FitchRatings

Public Finance
Local and Regional Governments
Canada

Province of British Columbia

Rating Derivation Summary: British Columbia's 'AA+' Issuer Default Rating (IDR) reflects a standalone credit profile (SCP) assessed at 'aa+', which is based on a combination of a 'Stronger' risk profile and debt sustainability metrics in the 'a' category under Fitch's rating case scenario through fiscal 2028. No other factors affect the rating.

The rating affirmation under Fitch's "International Local and Regional Governments Rating Criteria" (the LRG criteria) reflects our expectation that, following near-term economic weakness, economic and revenue performance will strengthen over the medium term, with fiscal performance modestly exceeding projections assumed in Budget 2024, despite notable erosion of debt metrics from fiscal 2023 actual levels. British Columbia remains solidly positioned for long-term growth, despite challenges from service demands, infrastructure needs and the housing market reset.

Key Rating Drivers

'Stronger' Risk Profile: The 'Stronger' risk profile reflects a negligible risk relative to international peers that the issuer's ability to cover debt service from operating balances may weaken unexpectedly over the forecast horizon (through fiscal 2028, ending March 31) because of lower-than-expected revenues, higher-than-expected expenditures, or an unanticipated rise in liabilities or debt-service requirements.

'a' Category Debt Sustainability: Fitch assesses British Columbia's debt sustainability at 'a'. The assessment relies on a rating case scenario through fiscal 2028 to evaluate the possible trajectory of fiscal and debt performance, as well as a comparison with Canadian and international peers. Fitch's scenario for British Columbia is informed by Budget 2024 economic and fiscal assumptions, including planned revenue and program service changes. Fitch typically stresses the projections provided by provinces in their tabled budget forecasts.

Consistent with global peers that share broad, sovereign-like powers, including the ability to run deficits (Type A governments under the LRG criteria), the assessment relies primarily on the economic liability burden (ELB) metric (net adjusted debt plus a proportion of central government debt, measured relative to GDP). Secondary metrics including payback ratio (net adjusted debt/operating balance), fiscal debt burden (net adjusted debt/operating revenue) and synthetic debt service coverage (operating balance/debt service, assuming a 15-year mortgage-like amortization) also inform the final assessment.

Under the rating case, British Columbia's ELB metric rises to 72.8% in fiscal 2028, in the 'a' category and well above the 62% level based on fiscal 2023 public accounts. Fitch anticipates federal debt slowly rising from the current level, adding to projected borrowing by British Columbia (excluding self-supported borrowing by government-related entities) as it addresses growth-related capital needs. The payback ratio stands at a weaker 21.3x in fiscal 2028, in the 'bb' category, although the fiscal debt burden stands at 103.4%, consistent with a 'a' assessment.

ESG Considerations: British Columbia's 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.

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 IDR	AA+
Short-Term IDR	F1+
Local Currency	
Long-Term IDR	AA+
Outlooks	
Long-Term Foreign Currency IDR	Stable
Long-Term Local Currency IDR	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 western-most province and home to 5.5 million Canadians, about 14% of the population.

Financial Data Summary

(CAD mil.)	2023	2028rc
Economic liability burden (%)	62.0	72.8
Payback ratio (x)	9.3	21.3
Synthetic coverage (x)	1.2	0.5
Fiscal debt burden (%)	62.4	103.4
Net adjusted debt	50,757	96,534
Operating balance	5,481	4,522
Operating revenue	81,357	93,349
Debt service	10,647	17,542
Mortgage-style debt annuity	4,410	8,561

Rc - Fitch's rating case scenario
Source: Fitch Ratings, Fitch Solutions, British Columbia

Applicable Criteria

International Local and Regional Governments Rating Criteria (September 2021)

Related Research

Global Economic Outlook (March 2024)

Canada (December 2023)

Supranationals, Subnationals and Agencies Handbook (September (2023)

