FitchRatings

Province of British Columbia

Key Rating Drivers

Rating Derivation Summary: British Columbia's ‘AA+’ Issuer Default Rating (IDR) reflects Fitch Ratings’ expectation that, despite near-term macroeconomic risks, economic and fiscal performance will remain solid over the longer term. Current uncertainties, including a housing market price correction and an elevated likelihood of recession, are expected to weigh on revenue growth even as spending for operating and capital needs rises, leading to higher reliance on borrowing. Despite risks, the budget for fiscal 2024 (which began on April 1) is cushioned by conservative assumptions and sizable contingencies. The province has a history of quickly addressing fiscal challenges and remains positioned for strong growth over the long-term.

Risk Profile — ‘Stronger’: The 'Stronger' risk profile reflects a negligible risk relative to international peers that the issuer's ability to cover debt service with the operating balance may weaken unexpectedly over the forecast horizon (fiscal years 2023–2027) because of lower than expected revenues, higher than expected expenditures or an unanticipated rise in liabilities or debt service requirements.

Debt Sustainability — ‘a’: British Columbia's debt sustainability, assessed at ‘a’, relies on a rating case scenario for economic, fiscal and debt trends projected forward to fiscal 2027. The rating case relies on the province's forecast from Budget 2023 (released in February), data provided by Fitch's Sovereigns Group and the federal budget, and it assumes somewhat higher economic stress relative to Budget 2023 affecting projected revenues, expenditures and borrowing.

Under the scenario, British Columbia's economic liability burden (ELB) metric (net adjusted debt plus a proportion of central government debt to GDP) rises to 72% in fiscal 2027, at the stronger end of the ‘a’ category and above the 67% level in the base case. Three secondary metrics fall to ‘bbb’ or lower assessment levels, including the payback ratio (net adjusted debt to operating balance) at 39.2x, synthetic debt service coverage (operating balance to 15-year mortgage-like debt payoff) at 0.3x and the fiscal debt burden (net adjusted debt to operating revenue) at 130%.

ESG Considerations: ESG credit relevance is a score of ‘3’, with ESG issues either credit-neutral or having only a minimal credit impact, due to either their nature or the way in which they are being managed by the entity.

Rating Sensitivities

Upgrade on Stronger Economic, Fiscal Performance or Sovereign Improvement: A shallower economic downturn and stronger fiscal recovery in British Columbia supporting improved debt metrics, lower federal debt attributable to the provinces or an upgrade to Canada's IDR.

Material Weakening of Finances or Higher Federal Borrowing: Weaker than expected provincial performance in the near term or a higher federal debt burden.

Public Finance
Local and Regional Governments
Canada

This report does not constitute a new rating action for this issuer. It provides more detailed credit analysis than the previously published Rating Action Commentary, which can be found at www.fitchratings.com.

Ratings

Foreign Currency

Long-Term Issuer Default Rating	AA+
Short-Term Issuer Default Rating	F1+

Local Currency

Long-Term Issuer Default Rating	AA+

Rating Outlooks

Long-Term Foreign Currency Issuer Default Rating	Stable
Long-Term Local Currency Issuer Default Rating	Stable

Debt Ratings

Senior Unsecured Debt — Long-Term Rating	AA+
Senior Unsecured Debt — Short-Term Rating	F1+

Issuer Profile Summary

British Columbia is Canada's third largest province by population and the fourth largest by GDP, with a population of 5.3 million. Economic growth has historically been strong, with GDP similar to the national distribution.

Financial Data Summary

(CAD Mil.)	FY22	FY27rc
Economic Liability Burden (%)	67.1	72.1
Payback Ratio (x)	17.2	39.2
Synthetic Coverage (x)	0.7	0.3
Fiscal Debt Burden (%)	73.7	130.1
Net Adjusted Debt	51,249	109,480
Operating Balance	2,982	2,795
Operating Revenue	69,514	84,170
Debt Service	12,886	9,372
Mortgage-Style Debt Annuity	4,380	9,575

rc – Fitch’s rating case scenario
Source: Fitch Ratings, Fitch Solutions, Province of British Columbia

Applicable Criteria

International Local and Regional Governments Rating Criteria (September 2021)

Related Research

Global Economic Outlook (March 2023)

Canadian Subnationals — Framework Report (October 2021)

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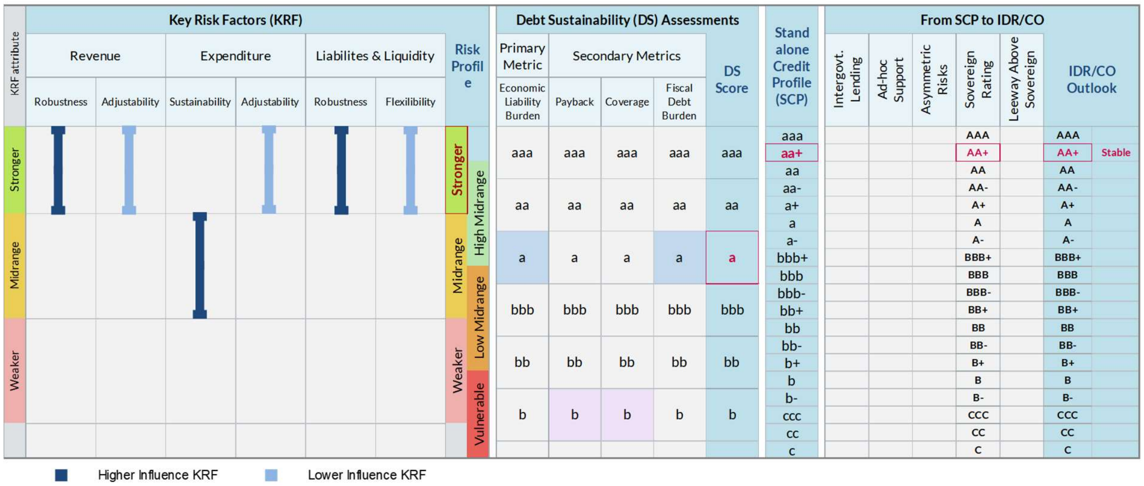
Rating Synopsis

British Columbia IDR/CO Derivation Summary



The six Key Risk Factors, combined according to their relative importance, collectively represent British Columbia's risk profile under Fitch's criteria for rating local and regional governments (LRGs). The risk profile and debt sustainability assessment, which measures the LRG's debt burden and debt service requirements amid a reasonable economic or financial downturn over the rating horizon, are combined in a standalone credit profile (SCP). The SCP, together with additional factors not captured in the SCP, such as extraordinary support or the presence of a rating cap, produce the IDR.

