DBRS Morningstar Confirms the Province of British Columbia at AA (high) with a Stable Trend

Industry Group: Governments
Subindustry: Sub-Sovereign Governments
Region: Canada

DBRS Limited (DBRS Morningstar) confirmed the Issuer Rating, Long-Term Debt rating, and Renminbi Bonds rating of the Province of British Columbia (B.C. or the Province) at AA (high) and the Short-Term Debt rating at R-1 (high). DBRS Morningstar also confirmed British Columbia Hydro and Power Authority’s Long-Term Obligations at AA (high) and Short-Term Obligations at R-1 (high). All trends are Stable.

The Province released its 2020 budget on February 18, 2020. Since that time, the fiscal and economic outlook have deteriorated significantly. The Province has yet to release a comprehensive economic and fiscal update, while private-sector economic forecasts have steadily fallen in recent weeks. Despite the deterioration, the Province's credit profile remains consistent with the AA (high) rating category under DBRS Morningstar's stress scenario. This reflects the underlying strength and diversity of the Province's economy and disciplined fiscal policy and management practices, which enabled the B.C. to enter this downturn with considerable fiscal flexibility and a strong balance sheet.

DBRS Morningstar assumed a meaningful contraction in economic activity for the stress scenario (5.5% real, 7.0% nominal), reflecting a shutdown of nonessential services that lasts for several more weeks, at a minimum, before an extended period of normalization characterized by a slow return to work and ongoing physical distancing requirements.

With a decline in revenue and the new measures to support households and businesses, DBRS Morningstar estimates the Province's deficit to be about $6.5 billion under the stress scenario. This equates to a DBRS Morningstar-adjusted deficit of $9.5 billion, or 3.3% of GDP, which is considerably larger than that recorded at the peak of the financial crisis in 2009–10 (-2.0% of GDP). However, DBRS Morningstar notes that much of the increase in spending is likely to be one-time and nonrecurring in nature.

With the deterioration in the operating outlook and the need for increased cash to fund deferral programs and higher liquidity needs, DBRS Morningstar estimates that the Province's borrowing program could increase by $6.0 billion to nearly $15.0 billion in 2020–21. Similarly, DBRS Morningstar estimates that B.C.’s net debt will surpass $55.0 billion and that the Province's DBRS Morningstar-adjusted debt will approach $56.0 billion in 2020–21. This equates to a DBRS Morningstar-adjusted debt-to-GDP ratio of about 19.5%, a rise of nearly 4.5 percentage points from 2019–20.

RATING DRIVERS
A negative rating action could result from a sustained deterioration in operating results and marked increased in the debt-to-GDP ratio beyond the levels outlined under the stress scenario. A positive rating action is not contemplated in the current environment.

NEXT REVIEW
DBRS Morningstar expects to conduct a subsequent review of the Province's credit profile once the outlook has stabilized and B.C. has provided a comprehensive fiscal and economic outlook. At that time, DBRS Morningstar expects to release its customary rating report.

**ESG CONSIDERATIONS**
A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework and its methodologies can be found at: https://www.dbrsmorningstar.com/research/357792.

**Notes:**
All figures are in Canadian dollars unless otherwise noted.

The principal methodologies are Rating Canadian Provincial and Territorial Governments (May 15, 2019) and Global Methodology for Government Related Entities (March 10, 2020), which can be found on dbrsmorningstar.com under Methodologies & Criteria.

For more information regarding rating methodologies and Coronavirus Disease (COVID-19), please see the following DBRS Morningstar press release: https://www.dbrsmorningstar.com/research/357883.

The related regulatory disclosures pursuant to the National Instrument 25-101 Designated Rating Organizations are hereby incorporated by reference and can be found by clicking on the link under Related Documents or by contacting us at info@dbrsmorningstar.com.

The rated entity or its related entities did participate in the rating process for this rating action. DBRS Morningstar had access to the accounts and other relevant internal documents of the rated entity or its related entities in connection with this rating action.

Generally, the conditions that lead to the assignment of a Negative or Positive trend are resolved within a 12-month period. DBRS Morningstar trends and ratings are under regular surveillance.

The full report providing additional analytical detail is available by clicking on the link under Related Documents below or by contacting us at info@dbrsmorningstar.com.

For more information on this credit or on this industry, visit www.dbrsmorningstar.com or contact us at info@dbrsmorningstar.com.

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Province of British Columbia Long-Term Debt Confirmed AA (high) Stable
Province of British Columbia Renminbi Debt Confirmed AA (high) Stable
Province of British Columbia Short-Term Debt Confirmed R-1 (high) Stable
British Columbia Hydro and Power Authority Long-Term Obligations (bsd on Prov of BC) Confirmed AA (high) Stable
British Columbia Hydro and Power Authority Short-Term Obligations (bsd on Prov of BC) Confirmed R-1 (high) Stable

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