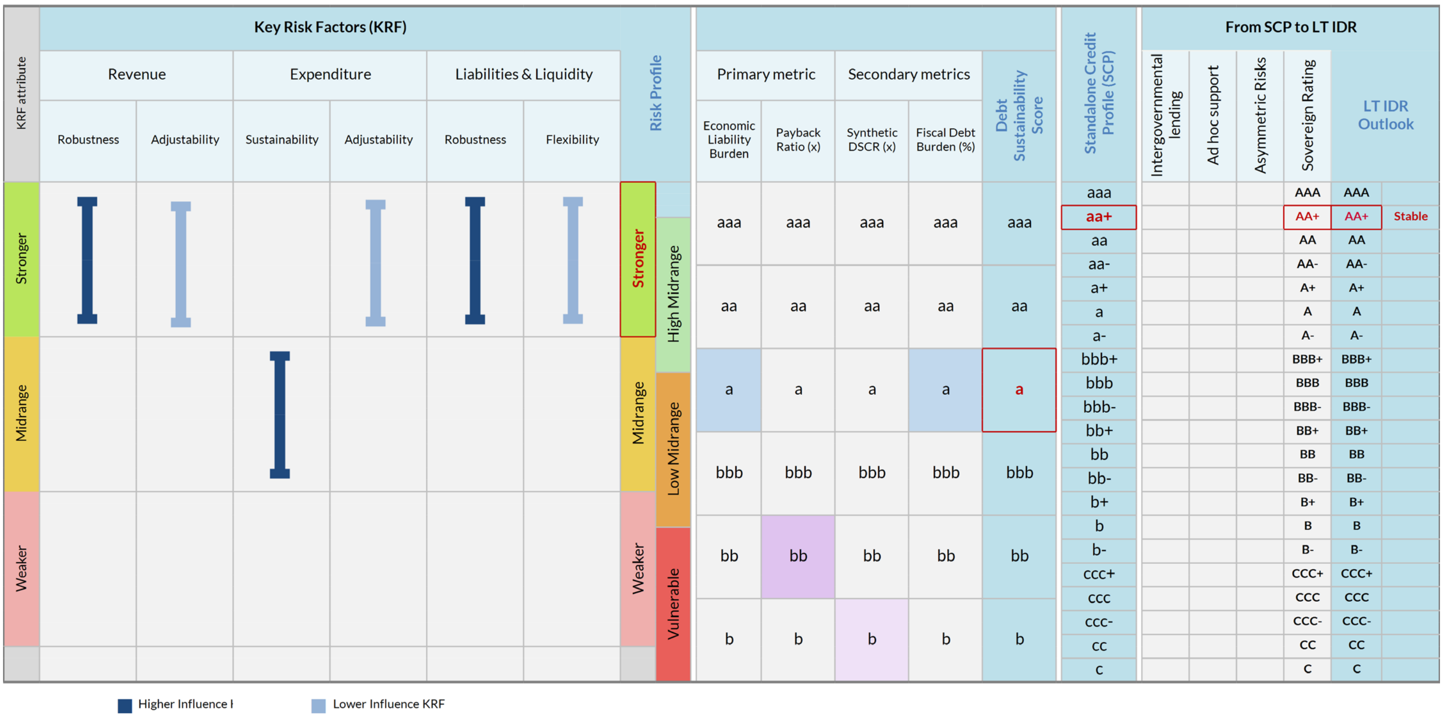
Fitch Affirms British Columbia's (Canada) Rating at 'AA+'; Outlook Stable (March 2024)

Analysts

Douglas Offerman
+1 212 908-0889
douglas.offerman@fitchratings.com
Eric Kim
+1 212 908-0241
eric.kim@fitchratings.com

Rating Synopsis

British Columbia LT IDR Derivation Summary



Source: Fitch Ratings

The six key risk factors, combined according to their relative importance, collectively represent the risk profile of the LRG. The risk profile and debt sustainability assessments, metrics that measure the LRG's debt burden and debt service requirements amid a reasonable economic or financial downturn over the rating horizon, are combined in the SCP. The SCP, together with additional factors not captured in the SCP, such as extraordinary support or rating cap, produces the IDR.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- An ELB metric that consistently falls below 70% of GDP, driven at the provincial level by stronger economic and fiscal performance that supports lower deficits and less reliance on borrowing. Additionally, a lower ELB driven by a materially lower federal debt burden that reduces the pro-rata share of federal debt attributed to the province.
- An upgrade in Canada's IDR to 'AAA', making a one-notch uplift for ad-hoc liquidity support effective for British Columbia's 'aa+' SCP, with all other credit characteristics remaining the same.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- An ELB metric that approaches 100% of GDP over the rating case scenario, driven by weaker provincial economic and fiscal performance, and considerably higher reliance on borrowing to address fiscal and capital demands.
- Federal fiscal performance that leads to higher sovereign borrowing, adding materially to the pro-rata share of debt attributable to British Columbia and raising the ELB metric.

Issuer Profile

Decentralized Institutional 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 to provinces the responsibility for most public services and provides them with virtually unlimited revenue and borrowing powers to support their service 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, and 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 fiscal profiles.

British Columbia's Socioeconomic Profile: British Columbia is one of Canada's four largest provinces by population and GDP, with 14% of Canada's population in 2023 and 14% of GDP in 2022. Most of the population and economic base is concentrated in the wealthy Lower Mainland region, including the city of Vancouver, and the province's capital Victoria, located on Vancouver Island. Trade, finance, insurance and real estate activities, construction 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 and northern regions.

Fitch calculates real GDP per capita at 101% of the Canadian average as of 2022. 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 the recurring softwood lumber trade dispute, have quick and significant economic implications.

Fitch anticipates that British Columbia, consistent with Canada and the U.S., will continue to experience a period of very slow real GDP growth through much of 2024 as Bank of Canada rate increases and global macroeconomic uncertainties weigh on activity. Real GDP growth slowed to 3.8% in 2022, from 7.1% in 2021 during the pandemic recovery, and the province forecasts very slow growth at 1% in 2023 and 0.8% in 2024. The labor market has slowed but remains resilient, with February 2024 unemployment at 5.2% in British Columbia, comparing favorably to Canada's 5.8% rate for that period.

British Columbia's population stands at 5.5 million as of 2023. Greater Vancouver has been a magnet over time for domestic migrants and immigrants from the Pacific Rim. As of the 2021 census data, 29% of British Columbians were immigrants, compared with 23% for Canada overall. Population growth historically has exceeded Canada's; it was the second fastest growing province over the past decade and fastest among Canada's large provinces, averaging 1.8% per year versus 1.3% for Canada as a whole. British Columbia has recently seen a sharp uptick in population, with 2023 growth of 3%, roughly in line with that of Canada and Ontario, and only exceeded among large provinces by Alberta's 4.1% growth, pressuring provincial service demands and the housing market but likely spurring faster future economic growth.