Issuer Profile

Canadian Subnational Framework: Canada has a decentralized federal system of government, with powers divided between or shared among the federal government and 10 provinces. With broad powers devolved to the provinces, negotiation and consensus among provincial and federal governments are necessary to initiate most changes. The powers and responsibilities of the provinces limit the federal government's ability to unilaterally impose changes, notably on matters that fall exclusively to the provinces.

The constitution bestows responsibility for most public services upon the provinces and provides them with virtually unlimited revenue and borrowing powers to support their spending responsibilities. These include responsibility over municipal governments, education, healthcare, property and civil rights, transportation, civil and criminal law, labor relations and liquor sales. Federal responsibilities include defense, trade and commerce, although the federal government operates a Canada-wide unemployment system. A robust system of vertical transfers is supported by the federal government's own broad revenue powers and is intended to enhance the provinces' ability to provide relatively similar services despite their varying economic and wealth profiles.

British Columbia Socioeconomic Profile: British Columbia is one of Canada's four largest provinces by population and GDP, with almost 14% of Canada's population in 2022 and 14% of GDP in 2021. Most of the population and economic base is concentrated in the wealthy Lower Mainland region, including the City of Vancouver, and in Victoria, the province's capital, located on Vancouver Island. Trade, finance, insurance and real estate activities and education and health services are significant economic drivers, although natural resources, including forestry, natural gas and mining, are important in the province's interior regions.

Long-term population growth exceeds the Canadian average, and greater Vancouver is a magnet for domestic migrants and immigrants from the Pacific Rim. British Columbia's population stands at 5.3 million as of 2022. Population growth in British Columbia was the second-fastest among the provinces over the past decade, averaging 1.5% per year versus 1.2% for Canada as a whole. As of 2021 census data, 29% of British Columbians were immigrants, compared to 23% for Canada overall.

The coronavirus pandemic-induced recession was less severe in British Columbia than in Canada as a whole. Unemployment in the province stood at 5.5% (seasonally adjusted) in February 2020, versus 5.7% for Canada, before rising to 13.7% by May 2020 in British Columbia as lockdowns affected the economy, albeit trailing 14.1% and 15.5%

unemployment for Canada and Alberta, respectively, as of the same date. The labor market has strengthened since then, with March 2022 unemployment in British Columbia at 4.5%, beneath Canada's 5.0% level for that period.

Fitch calculates nominal GDP per capita at 103% of the Canadian average as of 2021. Economic performance is sensitive to national and international trends. A higher share of British Columbia's trade is with Asia compared to other provinces, although the U.S. remains the destination for most exports. Given the close linkage with the U.S. economy, U.S. weakness or trade-related disruptions, such as recurring softwood lumber trade disputes, have quick and significant economic implications.

Fitch anticipates that British Columbia, consistent with Canada and the U.S., will experience a mild recession late in 2023 as inflation, Bank of Canada benchmark rate increases and global macroeconomic uncertainties weigh on activity. British Columbia's housing market, particularly in greater Vancouver, has been a source of uncertainty. A long period of price increases pre-pandemic had been supported by prolonged low rates, geographic growth limitations and the region's attractiveness to newcomers with only brief interruptions due to regulatory and tax changes. Prices surged again early in the pandemic but reversed in 2022 as higher mortgage rates affected affordability; however, strong demand and limited inventory have spurred modestly higher prices early in 2023. While Fitch's Structured Finance Group views home prices in Vancouver and Victoria as unsustainable, high demand coupled with limited supply are likely to sustain a large number of price gains incurred since the height of the pandemic.

Socioeconomic Indicators

	British Columbia	Canada
Population, 2022 (Mil.)	5.32	38.93
GDP Per Capita, 2021 (CAD)	67,392	65,651
Gross Regional Product Growth, 2021 (%)	14.2	13.6
Inflation, 2022 (%)	6.9	6.8
Unemployment Rate, 2022 (%)	4.6	5.3

Source: Fitch Ratings, Statistics Canada, Province of British Columbia

Risk Profile Assessment

Risk Profile: Stronger

Fitch assesses British Columbia's risk profile at 'Stronger', reflecting a combination of assessments:

Risk Profile Assessment

Risk Profile	Revenue Robustness	Revenue Adjustability	Expenditure Sustainability	Expenditure Adjustability	Liabilities and Liquidity Robustness	Liabilities and Liquidity Flexibility
Stronger	Stronger	Stronger	Midrange	Stronger	Stronger	Stronger

Source: Fitch Ratings

Fitch assesses British Columbia's risk profile at 'Stronger', based on five 'Stronger' subassessments for revenue robustness, revenue adjustability, expenditure adjustability, liabilities and liquidity robustness and liabilities and liquidity flexibility attributes. The remaining attribute, expenditure sustainability, is assessed at 'Midrange'.

The assessment reflects Fitch's view of a limited degree of risk versus international peers that the issuer's ability to cover debt service with operating balance will weaken unexpectedly over the forecast horizon, due to either lower than expected revenue, expenditures above expectations or an unanticipated rise in liabilities or debt service requirements.

Revenue Robustness: 'Stronger'

The 'Stronger' revenue robustness assessment is based on British Columbia's diverse socioeconomic profile, broad revenue base and solid growth prospects over time. Wealth levels match and population gains exceed their respective Canadian averages, supporting tax revenue growth despite moderate exposure to cyclicality. The economic profile is similar to Canada's, driven by service sector activity and solid labor market trends.

