Rating Report
Province of British Columbia

DBRS Morningstar
June 23, 2022

Contents

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Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	AA (high)	Confirmed	Stable
Long-Term Debt	AA (high)	Confirmed	Stable
Short-Term Debt	R-1 (high)	Confirmed	Stable

Note: Includes the Short-Term and Long-Term Obligations of the British Columbia Hydro and Power Authority (BC Hydro) based on its status as an Agent of the Crown.

Rating Update

On June 8, 2022, DBRS Limited (DBRS Morningstar) confirmed the Issuer Rating and Long-Term Debt 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 rating at AA (high) and Short-Term Obligations rating at R-1 (high). All trends are Stable.

The confirmations reflect the underlying strength and diversity of the Province's economy and its disciplined fiscal policy and management practices, combined with considerable fiscal flexibility and a strong balance sheet. The consistent track record of outperformance, use of prudent forecast assumptions, expectation of continued economic recovery, and considerable fiscal flexibility will support the Province to withstand any pressures arising from the ongoing evolution of global geopolitical conflicts and the heightened economic uncertainty (particularly in the form of increasing inflation).

The Province's 2022 budget forecasts a deficit of $5.5 billion in 2022–23, compared with a $483 million shortfall now anticipated in 2021–22. On a DBRS Morningstar-adjusted basis, this equates to a shortfall of $9.4 billion, or 2.6% of GDP. Once again, B.C. has suspended its balanced budget requirement and has presented a three-year fiscal outlook. The Province projects deficits of $4.2 billion and $3.2 billion for 2023–24 and 2024–25, respectively. On a DBRS Morningstar-adjusted basis, these equate to deficits of 2.1% to 1.6% of GDP, respectively. Previously, DBRS Morningstar expected the Province to present a full return to balance in the 2022 budget and three-year plan, but the Province's use of fiscal guardrails now include a requirement for year-over-year (YOY) declining deficits, and the suspension of the balanced budget legislation until 2024–25 will be reviewed on an annual basis. Despite this seemingly relaxed approach to balanced budgets, the significant level of prudence leaves room for outperformance as has been B.C.'s trademark.

Despite rising debt from a pandemic-driven deficit, which was further exacerbated by the November 2021 flooding and earlier wildfires, B.C. continues to have one of the lowest debt burdens among provinces. In 2021–22, the DBRS Morningstar-adjusted debt—defined as tax-supported debt and unfunded pension liabilities—rose by $1.9 billion to $61.7 billion. However, combined with growth in the nominal GDP, this led to an improvement in the debt-to-GDP ratio to 17.8% from 19.3% the year prior. DBRS Morningstar estimates adjusted debt to reach 19.6% of GDP in 2022–23 and approach roughly 21.8% of GDP by 2024–25, which is an improvement compared with prior forecast. Adjusted debt also includes unfunded pension liabilities, which B.C. projects to be just $1.0 million as at March 31, 2022, and expects these to remain low.

For 2022, the Province anticipates real GDP growth of 4.0%, followed by 2.5% in 2023. Like past budgets, this forecast is conservative relative to the private-sector consensus. This forecast assumes a continued reopening of the economy, further recovery in the service sector, and a stimulative impact as the rebuilding efforts gain momentum following the November 2021 floods.

At the current rating category, a positive rating action is not contemplated. A negative rating action could result from a sustained deterioration in operating results and marked increase in the debt-to-GDP ratio beyond the current expectations.

Financial Information

	For the year ended March 31				
	2023B	**2022P**	**2021**	**2020**	**2019**
Debt/GDP (%)	19.6	17.8	19.3	14.9	14.4
Surplus (deficit)/GDP (%)	-2.6	-1.1	-2.5	-1.2	-0.1
Federal transfers/total revenue (%)	16.7	16.5	20.8	16.8	16.0
Interest costs/total revenue (%)	2.9	2.6	3.0	3.2	3.2
Real GDP growth (%)	4.0	5.0	-3.4	3.1	3.6

B = budget. P = projection.
Sources: The Province, Statistics Canada, and DBRS Morningstar calculations.

Issuer Description

B.C. is Canada’s westernmost province, located along the Pacific Ocean. The Province has a population of 5.2 million, according to Statistics Canada, and is the fourth-largest provincial economy in the country by GDP. The Province has a diverse and stable economy, with nominal GDP of about $348.0 billion.

Rating Considerations

Strengths

1. Diversified economy

B.C. has a diverse economy. Economic growth in B.C. has been among the strongest of the provinces in recent years, and DBRS Morningstar expects the Province to maintain this above-average growth trajectory. The provincial economy benefits from its advantageous location along the West Coast, a skilled workforce, consistent population growth, and a diverse industrial mix. Although B.C. experienced a contraction in real GDP in 2020 like all provinces, Statistics Canada's preliminary estimates indicate the economy has rebounded with a real GDP growth of 6.2% on an industry basis in 2021, relative to a national economic growth of 4.6%.

2. Disciplined fiscal policy and management practices

Although B.C. has suspended its balanced budget requirement until 2024–25, the government remains committed to using conservative budgetary practices and keeping debt affordable. Furthermore, the Province has a track record of responsible fiscal management, low taxes, and prudent expense management.

3. Low debt burden

B.C. has one of the lowest debt burdens among provinces and only minimal unfunded pension liabilities. The budget suggests the DBRS Morningstar-adjusted debt-to-GDP ratio will rise to around 22.0% of GDP over the medium term, which is an improvement compared with prior forecasts. Furthermore, a low debt burden results in relatively low interest costs and greater flexibility to absorb the impact of rising interest rates.