British Columbia's housing market, particularly in metro Vancouver, has been a source of uncertainty. In response to interest rate tightening by the Bank of Canada, housing starts and unit sales declined in 2022, even as prices rose, while, in 2023, starts sharply rebounded as unit sales and prices fell. The province is forecasting a notable rebound for most housing metrics going forward. At least in the near term, high demand appears likely to sustain prices and drive higher starts. Fitch's 2024 "Canada Residential Mortgage Rating Criteria" assumes long-term sustainable home values to be 20% lower than current prices in British Columbia, and 19% lower in metro Vancouver.

Socioeconomic Indicators

	British Columbia	Canada
Population, 2023 (mil.)	5.5	40.1
GDP per capita, 2022 (CAD)	60,277	59,748
GRP growth, 2022 (%)	3.8	3.8
Inflation, 2023 (%)	3.9	3.9
Unemployment rate, 2023 (%)	5.2	5.4

Source: Fitch Ratings, Statistics Canada, British Columbia

Risk Profile Assessment

Risk Profile: Stronger

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

Risk Profile Assessment

Risk profile	Revenue robustness	Revenue adjustability	Expenditure sustainability	Expenditure adjustability	Liabilities & liquidity robustness	Liabilities & liquidity flexibility
Stronger	Stronger	Stronger	Midrange	Stronger	Stronger	Stronger

Source: Fitch Ratings

The 'Stronger' risk profile reflects a negligible risk relative to international peers that the issuer's ability to cover debt service from operating balances may weaken unexpectedly over the forecast horizon (through fiscal 2028, ending March 31) because of lower-than-expected revenues, higher-than-expected expenditures, 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 and wealthy socioeconomic profile, broad revenue base and solid growth prospects over time. Provincially levied taxes are expected to grow robustly, despite their moderate exposure to economic cyclicality. Revenues are diversified by a range of non-tax levies and receipts from Crown corporations, provincially owned government-related entities (GREs), including utilities, insurance, lottery and liquor enterprises. Federal transfers are stable and provide further support.

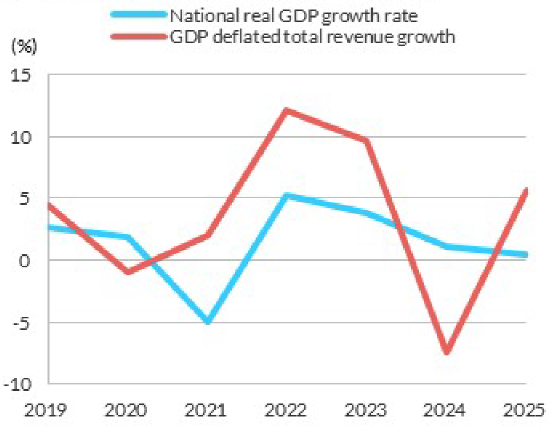
Total revenues are diverse, with own-source revenues representing about 86% of total revenues as of fiscal 2023 with the remainder from federal transfers. Major taxes include moderately cyclical personal and corporate income and provincial sales taxes. Direct exposure to real estate is present, but limited. Property taxes are stable and taxes on transfers are prone to more significant shifts due to housing cycles, but the two sources represent 6.8% of revenues. Levies on forestry, natural gas and other natural resources are volatile and totaled 7.6% of revenue in fiscal 2023.

Crown corporations provide about 3% of total revenues in fiscal 2023, primarily dividends from lottery and liquor enterprises. Net revenues reported by the province include additional amounts from British Columbia Hydro and Power Authority (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 suffered setbacks, reporting losses that are consolidated on the province's income statement. Before the pandemic, ICBC reported sizable deficits, driven by high insured losses that were addressed by various reforms, including shifting to a no-fault model. Reforms appear to be stabilizing ICBC, with a small loss in fiscal 2023 and a small gain estimated for fiscal 2024.

As with all provinces, British Columbia benefits from a stable system of federal transfers, primarily the major per-capita transfers for healthcare (Canada Health Transfer [CHT]) and social services (Canada Social Transfer) provided to all provinces. British Columbia is ineligible for equalization transfers provided to five provinces with lower fiscal capacity. Federal transfers rose an average of 5.9% over the decade ended in fiscal 2023, a period that included significant time-limited transfers to help combat the pandemic. Nominal GDP and population growth are likely to drive solid future growth of transfers, even before the February 2023 federal-provincial agreement on health transfers that included a minimum 5% annual CHT increase for five years. It also included CAD3.3 billion in additional funding for family health, workforce support, mental health and electronic health information.

Operating revenue grew an average of 8.7% annually in the five-year period through fiscal 2023, unadjusted for the impact of rate and fee changes, faster than the 7.1% annual growth in nominal GDP. Slower economic growth late in calendar-year 2023 and projected early in calendar-year 2024 is expected to contribute to lower fiscal 2024 revenues, which are estimated to fall 5.2% as of the Budget 2024 updated forecast, before rising 5.4% in fiscal 2025. Federal transfers remain steady, rising 3.4% in both years, including last year's CHT increase. In the medium-term outlook, revenue growth slows to 1.6% and 4.3% in fiscal years 2026 and 2027, respectively.

