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CREDIT OPINION
18 April 2024

Update

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RATINGS

British Columbia, Province of

Domicile	British Columbia, Canada
Long Term Rating	Aaa
Type	LT Issuer Rating
Outlook	Negative

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Province of British Columbia (Canada)

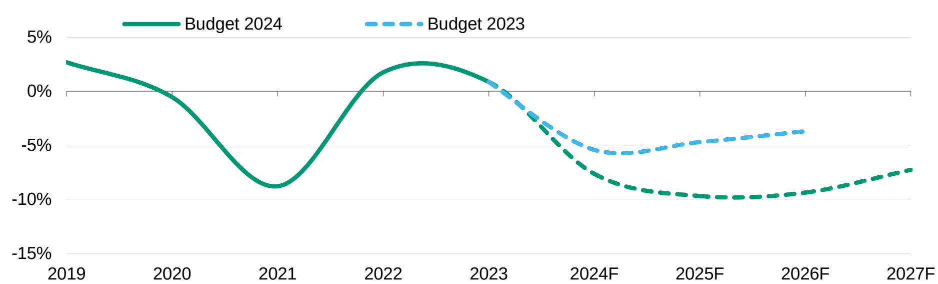
Update following outlook change to negative

Summary

The credit profile of the Province of British Columbia (Aaa negative) reflects a large economy with a diversified sector base, and a stable and mature institutional framework, with the ability to access a wide range of revenue measures and alter spending plans. The institutional framework also includes important federal fiscal transfers to the province, including health and social transfers. The province maintains solid liquidity balances despite our projected decline from recent high levels. The rating is pressured by the province's increased spending, especially for social commitments, which will result in significant deficits over the next three years, with no commitment to return to fiscal balance within a specified period. Rising spending could result in a sustained debt increase in the absence of significant mitigation efforts, pushing the debt burden to approach 150% in fiscal 2026-27 from 71% in fiscal 2022-23.

Exhibit 1

Rising spending and weak economic growth result in large and protracted deficits (fiscal years ending March 31)



Sources: Province of British Columbia and Moody's Ratings

Credit strengths

- » Sector diversity and tax competitiveness support economic resilience
- » Well-established institutional framework provides significant policy flexibility
- » Significant liquidity support from cash and investments, but declining from recent high levels

Credit challenges

- » Prioritizing spending initiatives pushes up spending and results in structural deficits
- » Material rise in the debt burden weakens debt affordability and reduces fiscal flexibility

Rating outlook

The negative outlook reflects the risks to the province's ability to slow a significant projected increase in debt amid rising spending commitments and its lack of commitment to return to fiscal balance within a specified period. The province's increased spending focus on social infrastructure and services, including healthcare and education, could result in a sustained debt increase in the absence of significant mitigation efforts.

Factors that could lead to an upgrade

The outlook could be stabilized if the province demonstrated significant new spending controls, which along with a faster increase in revenues could support a return to balance within a relatively quick timeline. New mitigating strategies that limit debt growth and preserve liquidity would also contribute to stabilising the outlook.

Factors that could lead to a downgrade

The rating could be downgraded if the province is unable to meaningfully improve its fiscal trajectory over the next 18-24 months, resulting in material deficits. A clear indication that debt will rise materially in line with current projections, or substantially weaker liquidity metrics would also result in downward pressure.

Key indicators

Exhibit 2

Province of British Columbia

(Year Ending March 31)	2021	2022	2023	2024F	2025F	2026F
Net Direct and Indirect Debt as a % of Revenue	92.4	82.9	70.9	90.6	106.4	130.4
Net Direct and Indirect Debt as a % of GDP	18.7	17.1	14.8	17.2	20.6	24.5
Cash Financing Surplus (Requirement) as a % of Revenue	(17.8)	(2.8)	4.1	(17.6)	(18.6)	(21.5)
Consolidated Surplus (Deficit) as a % of Revenue	(8.8)	1.7	0.9	(7.6)	(9.7)	(9.4)
Adjusted Interest Expense as a % of Revenues	3.0	2.6	2.5	3.1	3.7	4.5
Intergovernmental Transfers as a % of Revenue	20.7	16.5	15.4	18.1	17.7	18.0
Real GDP Growth (%) [1]	7.1	3.8	1.0	0.8	2.3	2.4

(1) Corresponds to calendar year

Sources: Province of British Columbia and Moody's Ratings

Detailed credit considerations

On April 9, we affirmed the province's aa1 baseline credit assessment (BCA) and Aaa ratings, and changed the outlook to negative from stable, reflecting the risks to the province's ability to reverse a significant projected increase in debt amid weaker economic growth, rising spending and large deficits.