4. Fiscal capacity

B.C. has a lower tax burden compared with most other provinces, which provides the government with the flexibility to raise revenue to address budget pressures should it be deemed necessary.

Challenges

1. Moderating spending growth

Even prior to the pandemic, the pace of spending growth had accelerated under the New Democratic Party (NDP) government, made possible by strong economic growth and tax policy changes. B.C. has expanded health, education, and social service programs, which may not be easily scaled back as the government aims to curtail spending growth.

2. High level of household indebtedness

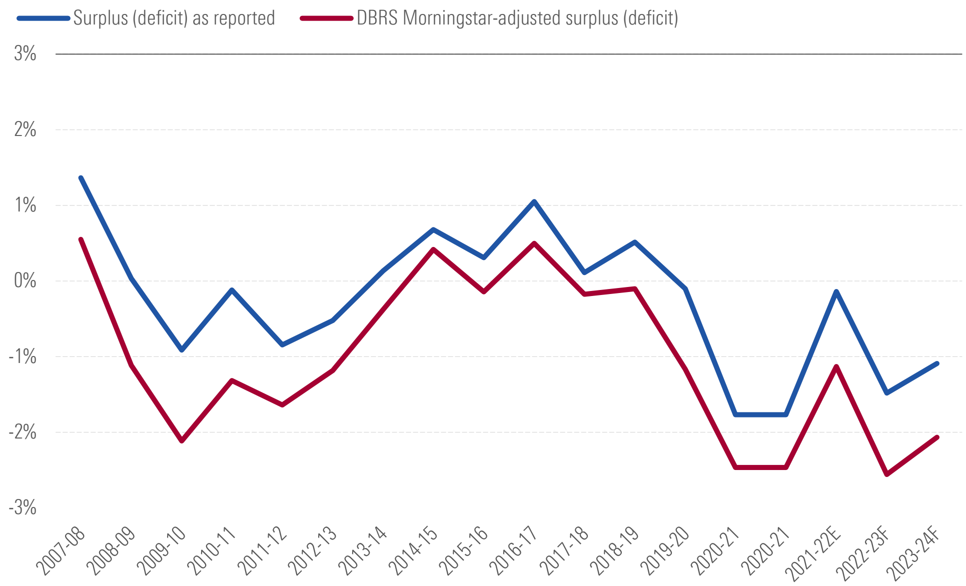
The rapid increase in home prices and historically low interest rates have resulted in elevated household indebtedness, which could amplify the severity of an external shock to the provincial economy and, by extension, the Province's fiscal plan.

3. Affordability challenges

Greater Vancouver and, to a lesser extent, Greater Victoria are among the least-affordable regions in Canada, posing financial challenges for residents and hindering the ability of businesses to attract labour to the region. While the lack of affordability has prompted a policy response by various levels of government, this has yet to lead to any significant improvement.

2022–23 Budget

Exhibit 1 Operating Result (Share of GDP)



Sources: The Province, DBRS Morningstar, and Statistics Canada.

The 2022 budget lays out the Province's plan to continue rebuilding from the Coronavirus Disease (COVID-19) pandemic and respond to recent weather events and climate change, all while maintaining a high degree of prudence in the fiscal and debt outlook. While key financial metrics have improved relative to prior expectations, debt continues to rise and will reduce flexibility over the years to come.

The 2022 budget is built around three priorities: (1) building a stronger society, (2) building a stronger economy, and (3) a stronger environment in which new funding decisions are based on government's five foundational principals:

- putting people first,
- meaningful and lasting reconciliation with Indigenous peoples,
- support equity and antiracism,
- fighting climate change, and
- building a strong, sustainable economy that works for everyone.

Budget Summary						
(CAD millions)	**2022–23**	**2021–22**	**2020–21**	**2019–20**	**2018–19**	**2017–18**
	Budget	Forecast	Actual	Actual	Actual	Actual
Revenue	68,552	70,220	62,156	58,660	57,128	52,020
Expense						
Program expense	65,239	62,757	64,902	56,255	52,913	49,084
Interest expense	2,926	2,696	2,722	2,727	2,684	2,623
Contingencies	4,848	4,250	-	-	-	-
Forecast allowance	1,000	1,000	-	-	-	-
Surplus (deficit) as reported	**(5,461)**	**(483)**	**(5,468)**	**(322)**	**1,531**	**313**

DBRS Morningstar Adjustments						
Nonrecurring items	(21)	(52)	(7)	(26)	(19)	(286)
Capital investment	(9,279)	(7,157)	(5,428)	(4,772)	(4,452)	(3,908)
Amortization	2,813	2,619	2,670	2,578	2,459	2,482
Assumed capital investment underspend	1,392	-	-	-	-	-
BC Hydro adjustment	143	138	604	(1,086)	1,119	(51)
Rate smoothing regulatory account write-off	-	-	-	-	(950)	950
Forecast allowance	1,000	1,000	-	-	-	-
Adjusted surplus (deficit)	**(9,413)**	**(3,935)**	**(7,629)**	**(3,628)**	**(312)**	**(500)**
Share of nominal GDP (%)	(2.5)	(1.1)	(2.5)	(1.2)	(0.1)	(0.2)

Sources: DBRS Morningstar and the Province.

The Province's 2022 budget forecasts a deficit of $5.5 billion in 2022–23, compared with a $483 million shortfall now anticipated in 2021–22. On a DBRS Morningstar-adjusted basis, this equates to a shortfall of $9.4 billion, or 2.6% of GDP. We make several adjustments to B.C.'s reported results/budget projections to improve comparability between provinces. We adjust reported results to recognize capital spending as incurred rather than as amortized, and to assume a modest amount of capital underspending, as well as exclude the change in regulatory accounts from BC Hydro's net income to arrive at the adjusted deficit.