Real Total Revenue and GDP Growth



Source: Fitch Ratings, British Columbia

Revenue Breakdown - 2023

	Operating revenue (%)	Total revenue (%)
Personal income	21.2	21.2
Provincial sales	12.1	12.0
Other taxes	27.0	26.9
Transfers	13.9	13.9
Other operating revenue	25.8	25.7
Operating revenue	**100.0**	**99.8**
Interest revenue	-	0.0
Capital revenue	-	0.2
Total revenue	**-**	**100.0**

Source: Fitch Ratings, Fitch Solutions, British Columbia

Revenue Adjustability: Stronger

Like all 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 are driven by political needs (political and taxpayer demands) and competition with neighboring Alberta and U.S. states, but Fitch views the province as having considerable 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 disruption and the sizable refund, British Columbia was still able to return to fiscal balance in fiscal 2014.

Expenditure Sustainability: Midrange

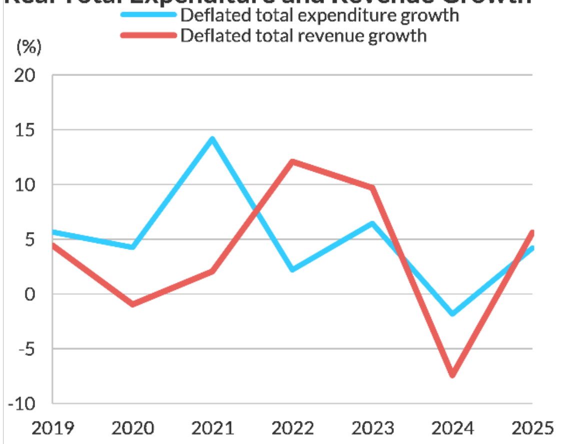
The provinces are responsible for delivering a broad array of services to citizens under Canada's system of federalism. These range from relatively stable spending categories such as education to faster-growing healthcare and social services, and capital outlays to address growth. The 'Midrange' assessment 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 longer-term track record of managing spending growth, although near-term spending demands are notable, particularly given pressure from wage settlements and rapid population growth. Operating expenditures rose an average of 6.5% annually in the five years ended in fiscal 2020 (before the pandemic), ahead of the corresponding 5.4% average operating revenue growth over the same period.

Healthcare, education and social services are the largest spending responsibilities for British Columbia, at 40%, 21% and 13% of operating expenditures in fiscal 2023, respectively. Budget 2024 assumes sharp increases in all three spending categories beginning in fiscal 2025, driven by labor costs, rising demand (population growth and aging) and the policy goal of expanding capacity and service effectiveness. In education, higher enrollment is also driving expense growth.

Real Total Expenditure and Revenue Growth



Source: Fitch Ratings, British Columbia

Expenditure Breakdown, 2023

	Operating expenditures (%)	Total expenditures (%)
Healthcare	39.8	35.7
Education	21.1	18.9
Social services	12.9	11.5
Economic development	8.2	7.3
Other operating expenditure	18.0	16.1
Operating expenditures	**100.0**	**89.6**
Interest expenditures	-	2.4
Capital expenditure	-	8.0
Total expenditures	-	**100.0**

Source: Fitch Ratings, Fitch Solutions, 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 service reductions uncommon. Operating contingencies are very large in British Columbia, helping to absorb unforeseen demands.

Despite relatively sizable federal transfers, Fitch does not view mandates as a significant constraint on provincial discretion. Balanced budget rules are established by provinces, rather than nationally, and the ability to finance deficits provides provinces with flexibility to manage the impact of economic cyclicality.

Like many provinces, British Columbia operates under its own budget balance rule, the Balanced Budget and Ministerial Accountability Act of 2002 (BBMAA), which prohibits forecasting a deficit. Similar to experience in other provinces, following economic shocks, the limitation is periodically suspended to allow for a gradual return to projected balance. The limit was originally suspended during the pandemic through fiscal 2025, and Budget 2024 projects extending the suspension through fiscal 2027.

Notwithstanding balanced budget provisions, Fitch views British Columbia as having a track record of quickly addressing fiscal setbacks, including after the Global Financial Crisis (GFC). Until the pandemic, wage agreements had been a key mechanism for spending control, with the province maintaining wage growth near inflation through successive multiyear labor agreements covering 404,000 workers, about 80% of the workforce. Sharply higher inflation as of the 2022 bargaining round has led to settlements averaging 13.75% for wages and COLAs over the three years ending in fiscal 2025, with the province allocating CAD7.4 billion to cover higher settlement costs.

Most public capital spending is provincially funded, with the province carefully distinguishing between taxpayer and self-supported capital and borrowing. The Budget 2024 capital plan assumes CAD43.3 billion in taxpayer-supported capital spending through fiscal 2027, with another CAD13 billion in self-supported borrowing, largely for BC Hydro's ambitious capacity expansion plans following the near-term completion of the Site C dam. Actual capital spending historically has fallen 20% below budget targets, given routine project delays, and Fitch otherwise views capex as an important source of flexibility.

