1' from 'A-1+'.
- The negative outlook reflects that there is at least a one-in-three chance that in a more uncertain economic environment, the province's financial management will take insufficient steps to ensure a fiscal consolidation path, leading to further weakening of B.C.'s creditworthiness over the next two years.

Rating Action

On April 2, 2025, S&P Global Ratings lowered its ratings, including its long-term issuer credit rating, on the Province of British Columbia (B.C.), as well as its issue-level rating on British Columbia Hydro & Power Authority's (BC Hydro) provincially guaranteed senior unsecured debt, to 'A+' from 'AA-'. The outlook is negative. S&P Global Ratings also lowered its short-term rating on B.C. to 'A-1' from 'A-1+'.

Outlook

The negative outlook reflects a one-in-three chance that we could lower the ratings in the next two years if, in our view, the province's commitment to fiscal consolidation continues to waver, as reflected by persistent and substantial deficits, on both an operating and after-capital basis, compared with those of peers.

Downside scenario

We could lower the ratings in the next two years if B.C. maintains its current fiscal trajectory, as reflected by sizable operating and after-capital deficits compared with those of peers. A lack of a credible medium-term plan outlining how the province will tackle its structural budgetary shortfall could cause us to weaken our financial management assessment, potentially leading to a lower issuer credit rating.

Upside scenario

In the next two years, we could revise our outlook to stable if the province successfully takes measures to address its weak budgetary performance and temper debt growth.

Rationale

New federal immigration policies and heightened trade uncertainty will weigh on the province's economic growth, exacerbating the fiscal imbalance between revenues and expenditures. As a result, the size and persistence of material operating and after-capital deficits will continue to differentiate B.C. from peers. Recent healthy economic growth in part helped to support a notable increase in B.C.'s spending envelope for operations and its record capital investment plan. In light of a more muted growth forecast, we expect the province will continue to produce record operating deficits of about 10% of operating revenues and after-capital deficits of more than 20% of total revenues.

In addition, B.C.'s internal liquidity position will remain very low and tax-supported debt will keep climbing, reaching 228% of operating revenue by the end of fiscal 2028 (year ending March 31). We believe the province is at a turning point with respect to the management of its finances and we will keep monitoring the evolution of the fiscal trajectory in the medium term.

Economic growth will slow on lower population growth and trade uncertainty.

We expect that, while still healthy, economic output will be subdued in 2025 and below our previous base-case forecast due to the impact of federal immigration policies on population growth and trade uncertainty related to tariffs. We estimate B.C.'s real GDP will increase by 1.7% in 2025 and 1.9% in 2026. This is in line with our national forecast (see "Economic Outlook Canada Q2 2025: Trade Tensions Disrupt Growth Improvement," published March 25, 2025, on RatingsDirect). In addition, we forecast that B.C.'s GDP per capita will remain in line with the national figure of about US$54,300 for 2025.

The province has considerable economic strengths, such as its position on the west coast of Canada and its proximity to Asian markets, as well as substantial natural resource assets. Although the U.S. is the province's largest trading partner, trade with Asia has grown and provides diversification compared with other provinces. In addition, we expect the economy will remain well diversified. Key sectors include forestry, mining and natural gas, financial and real estate services, and construction and manufacturing. We believe that the province's economy will be bolstered in 2025 and beyond, by LNG Canada's facility, which is anticipated to come online later this year. In addition, B.C. has a large public sector consisting of government, universities, public schools, and hospitals.

We believe that the province's commitment to fiscal discipline and stability has wavered in recent years as B.C. has materially increased its spending for both operations and capital investment to unparalleled levels. Overall, the province's financial planning practices are well aligned with those of domestic peers and are transparent. We view B.C.'s debt and risk management practices as adequate and in line with those of other provinces. The province uses swaps to mitigate currency risk on its foreign currency bond issues and targets minimal exposure to floating rate risk. Cash management is sophisticated, adhering to prudent internal policies. The civil service is experienced and qualified to effectively deliver fiscal direction.

As is the case with all other provinces, the ratings on B.C. benefit from the very predictable and well-balanced institutional framework for Canadian provinces. The Canadian constitution is the cornerstone of federal-provincial intergovernmental arrangements, which we view as mature and stable. The federal government provides support through a number of agreements and transfer arrangements, including payments under the Canada Health Transfer and the Canada Social Transfer. The share of provincial operating revenues represented by federal government transfers is estimated at about 17.5% in fiscal 2025.

Sizable fiscal deficits will drive up borrowing requirements and will continue to dampen internal liquidity in the medium term.

In the past three years the province has focused on taxpayer affordability while operating expenditures have been rising. This has led to a structural imbalance between B.C.'s revenues and expenditures. At a time when economic growth is weakening, we expect that the province's weak fiscal performance will continue in the next two years. With peak operating deficits of more than 10% of operating revenues and after-capital deficits of more than 20% of total revenues, B.C.'s budgetary performance will be the weakest of peers, both domestically and internationally. In the next three years, we expect that the province will spend about C$27.5 billion on capital investment, allocated primarily to new health care and transportation infrastructure. We also believe that the province's operating expenditures will continue to increase once B.C.'s significant capital program is complete beyond fiscal 2028. B.C.'s pension scheme is fully funded, comparing positively with that of international peers. We expect these results to modestly improve over the two-year horizon.