Total revenue is expected to fall by 2.4% in 2022–23 relative to the prior year, which reflects one-time impacts experienced in 2021–22 and the expectation of lower commodity prices. DBRS Morningstar also projects own-source revenue to fall by 2.6% YOY mainly as a result of lower forestry revenue and lower net income at the Insurance Corporation of British Columbia (ICBC) following exceptionally strong investment income in 2021–22. Most other own-source revenue will likely be flat or increasing, supported by the continued reopening of the economy. Only minor tax changes are in this budget, including the removal of provincial sales tax for all used zero-emission vehicles, an increase in the passenger vehicle surtax threshold for zero-emission vehicles, and the application of provincial sales tax to online consumer platforms. Federal transfers are budgeted to fall by 1.2% for 2022–23 compared with 2021–22, driven primarily by the lapse of pandemic relief funding..

Relative to the previous plan, the budget includes $6.6 billion in new incremental spending on priority areas. For 2022–23, B.C. forecasts provincial spending to rise by 4.7%. Spending on healthcare (+5.4%), education (+3.8%), and social services (+9.3%) will consume the bulk of new funding with investments in expanding health system capacity, support for mental health and addiction, improving access to affordable childcare, and ongoing efforts to address homelessness and housing affordability. DBRS Morningstar-adjusted debt-servicing costs are expected to rise by 7.6% reflecting both an increase in debt and rising interest rates; however, these costs remain low at just 3.0% of total revenue.

Consistent with past practice, the budget plan includes several layers of prudence, which, if unused, would improve the bottom line and debt outlook. These include:

- Pandemic recovery contingencies of $2.0 billion in 2022–23 and $1.0 billion in 2023–24.
- General program and CleanBC contingencies of $2.8 billion, which can help address unforeseen events, increased program utilization, and upcoming collective agreement bargaining as well as an additional forecast allowance of $1.0 billion each year until 2024–25.
- Conservative GDP growth assumptions.

The Province is continuing with a robust capital spending program, which will support the economic recovery and rebuilding efforts. The three-year taxpayer-supported capital plan will be $27.4 billion, up $1.1 billion from the previous plan. For 2022–23, the capital investment plan is $9.3 billion. However, we note that actual taxpayer-supported capital investments tend to be below budget projections, and we have assumed a modest amount of capital underspending in our debt projections.

Outlook

Once again, B.C. has suspended its balanced budget requirement until 2024–25 and has presented a three-year fiscal outlook. The Province projects deficits of $4.2 billion and $3.2 billion for 2023–24 and 2024–25, respectively. On a DBRS Morningstar-adjusted basis, these equate to deficits of 2.1% to 1.6% of GDP, respectively. Previously, DBRS Morningstar expected the Province to present a full return to balance in the 2022 budget and three-year plan, but the Province's use of fiscal guardrails now include a requirement for YOY declining deficits, and the suspension of the balanced budget legislation will be reviewed on an annual basis. Despite this seemingly relaxed approach to balanced budgets, the significant level of prudence leaves room for outperformance as has been B.C.'s trademark.

2021–22 Preliminary Results

For the year ended March 31, 2022, B.C. estimates a deficit of $483 million, based on preliminary results. This is a notable improvement from the fall update, which pointed to a deficit of $1.7 billion. On a DBRS Morningstar-adjusted basis, this equates to a shortfall of $3.9 billion, or 1.1% of GDP in 2021–22.

DBRS Morningstar estimates adjusted revenue to have grown by 12.3% in 2021–22, reflecting improvements in tax revenue as well as other own-source revenue driven by increased economic activity, which was partly offset by the winding down of one-time federal transfers related to the pandemic. Tax revenue grew by 17.2% YOY, led by increases across all categories mostly supported by one-time gains from the economic reopening and higher-than-expected 2020 income tax returns. Natural resource revenue increased by a sizable 71.6% YOY, buoyed by considerably higher-than-usual commodity prices during the year. Net income from government business enterprises has increased by 26.5% YOY, backed by the lower claims costs and the exceptionally strong investment earnings at the ICBC as well as improved earnings at the B.C. Lottery Corporation, which benefitted from governments lifting pandemic-related public health restrictions. Other own-source revenue also increased by 9.4% YOY, which reflects gains from investment earnings, other licenses and fees, as well as an increase in miscellaneous revenue. Federal transfers declined by 11.0% YOY, driven by pandemic relief funding phasing out but somewhat offset by growth in the Canada Health Transfer.

DBRS Morningstar projects total adjusted spending to have increased by 5.6% in 2021–22. Core program areas of health, education, and protection of persons and property grew by 2.6%, 7.5%, and 8.7%, respectively. Additional pandemic and recovery contingencies of $3.3 billion and general contingencies of $1.0 billion have also been recorded, which, if unused, may improve the bottom line result. Despite the rising debt, debt-servicing costs benefitted from the low interest rate environment, falling by 1.0% YOY. To support recovery, the Province continues to ramp up capital spending in priority areas of health, education, and transportation, with taxpayer-supported capital investments estimated to have increased by 31.9% YOY.

According to the Province, spending in 2021–22 will also include a one-time payment of $2.0 billion to the South Coast British Columbia Transportation Authority (TransLink; rated AA with a Stable trend by DBRS Morningstar) regarding the establishment of a long-term agreement terminating the Golden Ears Bridge tolls temporary agreement. Under the temporary agreement, TransLink was to cease toll collection on the Golden Ears Bridge and the Province was obligated to provide monthly contributions toward foregone revenue. With the new agreement, the Province would no longer be required to make monthly contributions and TransLink would still remain responsible for optimal maintenance and operations of the bridge. The elimination of monthly contributions would result in lowering future contingencies for the Province. DBRS Morningstar believes the Province will have substantial unused contingency headroom during 2021–22, which would offset the one-time payout to TransLink, and expects results will be better than projected.