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. The provincial treasury board maintains close oversight of liquidity and borrowing, with risks stemming from variable rates, foreign currency and bullet maturities carefully managed. Provinces manage their liquidity and debt separately from the federal government, despite significant linkages.

British Columbia's debt burden is manageable, supported by low borrowing costs and long maturities. Borrowing takes place within Canada's large and well-regulated financial market and in the U.S., Europe and Asia. Although not subject to federal prudential borrowing limits, consistent with Canada's federal structure, debt management and reporting are transparent and comprehensive. Additionally, market access is solid and the province's debt actively trades at a reasonable spread to Canada's own debt, implying a solid degree of financial market discipline.

British Columbia has historically been more debt-averse than other provinces. In fiscal 2013–2014, when returning to budget balance after the GFC, it was able to repay borrowing associated with past deficits, with only capital debt remaining. Under the Budget Transparency and Accountability Act of 2000, a reported deficit triggers a requirement to redirect increases in cash to debt reduction.

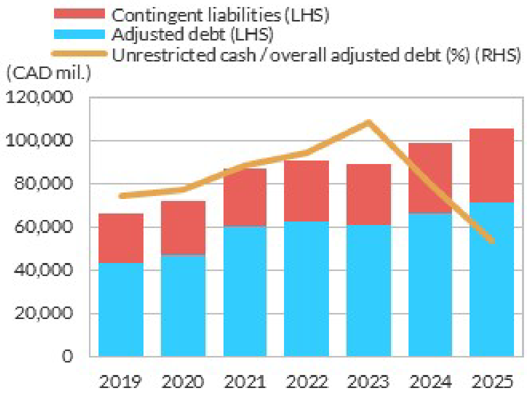
Debt issuance is senior and unsecured, and adjusted debt (before netting available liquidity) was CAD60.6 billion in fiscal 2023, excluding the debt of self-supporting Crown corporations. Under Canadian accounting rules, liability reporting is comprehensive and includes direct borrowing, public-private partnerships, Crown corporations, guarantees and employee pensions. Self-supported debt consists largely of borrowing by BC Hydro. As fiscal agent for provincial Crown corporations, the Ministry of Finance oversees their borrowing. Pension liabilities are well funded at reasonable discount rates, and risk sharing with employees 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.

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.

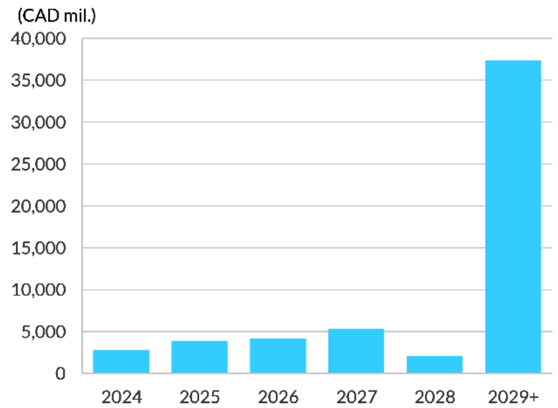
The province maintains longstanding policies limiting the risk of unhedged debt issued in foreign currencies or at variable interest rates, with levels capped at 10% and 45%, respectively. In recent years, foreign currency risk has been fully hedged, while unhedged variable-rate debt has remained near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

Overall Adjusted Debt Structure



Source: Fitch Ratings, British Columbia

Direct Debt Maturity Profile, End-2023



Source: Fitch Ratings, 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 CAD12.8 billion as of fiscal 2023. 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 to 30-year maturity benchmarks to support liquidity and lower borrowing costs.

Debt Analysis

	2023
Fixed rate (% of direct debt)	55
Debt in foreign currency (% of direct debt)	0
Apparent cost of debt (%)	4
Weighted average life of debt (years)	14

Source: Fitch Ratings, British Columbia

Liquidity

(CAD mil.)	2023
Total cash, liquid deposits and sinking funds	9,807
Restricted cash	0
Cash available for debt service	9,807
Undrawn committed credit lines	0

Source: Fitch Ratings, 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: Orange highlights show metric ranges applicable to 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 2028. Under the scenario, British Columbia's ELB metric (net adjusted debt plus a proportion of central government debt/GDP) rises to 72.8% in fiscal 2028, at the stronger end of the 'a' category and above the 70.5% 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.

Two of the three secondary debt sustainability metrics fall into lower assessment categories. These include the payback ratio (net adjusted debt/operating balance) at 21.3x (bb category), synthetic debt service coverage (operating balance/15-year mortgage-style debt payoff) at 0.5x (b category) and the fiscal debt burden (net adjusted debt/operating revenue) at 103.4% (a category). Debt service coverage for Canadian provinces has historically been less relevant in assessing sustainability, given their sizable liquid resources.

Given British Columbia's Type A designation, projected federal government debt is also key to assessing debt sustainability. Federal debt outstanding as calculated by Fitch rose from CAD887.0 billion in fiscal 2019 to almost CAD1.5 trillion in fiscal 2022 due to federal pandemic response spending. Over the past two years, Canada's economic rebound slowed the upward rise in federal debt, although Fitch estimates it reaching just over CAD1.8 trillion by fiscal 2028.