Revenues are diverse, including personal and corporate income and provincial sales tax, with a range of smaller levies and fees. Own source revenues represent about 83% of consolidated revenues as of fiscal 2022, largely originating from taxes, including moderately cyclical personal and corporate income taxes. Property taxes based are relatively stable, while transfer taxes are prone to more significant shifts within the housing market; both sources constituted just under 11% of consolidated revenues in fiscal 2022. Levies on forestry, oil, natural gas and other natural resources are volatile but stood at just over 6% of revenues, reflecting high resource prices during the pandemic recovery.

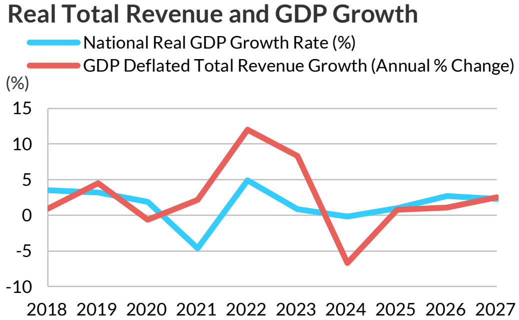
Net earnings from provincially owned Crown corporations represented about 7.5% of consolidated revenues in fiscal 2022, largely from BC Hydro, the province's integrated hydropower generation and transmission utility, and the Insurance Corporation of British Columbia (ICBC, an auto insurer). Crown corporations have periodically posed a risk for provincial finances. ICBC reported sizable deficits in the years preceding the pandemic, driven by high insured losses that are being addressed by reforms, including shifting to a no-fault model. While the province expects reforms to stabilize ICBC over the medium term, the budget forecasts a small loss in fiscal 2023 and no net earnings in fiscal 2024.

As with all provinces, British Columbia benefits from a stable system of federal transfers. These constituted 17% of consolidated revenues in fiscal 2022, primarily major per capita transfers for healthcare (Canada Health Transfer, or CHT) and social services (Canada Social Transfer). Strong fiscal capacity leaves British Columbia ineligible for equalization transfers that five other provinces receive. Federal transfers rose an average of 4.5% over the decade ended in fiscal 2022, a period that included significant time-limited transfers to help combat the pandemic.

A February 2023 federal-provincial agreement on health transfers includes a minimum 5% annual CHT increase for the first five years of the 10-year agreement, a change that is likely to only modestly raise the CHT relative to previous expectations. It also includes a CAD3.3 billion bilateral agreement to support family health, workforce support, mental health and electronic health information, among other needs.

Revenue has grown an average of 6.1% annually in the 10-year period through fiscal 2022, unadjusted for the impact of rate and fee changes, faster than 4.8% annual growth in nominal GDP. Forecast economic weakness later in 2023 is expected to affect revenues, which drop 6.1% in the fiscal 2024 tabled budget. Own source revenues are projected to fall 8.7%, driven by declines in personal and corporate income, even as sales tax growth remains steady. Conversely, federal transfers rise 8.9%, excluding the recently announced CHT increase. Beyond fiscal 2024, revenue growth resumes at a very slow pace: at 2.6% and 3.1% in fiscal years 2025 and 2026, respectively.

Real Total Revenue and GDP Growth



Source: Fitch Ratings, Province of British Columbia

Revenue Breakdown, 2022

(%)	Operating Revenue	Total Revenue
Personal Income	19.7	19.6
Provincial Sales	12.6	12.5
Other Taxes	26.3	26.1
Transfers	16.7	16.6
Other Operating Revenue	24.7	24.5
Operating Revenue	**100.0**	**99.4**
Interest Revenue	–	0.0
Capital Revenue	–	0.6
Total Revenue	**–**	**100.0**

Source: Fitch Ratings, Fitch Solutions, Province of British Columbia

Revenue Adjustability: Stronger

Like all Canadian provinces, British Columbia has unlimited power to raise revenues under Canada's constitutional framework. There are no legal caps on tax rates, and provincial revenues per capita are near the average, suggesting ample room to raise taxes if necessary. Provincial revenue forecasting is typically conservative and transparent, with benchmarking to federal and private forecasters.

Practical limits on taxation driven by political needs (political and taxpayer demands) and competition with neighboring provinces and U.S. states are less relevant than in other provinces. British Columbia's per capita tax revenues are lower than those of Ontario and Quebec but higher than neighboring Alberta's, implying at least a moderate level of additional revenue-raising flexibility.

Voter referenda affecting taxation are possible at the provincial level but uncommon. A rare example took place in 2011, when British Columbia voters rejected a 2010 policy change that had shifted British Columbia to a harmonized sales tax (HST), combining the provincial sales tax (PST) and the federal goods and services tax (GST). The referendum repealed the HST consolidation, triggered the need to refund CAD1.6 billion in federal transition funds in fiscal 2012 and forced the province to split the PST from the federal GST in fiscal 2014. Despite the disruptions, British Columbia was still able to return to fiscal balance in fiscal 2014.

Expenditure Sustainability: Midrange

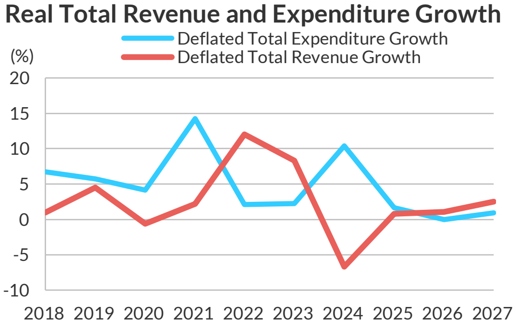
The provinces are responsible for delivering a broad array of services to citizens under Canada's system of federalism, ranging from relatively stable spending categories such as education to faster-growing healthcare and social services and capital outlays to address growth. The ‘midrange’ assessment for British Columbia, as with all provinces, reflects this broad spending mandate and Fitch's expectation that, faced with an economic downturn, provinces will maintain or increase spending, elevating the risk of deficits over time.

The ‘midrange’ assessment also assumes that deficits are followed by periods of budgetary consolidation during which policy adjustments and economic growth support a return to balance. Political pressure to avoid deficits and borrowing varies over time and across provinces, and the provinces' effectiveness in tackling accumulated deficits and elevated debt burdens varies as well. While some provincial spending is countercyclical, the federal government is responsible for unemployment insurance, reducing potential cyclicality in provincial budgets.