Debt and Liquidity

Exhibit 2 Debt-to-GDP Ratios

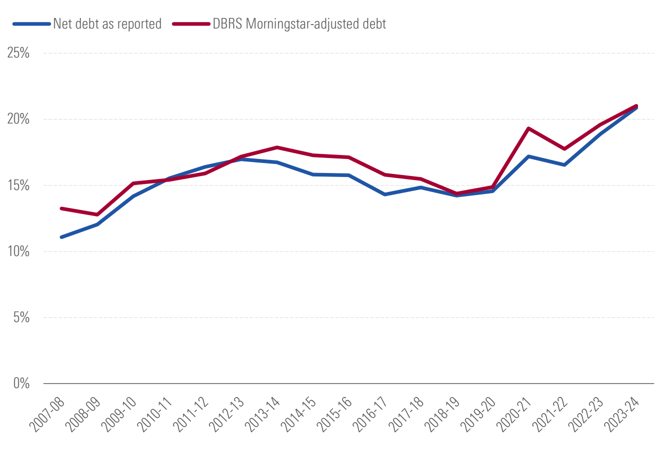
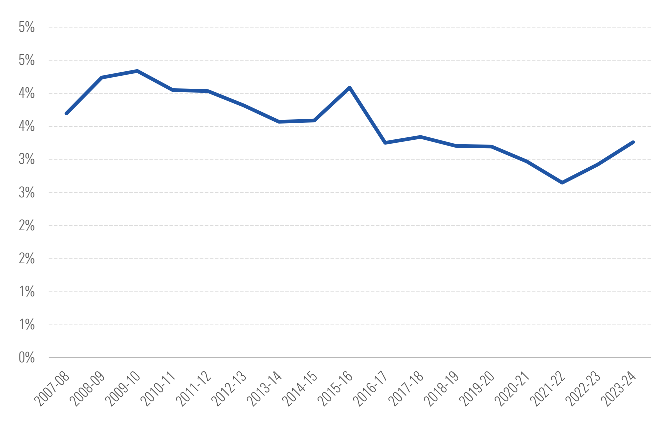


Exhibit 3 Interest Costs as a Share of Adjusted Revenue



Sources: Statistics Canada, DBRS Morningstar, and the Province.

Despite rising debt from a pandemic-driven deficit, which was further exacerbated by the November 2021 flooding and earlier wildfires, B.C. continues to have one of the lowest debt burdens among provinces. In 2021–22, the DBRS Morningstar-adjusted debt—defined as tax-supported debt and unfunded pension liabilities—rose by $1.9 billion to $61.7 billion. However, combined with growth in the nominal GDP, this led to an improvement in the debt-to-GDP ratio to 17.8% from 19.3% the year prior. Adjusted debt also includes unfunded pension liabilities, which B.C. projects to be just $1.0 million as at March 31, 2022, and expects these to remain low.

Debt management remains prudent as the Province maintains a relatively smooth debt maturity profile, no unhedged foreign currency exposure, and a limited amount of floating-rate debt (21% of the estimated debt stack at March 31, 2022). B.C. has an internal oversight committee that advises the Ministry of Finance on the borrowing program.

The Province issues debt in both domestic and international markets, looking for opportunities to reduce its overall borrowing costs. It has established borrowing programs in the United States, Europe, and Australia and borrowing access to currencies in Asia. B.C. does not have an explicit policy or guideline dictating domestic/foreign issuance, but it will generally go offshore if the all-in cost is lower than what is available in the domestic market. As at February 25, 2022, about 22% of gross market debt outstanding was sourced outside the domestic market and fully hedged back to Canadian dollars.

As at February 28, 2022, B.C. was party to derivatives contracts with notional principal amounts totalling $24.2 billion, consisting largely of foreign currency and interest rate swaps. Internal policy limits the Province's counterparties to high-quality financial institutions with higher standards for longer-dated swaps. The Province continues to implement its Collateral Management Framework (negotiated symmetrical credit support annexes) with all its bank counterparties.

Like other provinces, B.C. has sought to extend the term of its debt profile to lock in lower interest rates. The average term to maturity was 13.0 years as at May 31, 2022, excluding short-term debt. The maturity profile is relatively smooth over the next decade, with generally no more than $6.6 billion maturing in any given year.

B.C. maintains considerable liquidity relative to the size of its short-term program and its long-term borrowing requirement. At March 31, 2022, cash and temporary investments that can be readily accessed in the event of a broad market disruption were estimated to be $3.3 billion. The Province could further access liquidity from sinking fund assets, the Prosperity Fund, or within the broader public-sector entities it controls as well as by drawing on a $400 million credit facility.

B.C. has minimal unfunded pension liabilities on an accounting basis, with a projection of just under $1.0 million as at March 31, 2022. Unfunded pension liabilities are likely to remain low. DBRS Morningstar notes that on an actuarial basis, the four major pension plans have significant surpluses. The major pension plans are defined-benefit/defined-contribution hybrid plans. They provide a basic guarantee, but indexation is not guaranteed and subject to decisions of pension boards. In addition, the plans have joint trusteeship, with employers and employees equally sharing risk, which results in more proactive management.

Outlook

At the last review in June 2021, DBRS Morningstar anticipated B.C.'s debt outlook would outperform the budgeted debt forecast, and this has materialized. The Province now projects the net debt-to-GDP ratio to reach 18.9% in 2022–23 and 22.3% by 2024–25, which are material improvements from the 2021 budget forecast.