Scenario Assumptions

The base and rating cases underlying future debt sustainability metrics rely on Fitch's economic forecast for Canada and British Columbia's February 2024 Budget and Financial Plan, and are informed by recent historical trends and Fitch's expectation for economic and fiscal growth. Economic assumptions in the base case include provincial nominal GDP in fiscal 2025 (calendar year 2024) and beyond rising about 25 basis points (bps) higher than the provincial forecast; national nominal GDP is based on the Fitch March 2024 “Global Economic Outlook.” For the rating case, Fitch assumes provincial and national nominal GDP between fiscal years 2025 and 2027 will be 50 bps, 25 bps and 10 bps lower than the provincial forecast, respectively.

To calculate operating revenue, the base case assumes that fiscal 2024 tax and other own-source revenues fall only 3%, compared with the provincially estimated decline of 5.2%. For fiscal years 2025 to 2028, Fitch raises projected annual growth, resulting in average revenue growth between fiscal years 2024 and 2028 at 3.1%, compared with 1.8% in Fitch's calculations from the provincial budget. Under the rating case, fiscal 2024 matches the base case, but fiscal 2025 to fiscal 2028 rises more slowly than the base case, resulting in average revenue growth between fiscal years

2024 and 2028 of only 2.9%. For operating expenditure, the base case largely follows the provincial budget forecast, but assumes a portion of forecast program spending growth in fiscal 2025 is shifted to fiscal years 2026 and 2027. The rating case adds to this an assumption that fiscal 2025 spending is 2% higher than the Budget 2024 forecast, with this spread gradually diminishing thereafter.

Interest rates calculated by Fitch are assumed to be between 3.9% and 4% through the base case period. For the rating case, Fitch adds 25bps to the fiscal 2025 base case, then gradually lowers this spread over time. For capex, the base and rating cases assume it equals about 1.8% of provincial nominal GDP, consistent with the most recent historical peak in capital spending, in fiscal 2021. The calculated figures are slightly different between base and rating cases, reflecting different nominal GDP growth assumptions. For direct debt in the base and rating cases, Fitch modifies the province's forecast for taxpayer-supported debt (trended forward in fiscal 2028), netting the cumulative impact of operating revenues and expenditure changes noted above.

Scenario Assumptions Summary

		Fiscal 2024-2028 average	
Assumptions	**Five-year historical average**	**Base case**	**Rating case**
Operating revenue growth (%)	8.6	3.1	2.8
Tax revenue growth (%)	11.6	3.7	3.4
Current transfers received growth (%)	6.7	9.3	8.9
Operating expenditure growth (%)	9.7	3.1	3.2
Net capital expenditure (average per year; CAD mil.)	-5,382	-7,899	-7,852
Apparent cost of debt (%)	3.8	3.8	4.0

		Fiscal 2028	
Outcomes	**Fiscal 2023**	**Base case**	**Rating case**
Economic liability burden (%)	62.0	70.5	72.8
Payback ratio (x)	9.3	14.3	21.3
Synthetic coverage ratio (x)	1.2	0.8	0.5
Fiscal debt burden (%)	62.4	93.1	103.4

Source: Fitch Ratings, British Columbia

Liquidity and Debt Structure: Debt calculated under Fitch's LRG criteria differs from the comprehensive "net debt" calculation derived under Canadian accounting. Fitch's net adjusted debt calculation totals CAD50.8 billion in fiscal 2023. This figure includes direct debt of CAD56.9 billion plus CAD3.6 billion in public-private partnership and capital lease debt, offset by CAD9.8 billion, consisting of cash, temporary investments and other investments on the province's balance sheet, net of CAD3 billion in net payables. Pensions in British Columbia are effectively fully funded. Fitch also excludes the debt of self-supporting Crown corporations, primarily BC Hydro, as contingent obligations.

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 Germany. 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 is a key distinction. Alberta (AA–/Stable) shares with British Columbia the higher growth attributes common to western Canadian provinces, but its prominent and cyclical energy-based economy and revenues result in a 'High Midrange' risk profile.

Australian states are notable for operating within a similar institutional framework. The IDRs for New South Wales (AAA/Stable) and Queensland (AA+/Stable) both reflect similar 'Stronger' risk profiles due to similar fiscal attributes, with only one risk factor sub-assessment, for expenditure adjustability, at 'Midrange', based on a higher share of inflexible costs in Australian states. Debt sustainability assessments, at 'aa' for New South Wales and 'a' for Queensland, reflect lower economic liability burden metrics in the rating case scenario compared to British Columbia and, thus, a higher SCP for New South Wales and identical SCP for Queensland. Swiss cantons also operate in a highly decentralized framework. German Laender also share relatively comparable SCPs, but their final IDRs reflect Germany's solidarity system, under which all Laender and the sovereign itself are jointly responsible for supporting a Land in financial distress, resulting in equalization of Laender IDRs with the sovereign's.