British Columbia has had a solid track record of managing spending growth. Operating spending rose an average of 4.2% annually over the decade ended in fiscal 2020 (before the pandemic), trailing 4.9% revenue growth over the same period. Healthcare and social services growth matched overall program spending growth, with education rising more slowly at 2.9% annually.

Healthcare and education are the largest spending responsibilities for British Columbia, at 42% and 24% of operating spending in fiscal 2022, respectively. Rising healthcare is a notable long-term concern across the provinces due to population aging, utilization, technology shifts and, more recently, gaps in care exposed by the pandemic. Budget 2023 anticipates spending will rise sharply in fiscal 2023, before slowing through the province's fiscal 2026 projection period.

Real Total Revenue and Expenditure Growth



Source: Fitch Ratings, Province of British Columbia

Expenditure Breakdown, 2022

(%)	Operating Expenditure	Total Expenditure
Staff Cost	39.3	35.1
Goods and Services	24.5	21.9
Operating Subsidies	0.0	0.0
Transfers to Other Budgets	33.7	30.1
Other Operating Expenditure	2.5	2.2
Operating Expenditure	**100.0**	**89.4**
Interest Expenditure	—	2.5
Capex	—	8.1
Total Expenditure	**—**	**100.0**

Source: Fitch Ratings, Fitch Solutions, Province of British Columbia

Expenditure Adjustability: Stronger

As the primary agents for delivering public services in Canada, the provinces provide high service levels and have ample flexibility to modify spending, supporting the ‘stronger’ assessment. Adjustability is constrained by political and service demands, including demographic pressures and the imperative of supporting economic activity during recessions. Flexibility is most commonly exercised via collective labor agreements or program efficiencies, with outright spending reductions less common. Operating contingencies are very large in British Columbia, helping to absorb unforeseen demands.

Service levels are high, providing flexibility to adjust spending, if necessary, to support budget balance and, despite a relatively similar range of services across provinces, federal mandates or conditional transfers are not a significant constraint in determining provincial policies. Provinces are not constrained by constitutional or federal requirements to balance their budgets, and the ability to generate deficits and finance them through borrowing is consistent with the provinces’ fiscal powers.

Like many provinces, British Columbia operates under its own budget balance rules, the Balanced Budget and Ministerial Accountability Act of 2002 (BBMAA), which prohibits forecasting a deficit. Although the BBMAA prohibition was temporarily suspended through fiscal 2025 in light of the pandemic, Fitch views British Columbia as having a track record of quickly returning to balance when faced with a fiscal shock.

The lever most commonly exercised for adjusting operating expenditures in British Columbia has been through labor agreements. Between the global financial crisis (GFC) and the pandemic, British Columbia was able to maintain wage growth at levels approximating inflation through successive multiyear labor agreements. Spending contingencies have routinely provided flexibility to absorb uncertain negotiating outcomes.

Capex for public needs is concentrated at the provincial level, with the province carefully distinguishing between taxpayer-supported and self-supported capital; most taxpayer-supported capital is intended to be funded via borrowing. Fitch views taxpayer-supported capex as an inherent source of flexibility; outlays vary over time as the province addresses growth demands and infrastructure renewal. However, projects may be delayed and actual capex typically falls below initial budget targets. Key needs, including recovery from the pandemic and severe floods in 2021, are driving near-term capex higher but the province expects it to level out over its forecast period.

Liabilities and Liquidity Robustness: Stronger

The 'stronger' assessment for liability and liquidity robustness is based on the provinces' comprehensive approach to debt and liabilities, with most borrowing concentrated at the provincial level, the tier of government with the broadest fiscal powers. Provinces manage their liquidity and debt separate from the federal government. The provincial treasury maintains close oversight of liquidity and borrowing, with risks stemming from variable rates, foreign currency and bullet maturities carefully managed.

British Columbia's debt burden is manageable, supported by low borrowing costs and long maturities. The province borrows within Canada's large and well-regulated financial market but also maintains a sizable market presence in the U.S., Europe and Asia. Although not subject to federal prudential borrowing limits, consistent with Canadian federalism, debt management and reporting is transparent and comprehensive, market access is solid and the province's debt actively trades in benchmark issuance at a reasonable spread to Canada's own debt, implying a solid degree of financial market discipline.

British Columbia has historically been more averse to carrying a high debt burden than many of its provincial peers. In fiscal 2013–2014, when returning to budget balance after the GFC, the province worked quickly to repay borrowing associated with past deficits, leaving only debt issued for capital investment. Under the Budget Transparency and Accountability Act of 2000, a reported deficit triggers a requirement to direct increases in cash to debt reduction.

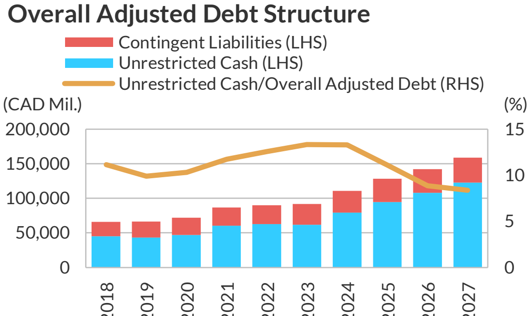
Debt issuance is senior and unsecured, and stood at CAD62.6 billion in fiscal 2022 on a reported basis, excluding the self-supporting debt of Crown corporations. Under Canadian accounting rules liability reporting is comprehensive and includes direct borrowing, public-private partnerships, Crown corporations, guarantees and employee pensions. Self-supported debt consists largely of borrowing by BC Hydro and smaller Crown corporations. As fiscal agent for Crown corporations, the Ministry of Finance oversees their borrowing. Pension liabilities are well funded at reasonable discount rates, and risk sharing is common.

Interest on debt is manageable, supported by low borrowing costs and long maturities; Fitch calculates the weighted average debt maturity at approximately 14 years. While debt matures as bullet maturities, rather than amortizing over time, the presence of sinking funds, solid liquidity and active management of future maturities help to mitigate refinance risk.