DBRS Morningstar estimates adjusted debt, including tax-supported debt net of sinking funds plus unfunded pension liabilities, to reach 19.6% of GDP in 2022–23 and approach roughly 21.8 % of GDP by 2024–25. This is an improvement compared with prior forecasts and ensures B.C. continues to have one of the lowest debt burdens among the provinces.

The Province estimates gross borrowing requirements to be $18.0 billion (excluding the forecast allowance) in 2022–23 and to decline gradually thereafter as both the deficit and the capital spending plan moderate. At the time of writing, approximately $2.4 billion, or 13.0% of borrowing, has been completed.

British Columbia Hydro and Power Authority

BC Hydro is a commercial Crown agent of the Province that generates, transmits, and distributes electric power, primarily from renewable energy sources. DBRS Morningstar considers BC Hydro to be self-supporting because it funds its own operations and services its debt obligations. The Province has sought to maintain low and competitive electricity rates and has set BC Hydro's net income targets through directives at $712 million until F2025.

Site C Clean Energy Project (Site C): Construction of a 1,100-megawatt hydroelectric generating station. In 2021, the Province announced the cost to complete Site C had increased to $16.0 billion from $10.7 billion, and the full in-service date was delayed by one year to 2025 attributable to the coronavirus pandemic, geotechnical issues, and schedule pressures. As a response to the challenges from Site C, the Province appointed a new chair to the utility's board of directors and is improving oversight and governance of the utility and Site C as a result of the higher cost estimate and delays. Because BC Hydro expects costs associated with the Site C project, including any additional debt to fund the delays, to be fully recovered from ratepayers, the cost increase is not expected to have any impact on BC Hydro's self-supported status. The project completion now seems to be on track; however, DBRS Morningstar will continue to monitor Site C for its impact on the utility's financial outlook.

Economy

Exhibit 4 Economic Growth (Annual)

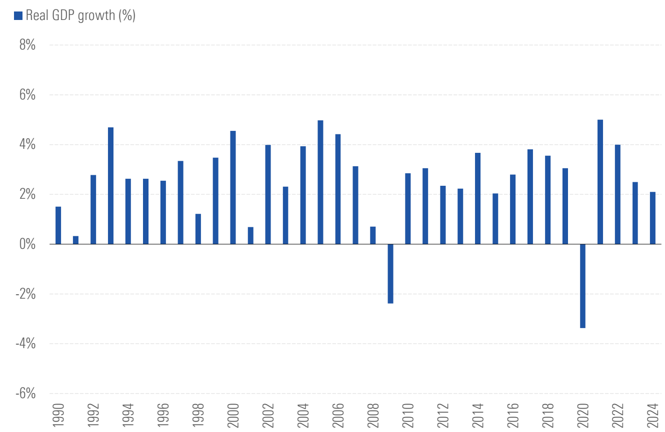
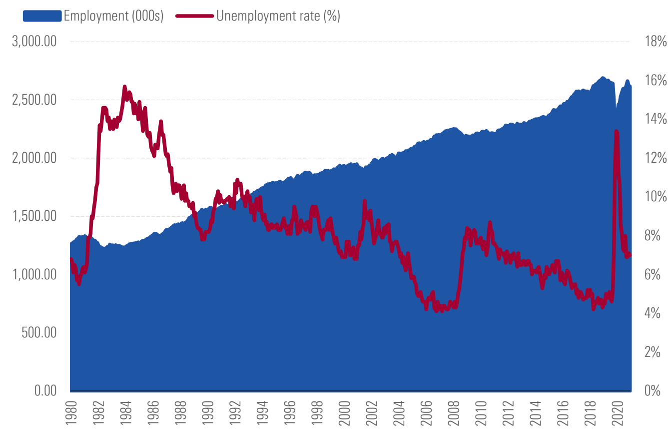


Exhibit 5 Labour Market (Annual)



Sources: Statistics Canada and the Province.

In February's 2022 budget, the Province estimates its economy rebounded by 5.0% in 2021, supported by a strong vaccine uptake, the relaxation of public health measures, and significant government support programs, although the significant flooding in November 2021, earlier wildfires, and the emergence of the omicron variant late in the year indicate the recovery is likely to remain choppy. Based on Statistics Canada's preliminary estimates as of May 2022, real GDP expanded by 6.2% on an industry basis in 2021 driven by robust retail sales and strength in housing markets, relative to a national economic growth of 4.6%. The economy also experienced gains across most goods-producing sectors, including industrial production, energy, mining, quarrying and oil and gas extraction, manufacturing, and construction. However, economic recovery remains uneven with sectors like tourism, hospitality, recreation, and live events, which rely on person-to-person services yet to fully recover.

B.C. continues to experience moderate population growth, with annual increases between 1.1% and 1.7% over the past five years. The population growth of 1.1% during 2021 was better than prior expectations led by international and interprovincial migration reflecting pent-up movement because of the pandemic as travel restrictions were gradually eased. The population’s age profile resembles that of the Province of Ontario (Ontario; rated AA (low) with a Stable trend by DBRS Morningstar) and the Province of Québec (rated AA (low) with a Stable trend by DBRS Morningstar). The B.C. population is somewhat older than Ontario's (median age of 42.3 years versus 40.7 for Ontario), and, while births continue to outpace deaths, international and interprovincial migration have been the major population growth drivers in recent years.

The labour market exhibited considerable strength in 2021, with employment returning to pre-pandemic levels by midyear and the unemployment rate averaging 6.5%, down from 8.9% in 2020. Average weekly earnings grew by 4.0% in 2021, which was higher than pre-pandemic levels. Consumer spending remained strong, with retail sales rising by 12.4%, according to Statistics Canada.