Peer Comparison

	Risk profile	Primary metric (x)	SCP	IDR	Outlook/Watch
British Columbia, Province of	Stronger	72.8	aa+	AA+	Stable
Alberta, Province of	High Midrange	66.3	a+	AA-	Positive
Ontario, Province of	Stronger	88.1	a+	AA-	Stable
Quebec, Province of	Stronger	91.6	a+	AA-	Stable
Queensland, State of	Stronger	50.2	aa+	AA+	Stable
New South Wales, State of	Stronger	56.9	aaa	AAA	Stable
Rhineland-Palatinate, State of	Stronger	47.6	aa+	AAA	Stable

Source: Fitch Ratings

Long Term Rating Derivation

From SCP to IDR/CO: Factors Beyond the SCP

		Support						
SCP	Sovereign	Intergovern. financing	Ad-hoc support	Floor	Asymmetric risks	Cap	Notches above sovereign	IDR/CO
aa+	AA+	--	--	--	-	-	-	AA+

Source: Fitch Ratings

British Columbia's IDR, at 'AA+', is driven by its SCP, at 'aa+', reflecting a 'Stronger' risk profile and debt sustainability metrics in the 'a' category. No other factors affect the rating. The IDR does not reflect a one-notch uplift provided to other Canadian province ratings, as it is only applied in the event that a province's SCP is 'aa' or lower, below Canada's 'AA+' IDR. The ratings of Canadian provinces are not otherwise limited by Canada's IDR, although factors affecting the sovereign rating are also likely to affect provincial ratings.

Short Term Rating Derivation

The Short-Term IDR of 'F1+' corresponds with British Columbia's Long-Term IDR of 'AA+' as provided in Fitch's LRG rating criteria.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

Appendix A: Financial Data

British Columbia

(CAD mil.)	2019	2020	2021	2022	2023	2024rc	2025rc	2026rc	2027rc	2028rc
Fiscal performance										
Taxes	32,714	33,266	34,166	40,717	49,025	47,606	51,675	51,864	55,288	57,969
Transfers received	9,052	9,535	12,894	11,980	12,526	14,028	15,288	15,806	15,622	16,198
Fees, fines and other operating revenues	16,038	15,566	12,895	16,817	19,806	16,752	17,466	17,787	18,326	19,182
Operating revenue	57,804	58,367	59,955	69,514	81,357	78,386	84,429	85,457	89,236	93,349
Operating expenditure	-51,437	-54,706	-63,245	-66,550	-75,876	-77,899	-81,975	-87,404	-87,406	-88,827
Operating balance	6,367	3,661	-3,290	2,964	5,481	487	2,454	-1,947	1,830	4,522
Interest revenue	0	0	0	0	0	0	0	0	0	0
Interest expenditure	-1,793	-1,807	-1,832	-1,896	-2,030	-2,323	-2,747	-3,048	-3,511	-3,608
Current balance	4,574	1,854	-5,122	1,068	3,451	-1,836	-293	-4,995	-1,681	914
Capital revenue	73	53	123	68	183	100	100	100	100	100
Capital expenditure	-4,452	-4,772	-5,428	-6,002	-6,755	-7,346	-7,570	-7,903	-8,270	-8,672
Capital balance	-4,379	-4,719	-5,305	-5,934	-6,572	-7,246	-7,470	-7,803	-8,170	-8,572
Total revenue	57,877	58,420	60,078	69,582	81,540	78,486	84,529	85,557	89,336	93,449
Total expenditure	-57,682	-61,285	-70,505	-74,448	-84,661	-87,568	-92,292	-98,355	-99,187	-101,107
Surplus/(deficit) before net financing	195	-2,865	-10,427	-4,866	-3,121	-9,082	-7,763	-12,798	-9,851	-7,658
New direct debt borrowing	22,345	36,459	42,217	33,546	24,844	17,731	16,918	27,364	25,560	21,607
Direct debt repayment	-5,184	-5,747	-6,647	-10,990	-8,617	-10,980	-12,111	-14,007	-16,303	-13,934
Net direct debt movement	17,161	30,712	35,570	22,556	16,227	6,751	4,807	13,357	9,257	7,673
Overall results	17,356	27,847	25,143	17,690	13,106	-2,331	-2,956	559	-594	15
Debt and liquidity										
Short-term debt	5,747	6,647	10,990	8,617	6,857	7,642	8,219	9,822	10,933	11,853
Long-term debt	34,460	36,918	45,616	50,284	50,076	56,042	60,272	72,026	80,173	86,925
Intergovernmental debt	0	0	0	0	0	0	0	0	0	0
Direct debt	40,207	43,565	56,606	58,901	56,933	63,684	68,491	81,848	91,106	98,778
Other Fitch-classified debt	3,067	3,105	3,377	3,664	3,631	3,519	3,395	2,569	2,379	2,256
Adjusted debt	43,274	46,670	59,983	62,565	60,564	67,203	71,886	84,417	93,485	101,034
Guarantees issued (excluding adjusted debt portion)	14	14	14	16	15	15	15	15	15	15
Majority-owned GRE debt and other contingent liabilities	22,874	25,094	26,531	27,489	28,332	31,920	34,628	36,078	38,474	40,945
Overall adjusted debt	66,162	71,778	86,528	90,070	88,911	99,138	106,529	120,510	131,974	141,994
Total cash, liquid deposits and sinking funds	6,565	7,403	10,139	9,688	9,807	7,476	4,519	5,078	4,484	4,500
Restricted cash	0	0	0	0	0	0	0	0	0	0
Unrestricted cash	6,565	7,403	10,139	9,688	9,807	7,476	4,519	5,078	4,484	4,500
Net adjusted debt	36,709	39,267	49,844	52,877	50,757	59,727	67,367	79,339	89,001	96,534
Net overall debt	59,597	64,375	76,389	80,382	79,104	91,662	102,010	115,432	127,490	137,494
Enhanced net adjusted debt	36,709	39,267	49,844	52,877	50,757	59,727	67,367	79,339	89,001	96,534
Enhanced net overall debt	59,597	64,375	76,389	80,382	79,104	91,662	102,010	115,432	127,490	137,494
Memo:										
Debt in foreign currency/Direct debt (%)	0	0	0	0	0	-	-	-	-	-
Issued debt/Direct debt (%)	100	100	100	100	100	-	-	-	-	-
Floating interest rate debt/Direct debt (%)	44	45	42	38	45	-	-	-	-	-