Borrowing needs are limited outside of the province and BC Hydro. Municipalities may not run deficits, and provincial law requires nearly all to borrow through the Municipal Finance Authority of British Columbia (MFABC, rated 'AAA'/Stable) for general municipal projects, including water and sewer infrastructure, communications technology and transportation. The province does not oversee MFABC and its debt does not carry a provincial guarantee. Outside of MFABC, only the City of Vancouver and the regional transit system, the South Coast British Columbia Transportation Authority (TransLink), issue their own debt without direct provincial guarantees. TransLink also receives provincial capital grants.

The province maintains longstanding policies limiting the risk of unhedged debt issued in foreign currencies or at variable interest rates, with levels capped at 10% and 45%, respectively. In recent years foreign currency risk has been fully hedged, while unhedged variable-rate debt has remained near or below 20% of provincial direct debt.

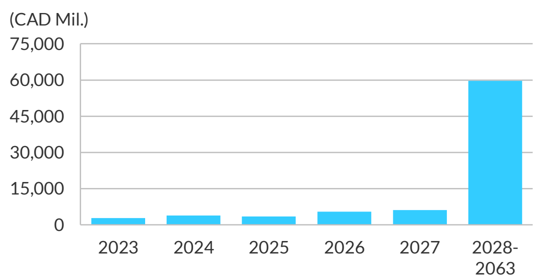
Overall Adjusted Debt Structure



Source: Fitch Ratings, Province of British Columbia

Direct Debt Maturity Profile

Fiscal 2022



Source: Fitch Ratings, Province of British Columbia

Liabilities and Liquidity Flexibility: Stronger

As with all provinces, British Columbia has extensive power under Canada's federal framework to manage its own internal liquid resources or mobilize external resources as needed, supporting the 'stronger' assessment. Internal liquid resources have risen in recent years and are ample, including cash and investments calculated by Fitch at CAD11.1 billion as of fiscal 2022. Its borrowing profile is diversified across markets, and it maintains active CAD and USD CP note programs and a CAD376 million line of credit.

The provinces manage their operating, capital and investing cash flows comprehensively, with internal liquidity, debt issuance or other external liquidity bridging cash flow timing needs, including for refunding maturing debt. Unrestricted pools of liquidity are present in all provinces, although the size of available liquidity differs. British Columbia manages its debt conservatively, mostly issuing to 10-year–30-year maturity benchmarks to support liquidity and lower borrowing costs.

Debt Analysis

	2022
Fixed Rate (% of Direct Debt)	62
Issued Debt (% of Direct Debt)	100
Apparent Cost of Debt (%)	3.28
Weighted Average Life of Debt (Years)	14.6

Source: Fitch Ratings, Province of British Columbia

Liquidity

(CAD Mil.)	2022
Total Cash, Liquid Deposits and Sinking Funds	11,316
Restricted Cash	0
Cash Available for Debt Service	11,316
Undrawn Committed Credit Lines	0

Source: Fitch Ratings, Province of British Columbia

Debt Sustainability Assessment

Debt Sustainability: 'a' Category

Debt Sustainability Metrics Summary

	Primary Metric	Secondary Metrics		
	Economic Liability Burden (%)	Payback Ratio (x)	Coverage (x)	Fiscal Debt Burden (%)
aaa	X ≤ 40	X ≤ 5	X ≥ 4	X ≤ 50
aa	40 < X ≤ 70	5 < X ≤ 9	2 ≤ X < 4	50 < X ≤ 100
a	**70 < X ≤ 100**	9 < X ≤ 13	1.5 ≤ X < 2	**100 < X ≤ 150**
bbb	100 < X ≤ 140	13 < X ≤ 18	1.2 ≤ X < 1.5	150 < X ≤ 200
bb	140 < X ≤ 180	18 < X ≤ 25	1 ≤ X < 1.2	200 < X ≤ 250
b	X >180	**X > 25**	**X < 1**	X >250

Note: Yellow highlights show metric ranges applicable to the issuer.
Source: Fitch Ratings

Fitch assesses British Columbia's debt sustainability in the 'a' category based on a rating case scenario for economic, fiscal and debt projections through fiscal 2027. Under the scenario, British Columbia's ELB metric (net adjusted debt plus a proportion of central government debt/GDP) rises to 72% in fiscal 2027, at the stronger end of the 'a' category and above the 67% level in the base case. Use of the ELB as primary metric reflects designation of British Columbia under Fitch's LRG criteria as a 'Type A' subnational government, with sovereign-like features including the ability to incur structural deficits.

Three secondary debt sustainability metrics fall into 'bbb' or lower categories. These include the payback ratio (net adjusted debt/operating balance) at 39.2x, synthetic debt service coverage (operating balance/15-year mortgage-style debt payoff) at 0.3x and the fiscal debt burden (net adjusted debt/operating revenue) at 130%. Debt service coverage for Canadian provinces has historically been less relevant in assessing sustainability given their sizable liquid resources.

The debt sustainability assessment at 'a' considers the strength of the ELB metric balanced against secondary metrics in lower categories. Given its 'Type A' designation, the projected level of central government debt is also key to assessing debt sustainability. Federal debt outstanding as calculated by Fitch rose from CAD776.0 billion in fiscal 2019 to more than CAD1.28 billion in fiscal 2021, due to federal pandemic response spending. Over the past year, Canada's economic rebound blunted the upward rise in federal debt, although Fitch's Sovereigns Group projects it to rise to nearly CAD1.5 trillion by fiscal 2027; this forecast excludes the effects of the modestly higher deficit forecast in the March 2023 federal budget.