Housing market activity remained strong, with housing starts experiencing record gains of 25.6% in 2021. Home sales increased by 32.8%, while the average home price grew by 18.7%, supported by low interest rates, ongoing demand, and limited inventory. The Province anticipates a gradual moderation in home sales activity with the rising cost of borrowing.

Improving global demand and rising commodity prices provided strong support to exports, although the November 2021 floods disrupted the flow of goods late in the year. The value of merchandise goods exports increased by 36.1% in 2021, driven by substantial gains across exports of energy products, forestry products, building and packaging materials, and metal and nonmetallic mineral products. By destination, exports to the United States were up by 37.9%, while those to the rest of the world increased by 33.9%. The Province expects the growth momentum in real exports to continue over the next few years, although some uncertainty exists given the volatility in commodity prices.

Outlook

For 2022, the Province anticipates real GDP growth of 4.0%, followed by 2.5% in 2023. Like past budgets, this forecast is conservative relative to the private-sector consensus. This forecast assumes a continued reopening of the economy, further recovery in the service sector, and a stimulative impact as the rebuilding efforts gain momentum following the November 2021 floods.

Key downside risks to the plan include the ongoing evolution of the coronavirus pandemic, the economic outlook for key trading partners, rising inflation, supply-chain disruptions, climate change impacts, commodity price volatility, and impacts from broader geopolitical conflicts and trade tensions.

Economic Statistics							
	2023E	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**
Nominal GDP (CAD billions)	382.9	368.0	347.7	309.3	311.0	297.4	282.3
Growth rate (%)	4.1	5.8	12.4	(0.5)	4.6	5.4	7.0
Real GDP (CAD billions)	297.4	290.1	279.0	265.8	275.0	266.9	257.7
Growth rate (%)	2.5	4.0	5.0	(3.4)	3.1	3.6	3.8
Population (thousands)	5,403	5,316	5,215	5,159	5,095	5,010	4,929
Population growth (%)	1.6	1.9	1.1	1.3	1.7	1.6	1.4
Labour Market							
Employment (thousands)	2,773	2,729	2,656	2,491	2,666	2,590	2,554
Growth rate (%)	1.6	2.8	6.6	(6.6)	3.0	1.4	4.1
Average Weekly Earnings (CAD)	-	-	1,125.5	1,082.5	997.7	969.1	943.5
Growth rate (%)	-	-	4.0	8.5	2.9	2.7	2.5
Unemployment rate (%)	5.4	5.5	6.5	8.9	4.7	4.7	5.2
Other Indicators							
Housing starts	36,001	38,022	47,607	37,903	44,932	40,857	43,664
Retail sales (CAD millions)	106,498	102,692	98,405	87,513	86,428	85,933	84,291
Inflation rate (CPI)	2.2	2.9	2.8	0.8	2.3	2.7	2.1

E = estimate.

Sources: Statistics Canada/Haver Analytics and the Province of British Columbia estimates and projections.

Government and Elections

		Current Distribution of Seats in the Legislature	
Party in Power	NDP (majority)	**NDP**	57
Premier	John Horgan	**Liberal Party**	26
Finance Minister	Selina Robinson	**Green Party**	2
Next election	October 2024	**Vacant**	2

Environmental, Social, and Governance Factors

There were no environmental, social, or governance factors that had a significant or relevant effect on the credit analysis of the Province as outlined below:

ESG Factor		ESG Credit Consideration Applicable to the Credit Analysis:	Y/N**	Extent of the Effect on the ESG Factor on the Credit Analysis: None (N), Relevant (R) or Significant (S)*
Environmental		Overall:	N	N
	Emissions, Effluents, and Waste	Do the costs or risks result in changes to a government's financial standing or relationship with other governments, and does this affect the assessment of credit risk?	N	N
	Carbon and GHG Costs	Does a government face coordinated pressure from a higher-tier government or from numerous foreign governments as a result of its GHG emissions policies, and does this affect the assessment of credit risk?	N	N
		Will recent regulatory changes have any adverse impact on economic resilience or public finances?	N	N
	Resource and Energy Management	Does the scarcity of key resources impose high costs on the public sector or make the private sector less competitive?	N	N
		Is the economy reliant on industries vulnerable to import or export price shocks?	N	N
	Land Impact and Biodiversity	Is there a risk to a government's economic or tax base for failing to effectively regulate land impact and biodiversity activities?	N	N
	Climate and Weather Risks	Will climate change and adverse weather events potentially destroy a material portion of national wealth, weaken the financial system, or disrupt the economy?	N	N
Social		Overall:	N	N
	Human Capital and Human Rights	Compared with regional or global peers, how competitive, flexible, and productive is the domestic labour force?	N	N
		Are labour and social conflicts source of economic volatility?	N	N
		Are individual and human rights broadly respected and in line with the population's expectations?	N	N
		Is the government exposed to heavy, coordinated international pressure as a result of its respect for fundamental human rights?	N	N
		Human Capital and Human Rights:	N	N
	Access to Basic Services	Does a failure to provide adequate basic services deter investment, migration, and income growth within the economy?		
Governance		Overall:	N	N
	Bribery, Corruption, and Political Risks	Does widespread evidence of official corruption and other weaknesses in the rule of law deter investment and contribute to fiscal or financial challenges?	N	N
	Bribery, Corruption, and	Bribery, Corruption, and Political Risks:	N	N
	Institutional Strength, Governance, and Transparency	Compared with other governments, do institutional arrangements provide a similar degree of accountability, transparency, and effectiveness?	N	N
		Are regulatory and oversight bodies protected from inappropriate political influence?	N	N
		Are government officials exposed to public scrutiny and held to high ethical standards of conduct?	N	N
		Institutional Strength, Governance, and Transparency:	N	N
	Peace and Security	Is the government likely to initiate or respond to hostilities with neighbouring governments?	N	N
		Is the government's authority over certain regions contested by domestic or foreign militias?	N	N
		Is the risk of terrorism or violence sufficient to deter investment or to create contingent liabilities for the government?	N	N
		Peace and Security:	N	N
		Consolidated ESG Criteria Output:	N	N