rc - rating case
Source: Fitch Ratings, British Columbia

Appendix B: Financial Ratios

British Columbia

	2019	2020	2021	2022	2023	2024rc	2025rc	2026rc	2027rc	2028rc
Fiscal performance ratios										
Operating balance/operating revenue (%)	11.0	6.3	-5.5	4.3	6.7	0.6	2.9	-2.3	2.1	4.8
Current balance/current revenue (%)	7.9	3.2	-8.5	1.5	4.2	-2.3	-0.4	-5.9	-1.9	1.0
Operating revenue annual growth (%)	7.5	1.0	2.7	15.9	17.0	-3.7	7.7	1.2	4.4	4.6
Operating expenditure annual growth (%)	7.8	6.4	15.6	5.2	14.0	2.7	5.2	6.6	0.0	1.6
Surplus/(deficit) before net financing/total revenue (%)	0.3	-4.9	-17.4	-7.0	-3.8	-11.6	-9.2	-15.0	-11.0	-8.2
Surplus/(deficit) before net financing/GDP (%)	0.1	-0.9	-3.4	-1.4	-0.8	-2.2	-1.9	-2.9	-2.2	-1.6
Total revenue annual growth (%)	6.8	0.9	2.8	15.8	17.2	-3.8	7.7	1.2	4.4	4.6
Total expenditure annual growth (%)	8.1	6.3	15.0	5.6	13.7	3.4	5.4	6.6	0.9	1.9
Debt ratios										
Primary metrics										
Economic liability burden (%)	52.4	52.2	76.4	72.1	62.0	64.0	66.9	69.9	71.5	72.8
Enhanced economic liability burden (%)	52.4	52.2	76.4	72.1	62.0	64.0	66.9	69.9	71.5	72.8
Payback ratio (x) (Net adjusted debt to operating balance)	5.8	10.7	-15.2	17.8	9.3	122.6	27.5	-40.7	48.6	21.3
Secondary metrics										
Fiscal debt burden (%) (Net debt-to-operating revenue)	63.5	67.3	83.1	76.1	62.4	76.2	79.8	92.8	99.7	103.4
Synthetic debt service coverage ratio (x)	1.9	1.0	-0.8	0.7	1.2	0.1	0.4	-0.3	0.2	0.5
Actual debt service coverage ratio (x)	0.9	0.5	-0.4	0.2	0.5	0.0	0.2	-0.1	0.1	0.3
Other debt ratios										
Liquidity coverage ratio (x)	2.0	1.4	0.5	1.0	1.4	0.8	0.7	0.2	0.4	0.5
Direct debt maturing in one year/total direct debt (%)	28.6	30.5	32.1	28.0	24.5	12.0	12.0	12.0	12.0	12.0
Direct debt (annual % change)	-3.7	8.4	29.9	4.1	-3.3	11.9	7.6	19.5	11.3	8.4
Apparent cost of direct debt (interest paid/direct debt) (%)	4.4	4.3	3.7	3.3	3.5	3.9	4.2	4.1	4.1	3.8
Revenue ratios										
Tax revenue/total revenue (%)	56.5	56.9	56.9	58.5	60.1	60.7	61.1	60.6	61.9	62.0
Current transfers received/total revenue (%)	15.6	16.3	21.5	17.2	15.4	17.9	18.1	18.5	17.5	17.3
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 (%)	0.1	0.1	0.2	0.1	0.2	0.1	0.1	0.1	0.1	0.1
Expenditure ratios										
Staff expenditure/total expenditure (%)	36.7	37.3	34.8	35.1	33.3	0.0	0.0	0.0	0.0	0.0
Current transfers made/total expenditure (%)	26.4	26.9	31.9	30.1	33.4	0.0	0.0	0.0	0.0	0.0
Interest expenditure/total expenditure (%)	3.1	3.0	2.6	2.6	2.4	2.7	3.0	3.1	3.5	3.6
Capital expenditure/total expenditure (%)	7.7	7.8	7.7	8.1	8.0	8.4	8.2	8.0	8.3	8.6

rc - rating case
Source: Fitch Ratings, British Columbia

Appendix C: Data Adjustments

Specific Adjustments

Adjustments have been made to British Columbia's public account and budget data to calculate historical, base and rating case metrics under Fitch's LRG criteria and to facilitate comparisons across Canadian and international LRGs. Reported consolidated data are modified to reflect operating, interest and capital revenues and expenditures. Adjustments to calculate the operating balance include replacing historical and projected government business enterprise net income with dividends and netting interest on debt and amortization expenses. The debt data reflect calculations of direct debt and unrestricted liquidity, as defined in Fitch criteria and detailed above.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.