Scenario Summaries

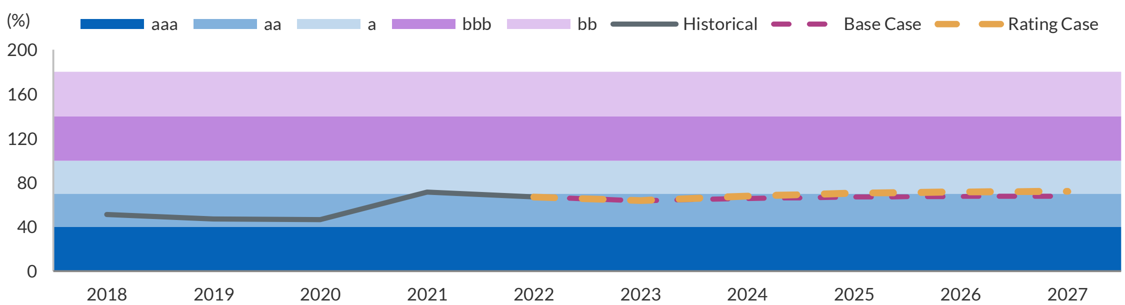
For the base case scenario, Fitch relies on British Columbia's Budget 2023, data from Fitch's Sovereigns Group and the federal budget. Fitch views Budget 2023 as already incorporating a highly cautious outlook and substantial cushion, both in the form of the CAD700 million forecast allowance and CAD5.5 billion in spending contingencies. Although Fitch adjusts Budget 2023 figures for certain noncash items and extends assumptions to fiscal 2027 (Fitch's scenario horizon), the only material change is that capex remains somewhat below the provincial forecast (based on historical experience, noted earlier) that actual capex falls below budget targets.

For fiscal 2024, the budget estimates a CAD4.2 billion deficit, including the forecast allowance and contingencies. Revenues drop 6.1%, driven by personal and corporate income taxes, reflecting weaker economic conditions. Growth resumes in fiscal years 2025 and 2026, but at a pace below forecast nominal GDP. Total spending rises 2.7% in fiscal 2024, and more slowly thereafter, approximating the CPI. Taxpayer-supported capex is forecast to be sharply higher through the medium-term outlook. Debt servicing costs also rise, reflecting higher forecast debt and interest rates.

For the rating case scenario, Fitch begins with base case assumptions but assumes a stronger outcome in fiscal 2023 and somewhat weaker economic and fiscal performance in fiscal 2024 and beyond. For fiscal 2023, Fitch believes actual performance will be materially stronger than Budget 2023 estimates, consistent with recent provincial experience; as such, the rating case initially assumes lower operating and capital spending, leaving a higher surplus.

Between fiscal 2024 and fiscal 2027, Fitch lowers nominal GDP relative to British Columbia's forecast by 60 basis points (bps) in 2023 (fiscal 2024), with the difference diminishing to 20 bps in 2026 (fiscal 2027); tax and nontax own source revenue is modified to a similar degree. For federal transfers, Fitch assumes somewhat lower receipts in fiscal 2024 but higher receipts beyond the budget year. Operating expenditure is modified after the budget year to reflect somewhat faster growth, and capex is assumed at a level close to the province's budget. The cumulative impact of rating case modifications, rising from CAD3.2 billion in fiscal 2024 to CAD10.6 billion in fiscal 2027, is added to forecast borrowing over the rating case period.

Economic Liability Burden — Fitch's Base and Rating Case Scenarios



Source: Fitch Ratings, Province of British Columbia

Scenario Assumptions Summary

Assumptions	Five-Year Historical Average	Fiscal 2023–2027 Average Base Case	Rating Case
Operating Revenue Growth (%)	6.1	4.1	3.9
Tax Revenue Growth (%)	8.5	5.2	4.8
Current Transfers Received Growth (%)	8.0	3.8	4.6
Operating Expenditure Growth (%)	8.2	3.7	4.1
Net Capex (Average Per Year; Mil.)	–4,593	–9,745	–10,579
Apparent Cost of Debt (%)	4.0	3.4	3.6

Outcomes	Fiscal 2022	Fiscal 2027 Base Case	Rating Case
Economic Liability Burden (%)	67.1	67.7	72.1
Payback Ratio (x)	17.2	19.3	39.2
Overall Payback Ratio (x)	26.4	26.4	52.1
Synthetic Coverage Ratio (x)	0.7	0.6	0.3
Fiscal Debt Burden (%)	73.7	114.8	130.1

Source: Fitch Ratings, Province of British Columbia

Debt calculated under Fitch's LRG criteria differs from the comprehensive "net debt" calculation used under Canadian accounting. British Columbia's net adjusted debt in fiscal 2022 totals just over CAD51 billion. This total relies on taxpayer-supported debt figures and includes direct debt of almost CAD60.0 billion plus CAD3.7 billion in public-private partnership debt and capital leases, offset by CAD11.3 billion in liquid resources, including cash, temporary investments and debt-related sinking funds.

Employee pensions in British Columbia are effectively fully funded. Fitch considers reported self-supporting debt of government-related entities of CAD27.5 billion as contingent obligations, largely debt of the British Columbia Hydro and Power Authority (BC Hydro). While British Columbia has suspended its restriction on deficits through fiscal 2025, as detailed earlier, it has historically been able to maintain taxpayer-supported debt at manageable levels over time well below provincial peers, aided by its growing economy and responsive fiscal management that quickly addresses structural imbalance.

SCP Positioning and Peer Comparison

SCP Positioning Table

Risk Profile	Debt Sustainability					
Stronger	aaa or aa	a	bbb	bb	b	
High Midrange	aaa	aa	a	bbb	bb	b
Midrange		aaa	aa	a	bbb	bb or below
Low Midrange			aaa	aa	a	bbb or below
Weaker				aaa	aa	a or below
Vulnerable					aaa	aa or below
Suggested Analytical Outcome (SCP)	**aaa**	**aa**	**a**	**bbb**	**bb**	**b**

Source: Fitch Ratings

Peer Analysis

British Columbia's peers include other Canadian provinces and other Type A LRGs in decentralized federal structures globally, including in Australia and Switzerland. Among Canadian peers, the most directly comparable provinces are Ontario ('AA–'/Stable) and Quebec ('AA–'/Stable). These three provinces share comparatively diverse, large economies, although British Columbia's historical experience of maintaining comparatively lower debt distinguishes it from its closest peers. Alberta ('AA–'/Stable) shares with British Columbia higher growth attributes that are common among western Canadian provinces, but its prominent and cyclical energy-based economy and the resulting cyclicality of revenues result in a 'high midrange' risk profile.