Large operating deficits and a considerable capital program will result in a steep increase in debt in the next two years. B.C.'s tax-supported debt burden, which includes debt issued in its own name and on-lent to BC Hydro, will considerably rise to almost C$198.5 billion or 228% of operating revenues in fiscal 2028. While this is still moderate, we also expect the interest burden will steadily increase to above 6% operating revenues. Contingent liabilities remain manageable.

We expect that the province's internal liquidity will remain weak as a result of high projected after-capital deficits. We estimate the province's free cash will represent about 22% of the next 12 months' debt service and will remain very low in the next two years. Of note, B.C. benefits from very good access to external liquidity. In addition to issuing in the domestic market, the province maintains liquid benchmark issues in Canada and has active borrowing programs in the U.S. and Europe, providing important diversification.

Key Statistics

Table 1

Province of British Columbia -- Selected indicators

	--Budget year*--					
(Mil. C$)	2022	2023	2024bc	2025bc	2026bc	2027bc
Operating revenues	80,799	77,376	80,397	82,266	84,231	86,802
Operating expenditures	77,906	81,711	88,861	91,510	92,131	93,677
Operating balance	2,893	(4,335)	(8,464)	(9,244)	(7,900)	(6,875)
Operating balance (% of operating revenues)	3.6	(5.6)	(10.5)	(11.2)	(9.4)	(7.9)
Capital revenues	140	144	159	171	195	212
Capital expenditures	6,572	8,693	6,809	9,224	9,452	8,841
Balance after capital accounts	(3,539)	(12,884)	(15,114)	(18,297)	(17,157)	(15,504)
Balance after capital accounts (% of total revenues)	(4.4)	(16.6)	(18.8)	(22.2)	(20.3)	(17.8)
Debt repaid	26,166	26,552	3,899	8,261	6,370	9,734
Gross borrowings	24,844	44,598	29,158	27,673	29,401	31,086
Balance after borrowings	(4,861)	5,162	10,145	1,115	5,874	5,848
Direct debt (outstanding at year-end)	86,374	104,550	129,909	151,775	174,679	196,349
Direct debt (% of operating revenues)	106.9	135.1	161.6	184.5	207.4	226.2
Tax-supported debt (outstanding at year-end)	89,100	107,167	132,399	154,147	176,922	198,451
Tax-supported debt (% of consolidated operating revenues)	110.3	138.5	164.7	187.4	210.0	228.6
Interest (% of operating revenues)	3.9	4.5	6.0	6.3	7.0	7.7
Local GDP per capita (single units)	73,846	74,099	74,878	77,867	81,460	84,453
National GDP per capita (single units)	73,221	73,192	73,124	75,009	77,624	79,807

The data and ratios above result in part from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. The main sources are the financial statements and budgets, as provided by the issuer. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. *Budget year 2025 equals fiscal year 2026.

Ratings Score Snapshot

Table 2

Province of British Columbia -- Ratings score snapshot

Key rating factors	Scores
Institutional framework	2
Economy	1
Financial management	2
Budgetary performance	5
Liquidity	3
Debt burden	4

Table 2

Province of British Columbia -- Ratings score snapshot (cont.)

Key rating factors	Scores
Stand-alone credit profile	a+
Issuer credit rating	A+

S&P Global Ratings bases its ratings on non-U.S. local and regional governments (LRGs) on the six main rating factors in this table. In the "Methodology For Rating Local And Regional Governments Outside Of The U.S.," published on July 15, 2019, we explain the steps we follow to derive the global scale foreign currency rating on each LRG. The institutional framework is assessed on a six-point scale: 1 is the strongest and 6 the weakest score. Our assessments of economy, financial management, budgetary performance, liquidity, and debt burden are on a five-point scale, with 1 being the strongest score and 5 the weakest.

Key Sovereign Statistics

- Sovereign Risk Indicators, Dec. 9, 2024

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Economic Outlook Canada Q2 2025: Trade Tensions Disrupt Growth Improvement, March 25, 2025
- For Canadian Provinces, The Current Credit Complexities Are Not Just About Tariffs, March 5, 2025
- S&P Global Ratings Definitions, Dec. 2, 2024
- Institutional Framework Assessment: Fiscal Autonomy Has Effective Limits For Canadian Provinces, April 2, 2024

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

Downgraded		
	To	**From**
British Columbia (Province of)		
Issuer Credit Rating	A+/Negative/A-1	AA-/Negative/A-1+
British Columbia (Province of)		
Senior Unsecured	A+	AA-
Commercial Paper	A-1	A-1+
New Rating		
British Columbia Hydro & Power Auth		
Senior Unsecured	A+	
	To	**From**
British Columbia (Province of)		
Commercial Paper	A-1(MID)	A-1(HIGH)