Statement of Operations						
(CAD millions)	**2022–23**	**2021–22**	**2020–21**	**2019–20**	**2018–19**	**2017–18**
	Budget	Forecast	Actual	Actual	Actual	Actual
Revenue						
Tax Revenue						
Personal income tax	12,848	13,680	11,118	10,657	11,364	8,923
Corporate income tax	5,501	5,064	4,805	5,011	5,180	4,165
Sales tax	9,009	8,441	7,694	7,374	7,369	7,131
Other	12,712	12,867	10,549	10,224	8,801	8,102
Subtotal	**40,070**	**40,052**	**34,166**	**33,266**	**32,714**	**28,321**
Natural Resource Revenue						
Natural gas	911	749	196	118	199	161
Forests	1,121	1,847	1,304	988	1,406	1,065
Other	1,355	1,527	903	1,162	1,503	1,469
Subtotal	**3,387**	**4,123**	**2,403**	**2,268**	**3,108**	**2,695**
Net Income from Government Business Enterprises						
BC Hydro	712	681	688	705	(428)	683
Liquor and lotteries	2,581	2,282	1,581	2,443	2,509	2,510
ICBC	327	1,904	1,528	(376)	(1,153)	(1,327)
Other	144	146	167	146	1,077	(810)
Subtotal	**3,764**	**5,013**	**3,964**	**2,918**	**2,005**	**1,056**
Other Own-Source Revenue						
Medical Service Plan premiums	-	-	(4)	1,063	1,360	2,266
Other licenses and fees	4,886	4,724	4,333	4,509	4,233	3,983
Investment earnings	1,298	1,369	1,264	1,263	1,243	1,101
Miscellaneous	3,807	3,457	3,136	3,838	3,413	3,543
Subtotal	**9,991**	**9,550**	**8,729**	**10,673**	**10,249**	**10,893**
Federal Transfers						
Canada Health Transfer	6,183	6,424	5,701	5,523	5,182	4,994
Canada Social Transfer	2,180	2,110	2,042	1,971	1,908	1,854
Equalization	-	-	-	-	-	-
Coronavirus	40.0	322.0	2,603	-		
Other	2,937	2,626	2,548	2,041	1,962	2,207
Subtotal	**11,340**	**11,482**	**12,894**	**9,535**	**9,052**	**9,055**
Total Revenue as Reported	**68,552**	**70,220**	**62,156**	**58,660**	**57,128**	**52,020**
Growth rate (%)	(2.4)	13.0	6.0	2.7	9.8	1.1
DBRS Morningstar Adjustments						
Nonrecurring revenue	-	-	-	-	-	-
BC Hydro adjustment	143.0	138.0	604.0	(1,086.0)	1,119.0	(51.0)
Reg. account write-off	-	-	-	-	(950.0)	950.0
GBE interest expense	(938.0)	(850.0)	(880.0)	(905.0)	(863.0)	(875.0)
Sinking fund earnings (tax-sup. only)	(7.0)	(5.2)	(5.3)	(11.9)	(12.3)	(9.7)
Adjusted Total Revenue	**67,750**	**69,502**	**61,875**	**56,657**	**56,422**	**52,034**
Growth rate (%)	(2.5)	12.3	9.2	0.4	8.4	2.8

(CAD millions)	2022–23	2021–22	2020–21	2019–20	2018–19	2017–18
	Budget	Forecast	Actual	Actual	Actual	Actual
Expenses						
Program Expense						
Health	27,685	26,268	25,605	23,449	22,151	20,927
Education	16,673	16,061	14,943	14,735	14,089	13,092
Social services	7,916	7,242	7,789	5,887	5,343	4,737
Protection of persons and property	2,479	2,454	2,258	2,126	2,004	1,930
Transportation	2,454	2,373	3,360	2,126	2,021	1,931
Natural resources and economic development	3,748	4,008	4,191	3,778	3,825	3,374
General government	1,648	1,905	3,915	1,653	1,670	1,540
Other	2,636	2,446	2,841	2,501	1,810	1,553
Subtotal	**65,239**	**62,757**	**64,902**	**56,255**	**52,913**	**49,084**
Debt Servicing Costs	2,926	2,696	2,722	2,727	2,684	2,623
Contingencies—General	2,848	1,000	-	-	-	-
Contingencies—Coronavirus	2,000	3,250	-	-	-	-
Total Expense as Reported	**73,013**	**69,703**	**67,624**	**58,982**	**55,597**	**51,707**
Growth rate (%)	**4.7**	**3.1**	**14.7**	**6.1**	**7.5**	**6.2**
DBRS Morningstar Adjustments						
Nonrecurring expenditures	-	-	-	-	-	-
Capital investment	9,279.0	7,157.0	5,428.0	4,772.0	4,452.0	3,908.0
Assume capital expenditure underspend	(1,391.9)	-	-	-	-	-
Amortization	(2,813.0)	(2,619.0)	(2,670.0)	(2,578.0)	(2,459.0)	(2,482.0)
GBE interest expense	(938.0)	(850.0)	(880.0)	(905.0)	(863.0)	(875.0)
Tax-sup. debt sinking fund earnings	(7.0)	(5.2)	(5.3)	(11.9)	(12.3)	(9.7)
Adjusted Total Expenditures	**77,142.2**	**73,385.8**	**69,496.7**	**60,259.1**	**56,714.7**	**52,248.3**
Growth rate (%)	**5.1**	**5.6**	**15.3**	**6.2**	**8.5**	**7.1**