Australian states are notable for operating within a similar institutional framework. IDRs for New South Wales ('AAA'/Stable) and Queensland ('AA+'/Stable) both reflect similarly 'stronger' risk profiles due to similar fiscal attributes, with only one risk factor subassessment, for expenditure adjustability, at 'midrange' based on a higher share of inflexible costs. Debt sustainability assessments, at 'aa' for New South Wales and 'a' for Queensland, are based on lower economic liability burden metrics in the rating case scenario compared to British Columbia; the resulting SCPs are higher for New South Wales and identical for Queensland. Swiss cantons also operate in a highly decentralized framework. The IDR for Zurich ('AAA'/Stable) reflects a 'stronger' risk profile and a debt sustainability metric at 'aaa', reflecting materially lower borrowing.

Peer Comparison

	Risk Profile	Primary Metric (x)	SCP	IDR	Rating Outlook/Watch
Province of British Columbia	Stronger	72.1	aa+	AA+	Stable
Province of Ontario	Stronger	72.1	a+	AA–	Stable
Province of Quebec	Stronger	101.7	a+	AA–	Stable
Province of Alberta	High Midrange	66.3	a+	AA–	Stable
State of New South Wales	Stronger	65.0	aaa	AAA	Stable
State of Queensland	Stronger	60.5	aa+	AA+	Stable
Canton of Zurich	Stronger	17.5	aaa	AAA	Stable

Source: Fitch Ratings

Long Term Rating Derivation

From SCP to IDR: Factors Beyond the SCP

		Support						
SCP	Sovereign Rating	Intergovern. Financing	Ad Hoc Support	Floor	Asymmetric Risks	Cap	Notches Above the Sovereign	IDR
aa+	AA+	—	—	—	—	—	—	AA+

Source: Fitch Ratings

British Columbia's IDR, at 'AA+', is driven by its SCP, at 'aa+'; no other factors affect the rating at the current level. Fitch does not provide an additional notch upward from British Columbia's SCP to the IDR given that the SCP is on par with the sovereign rating. For provinces with a lower SCP, Fitch provides a one-notch uplift for ad hoc support, reflecting the likelihood that the federal government will temporarily support market access for provincial borrowers during periods of market turbulence, most recently demonstrated in the early stages of the pandemic.

Under Fitch's criteria, the ratings of Canadian provinces are not necessarily limited by the sovereign 'AA+' IDR given Canada's institutional framework and the resulting fiscal autonomy within which they operate. However, the close economic and fiscal integration of Canada and its provinces is likely to mean that the factors affecting Canadian sovereign credit quality would also affect provincial credit quality.

Short Term Rating Derivation

British Columbia's Short-Term IDR, at 'F1+', reflects its 'AA+' Long-Term IDR, based on the correspondence of short-term ratings to Long-Term IDRs as provided in the LRG criteria.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal impact on the entity, due to either their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Appendix A: Financial Data

(CAD Mil.)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Fiscal Performance										
Taxes	28,321	32,714	33,266	34,166	40,717	50,714	45,020	47,275	49,145	51,406
Transfers Received	9,055	9,052	9,535	12,894	11,980	12,485	13,340	13,740	14,400	15,019
Fees, Fines and Other Operating Revenues	16,418	16,038	15,566	12,895	16,817	18,711	17,569	16,971	16,964	17,745
Operating Revenue	53,794	57,804	58,367	59,955	69,514	81,910	75,929	77,986	80,509	84,170
Operating Expenditure	−47,731	−51,437	−54,706	−63,245	−66,532	−72,734	−77,286	−78,754	−80,093	−81,375
Operating Balance	6,063	6,367	3,661	−3,290	2,982	9,176	−1,357	−768	416	2,795
Interest Revenue	0	0	0	0	0	0	0	0	0	0
Interest Expenditure	−1,725	−1,793	−1,807	−1,832	−1,896	−1,929	−2,558	−3,235	−3,378	−4,005
Current Balance	4,338	4,574	1,854	−5,122	1,086	7,247	−3,915	−4,003	−2,962	−1,210
Capital Revenue	377	73	319	413	414	493	787	862	831	863
Capex	−3,908	−4,452	−4,772	−5,428	−6,002	−6,088	−11,340	−12,508	−12,967	−13,827
Capital Balance	−3,531	−4,379	−4,453	−5,015	−5,588	−5,595	−10,553	−11,646	−12,136	−12,964
Total Revenue	**54,171**	**57,877**	**58,686**	**60,368**	**69,928**	**82,403**	**76,716**	**78,848**	**81,340**	**85,033**
Total Expenditure	**−53,364**	**−57,682**	**−61,285**	**−70,505**	**−74,430**	**−80,751**	**−91,184**	**−94,497**	**−96,438**	**−99,207**
Surplus (Deficit) Before Net Financing	807	195	−2,599	−10,137	−4,502	1,652	−14,468	−15,649	−15,098	−14,174
New Direct Debt Borrowing	16,322	22,345	36,459	42,217	33,546	0	0	0	0	0
Direct Debt Repayment	−4,827	−5,184	−5,747	−6,647	−10,990	0	0	0	0	0
Net Direct Debt Movement	11,495	17,161	30,712	35,570	22,556	−754	16,938	15,202	13,499	14,816
Overall Results	12,302	17,356	28,113	25,433	18,054	898	2,470	−447	−1,599	642
Debt and Liquidity										
Short-Term Debt	0	0	0	0	0	0	0	0	0	0
Long-Term Debt	41,770	40,207	43,565	56,606	58,901	58,147	75,085	90,287	103,786	118,602
Intergovernmental Debt	0	0	0	0	0	0	0	0	0	0
Direct Debt	41,770	40,207	43,565	56,606	58,901	58,147	75,085	90,287	103,786	118,602
Other Fitch-Classified Debt	3,101	3,067	3,105	3,377	3,664	3,796	3,932	4,037	4,103	4,157
Adjusted Debt	44,871	43,274	46,670	59,983	62,565	61,943	79,017	94,324	107,889	122,759
Guarantees Issued (Excluding Adjusted Debt Portion)	15	14	14	14	16	16	16	16	16	16
Majority-Owned GRE Debt, Other Contingent Liabilities	20,816	22,874	25,094	26,531	27,489	29,788	31,607	33,671	34,405	36,098
Overall Adjusted Debt	65,702	66,162	71,778	86,528	90,070	91,747	110,640	128,011	142,310	158,873
Total Cash, Liquid Deposits and Sinking Funds	7,321	6,565	7,403	10,139	11,316	12,214	14,682	14,235	12,636	13,278
Restricted Cash	0	0	0	0	0	0	0	0	0	0
Unrestricted Cash	7,321	6,565	7,403	10,139	11,316	12,214	14,682	14,235	12,636	13,278
Net Adjusted Debt	37,550	36,709	39,267	49,844	51,249	49,729	64,335	80,089	95,253	109,481
Net Overall Debt	58,381	59,597	64,375	76,389	78,754	79,533	95,958	113,776	129,674	145,595
Enhanced Net Adjusted Debt	**37,550**	**36,709**	**39,267**	**49,844**	**51,249**	**49,729**	**64,335**	**80,089**	**95,253**	**109,481**
Enhanced Net Overall Debt	**58,381**	**59,597**	**64,375**	**76,389**	**78,754**	**79,533**	**95,958**	**113,776**	**129,674**	**145,595**

FY – Fiscal year. GRE – Government-related entities.
Source: Fitch Ratings, Fitch Solutions, Province of British Columbia

Appendix B: Financial Ratios

(%)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Fiscal Performance Ratios										
Operating Balance/Operating Revenue	11.3	11.0	6.3	−5.5	4.3	11.2	−1.8	−1.0	0.5	3.3
Current Balance/Current Revenue	8.1	7.9	3.2	−8.5	1.6	8.9	−5.2	−5.1	−3.7	−1.4
Operating Revenue Growth (Annual % Change)	4.0	7.5	1.0	2.7	15.9	17.8	−7.3	2.7	3.2	4.6
Operating Expenditure Growth (Annual % Change)	6.2	7.8	6.4	15.6	5.2	9.3	6.3	1.9	1.7	1.6
Surplus (Deficit) Before Net Financing/ Total Revenue	1.5	0.3	−4.4	−16.8	−6.4	2.0	−18.9	−19.9	−18.6	−16.7
Surplus (Deficit) Before Net Financing/GDP	0.3	0.1	−0.8	−3.3	−1.3	0.4	−3.6	−3.8	−3.6	−3.2
Total Revenue Growth (Annual % Change)	2.6	6.8	1.4	2.9	15.8	17.8	−6.9	2.8	3.2	4.5
Total Expenditure Growth (Annual % Change)	8.5	8.1	6.3	15.0	5.6	8.5	10.2	3.6	2.1	2.9
Debt Ratios										
Primary Metrics										
Economic Liability Burden	51.3	47.3	46.8	71.6	67.1	63.7	67.9	70.4	71.5	72.1
Enhanced Economic Liability Burden	51.3	47.3	46.8	71.6	67.1	63.7	67.9	70.4	71.5	72.1
Secondary Metrics										
Payback Ratio (Net Adjusted Debt to Operating Balance) (x)	6.2	5.8	10.7	−15.2	17.2	5.4	−47.4	−104.3	229.0	39.2
Overall Payback Ratio (x)	9.6	9.4	17.6	−23.2	26.4	8.7	−70.7	−148.1	311.7	52.1
Fiscal Debt Burden (Net Debt to Operating Revenue) (%)	69.8	63.5	67.3	83.1	73.7	60.7	84.7	102.7	118.3	130.1
Synthetic Debt Service Coverage Ratio (x)	1.8	1.9	1.0	−0.8	0.7	2.2	−0.2	−0.1	0.1	0.3
Actual Debt Service Coverage Ratio (x)	0.9	0.9	0.5	−0.4	0.2	1.6	−0.2	−0.1	0.1	0.3
Other Debt Ratios										
Liquidity Coverage Ratio (x)	1.7	2.0	1.4	0.5	1.0	3.6	1.9	2.0	2.0	1.7
Direct Debt Maturing in One Year/ Total Direct Debt	7.6	14.3	15.3	12.7	13.3	0.0	0.0	0.0	0.0	0.0
Direct Debt (Annual % Change)	3.5	−3.7	8.4	29.9	4.1	−1.3	29.1	20.3	15.0	14.3
Apparent Cost of Direct Debt (Interest Paid/Direct Debt)	4.2	4.4	4.3	3.7	3.3	3.3	3.8	3.9	3.5	3.6
Revenue Ratios										
Tax Revenue/Total Revenue	52.3	56.5	56.7	56.6	58.2	61.5	58.7	60.0	60.4	60.5
Current Transfers Received/Total Revenue	16.7	15.6	16.3	21.4	17.1	15.2	17.4	17.4	17.7	17.7
Interest Revenue/Total Revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital Revenue/Total Revenue	0.7	0.1	0.5	0.7	0.6	0.6	1.0	1.1	1.0	1.0
Expenditure Ratios										
Staff Expenditure/Total Expenditure	37.2	36.7	37.3	34.8	35.1	—	—	—	—	—
Current Transfers Made/Total Expenditure	25.1	26.4	26.9	31.9	30.1	—	—	—	—	—
Interest Expenditure/Total Expenditure	3.2	3.1	3.0	2.6	2.6	2.4	2.8	3.4	3.5	4.0
Capex/Total Expenditure	7.3	7.7	7.8	7.7	8.1	7.5	12.4	13.2	13.5	13.9

FY – Fiscal year
Source: Fitch Ratings, Fitch Solutions, Province of British Columbia

Appendix C: Data Adjustments

Specific Adjustments

Fitch adjusts British Columbia's accrual-based financial statement and budgetary data, netting certain noncash items and separating operating, interest and capital revenue and expenditure to calculate cash-based metrics under Fitch's criteria and to facilitate comparisons across LRGs.

The ratings above were unsolicited and have been provided by Fitch as a service to investors.