Statement of Financial Position (CAD millions)						
	2022–23	**2021–22**	**2020–21**	**2019–20**	**2018–19**	**2017–18**
	Budget	Forecast	Actual	Actual	Actual	Actual
Financial Assets						
Cash & investments	2,690	3,289	6,560	3,985	3,029	3,440
Equity in gov't enterprises	13,603	12,529	9,623	6,515	5,732	6,128
Sinking fund investments	529	513	492	692	752	1,348
Loans recoverable from agencies	29,692	27,540	26,301	24,768	22,547	20,534
Other financial assets	17,540	15,748	15,399	12,394	12,524	11,650
Total Financial Assets	**64,054**	**59,619**	**58,375**	**48,354**	**44,584**	**43,100**
Liabilities						
Accounts payable and accrued liabilities	14,663	13,505	10,226	8,842	7,937	7,181
Deferred revenue	14,310	12,956	12,185	10,626	10,467	9,928
Unfunded pension liabilities	1	1	1	1	65	119
Employee future benefits	-	-	2,865	2,654	2,571	2,370
Tax-supported debt	73,693	61,962	59,982	46,669	43,209	44,752
Self-supported debt	29,998	27,818	26,275	24,847	22,655	20,619
Forecast allowance	1,000	1,000	-	-	-	-
Total Liabilities	**133,665**	**117,242**	**111,534**	**93,639**	**86,904**	**84,969**
Net Assets (Debt)	**(69,496)**	**(57,539)**	**(53,159)**	**(45,285)**	**(42,320)**	**(41,869)**
Nonfinancial assets	67,197	60,660	56,366	53,054	50,615	48,536
Accumulated Surplus (deficit)	**(2,299)**	**3,121**	**3,207**	**7,769**	**8,295**	**6,667**
Net debt as a share of GDP (%)	18.9	16.6	17.2	14.6	14.2	14.8

Debt Profile (CAD millions)						
	2022–23	**2021–22**	**2020–21**	**2019–20**	**2018–19**	**2017–18**
	Budget	Forecast	Actual	Actual	Actual	Actual
Tax-Supported Debt						
Notes, bonds, and debentures	70,000	58,403	56,624	43,534	40,174	41,736
Capital leases	242	99	257	285	253	254
Public-private partnerships	3,367	3,440	3,085	2,819	2,749	2,728
Other	79	15	15	31	33	34
Loan guarantees	5	5	5	5	5	5
Sinking funds	(218)	(231)	(236)	(445)	(533)	(1,150)
Net Tax-Supported Debt as Reported	**73,475**	**61,731**	**59,750**	**46,229**	**42,681**	**43,607**
Self-Supported Debt (net of sinking funds)						
BC Hydro	28,290	26,128	24,650	23,238	22,064	19,990
BC Lottery Corporation	202	207	228	233	100	155
Columbia Power Corporate	261	266	271	276	282	286
Columbia Basin power projects	1,300	1,325	1,349	1,387	418	433
Liquor Distribution Branch	213	204	233	210	-	-
Postsecondary institutions subsidiaries	575	575	520	504	387	418
Transportation Investment Corporation	-	-	-	-	-	-
Other	115	109	99	84	30	30
Net Self-Supported Debt as Reported	**30,956**	**28,814**	**27,350**	**25,932**	**23,281**	**21,312**
Net Public Sector Debt	**104,431**	**90,545**	**87,100**	**72,161**	**65,962**	**64,919**
Calculation of DBRS Morningstar-Adjusted Debt						
Tax-supported debt	73,475	61,731	59,750	46,229	42,681	43,607
Unfunded pension liabilities	1	1	1	1	65	119
Cumulative capital expenditure underspend	(1,392)	-	-	-	-	-
DBRS Morningstar-adjusted debt	**72,084**	**61,732**	**59,751**	**46,230**	**42,746**	**43,726**
Share of nominal GDP (%)	19.6	17.8	19.3	14.9	14.4	15.5
Foreign Currency Exposure (net of hedges, share of total)						
Canadian dollars (%)	100	100	100	100	100	100
Other (%)	-	-	-	-	-	-
Floating-Rate Exposure (net of hedges, share of total)						
Fixed rate (%)	83	79	77	80	80	79
Floating and maturing within 12 months (%)	17	21	23	20	20	21

Rating History

	Current	2021	2020	2019	2018	2017
Issuer Rating	AA (high)	AA (high)	AA (high)	AA (high)	AA (high)	AA (high)
Long-Term Debt	AA (high)	AA (high)	AA (high)	AA (high)	AA (high)	AA (high)
Short-Term Debt	R-1 (high)	R-1 (high)	R-1 (high)	R-1 (high)	R-1 (high)	R-1 (high)

Previous Report

- British Columbia, Province of: Rating Report, June 15, 2021.

Related Research

- *Rating Canadian Provincial and Territorial Governments*, June 1, 2022.
- *Province of British Columbia Budget 2022—Still Awaiting Return to Balance*, February 23, 2022.
- *Corporate Risk Assessment Scorecard for Canadian Provincial and Territorial Governments*, December 21, 2021.
- *DBRS Morningstar Comments on the Province of British Columbia Government's Update on the Site C Project*, March 1, 2021.

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

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on www.dbrsmorningstar.com.

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.

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