Baseline credit assessment

The credit profile of the Province of British Columbia, as expressed in its Aaa stable rating, combines a BCA for the province of aa1, and a high likelihood of extraordinary support coming from the Government of Canada (Aaa stable) in the event that the province faced acute liquidity stress.

Sector diversity and tax competitiveness support economic resilience

British Columbia is the third largest Canadian province by population and fourth largest provincial economy, accounting for nearly 15% of Canada's GDP. Located on Canada's western coast, British Columbia remains an important hub for goods shipped to and from Asia, and as a result the export markets of British Columbia are more diversified than Canada and other provinces, a key credit strength.

The province is projecting that its economy slowed to 1% real GDP growth in 2023 following significantly faster growth of 3.8% in 2022. Further slowdown is projected with a growth rate of 0.8% in 2024, largely reflecting high levels of inflation which weighs on costs, tighter monetary conditions and overall slower growth across many of its major trading partners. The province projects real GDP growth to return to more stable levels of 2.3% in 2025 and 2.4% in 2026 as inflation pressures ease and economic recovery continues.

While Canada typically sees nearly three-quarters of exports flow to the US, the US accounts for approximately only half of British Columbia's exports. Other key markets include China and Japan and several other countries in the Asia-Pacific region. The dominance of China in the province's Asian exports exposes the province to some concentration risk, although the wide diversification of sectors and markets reduces vulnerability from sector or trading partner-specific shocks.

Economic diversity is underpinned by several large industries including real estate, wholesale and retail trade, tourism and construction. The economy provides for a large tax base which ensures that provincial revenues are not strongly impacted by a decline in one particular sector. Furthermore, British Columbia's level of taxation is at the lower end of the Canadian provinces, providing flexibility to raise taxes if necessary while still remaining competitive with other jurisdictions. These factors support the province's attractiveness to businesses and individuals, and also contribute to strong international immigration.

This economic strength is also supported by an important natural resources sector, primarily natural gas and forestry products, and we expect that increased global demand for Canadian resources will further support the province's natural resources sector. Approximately CAD40 billion in new upstream, pipeline and liquefaction plant construction projects in the province by LNG Canada, a consortium of international energy companies, and TC Energy Corp. (Baa3 stable) will provide support to the natural gas industry.

Well-established institutional framework provides significant policy flexibility

British Columbia, like most Canadian provinces, enjoys significant flexibility in its financial management. The institutional framework governing relations, powers and responsibilities between the Canadian provinces and the federal government is well developed and stable. The province's capacity to respond to pressures is supported by a stable and mature institutional framework for Canadian provinces, which allows unfettered access to a wide range of revenue measures as well as the ability to alter spending plans.

Compared to their counterparts in other countries, including the German Länder and the Australian states, Canadian provinces enjoy far greater fiscal and budgetary autonomy. As a result, British Columbia benefits from a high degree of fiscal policy flexibility that is more similar to sovereign governments than many international sub-sovereign peers. These positive institutional factors increase the province's ability to manage through economic downturns and handle higher debt burdens.

The institutional framework also includes important federal fiscal transfers to the province, including gradually rising health and social transfers. These transfers are highly predictable and secure, and therefore largely unaffected by economic changes. The province projects federal transfers to account for around 18% of British Columbia's total revenues for 2024-25, in line with historical levels. The provincial healthcare sector will also benefit from increased federal health transfers over the next 10 years, under a combined CAD27 billion funding agreement in principle.

Significant liquidity support from cash and investments, but declining from recent high levels

The province maintains solid levels of liquidity from unrestricted cash / cash equivalents and investments. Following a build up of a significant liquidity cushion during the pandemic years to provide a buffer against fiscal pressures, we now project liquidity to revert to more stable long-term levels of CAD8-9 billion over the next three years, from approximately CAD13 billion in 2022-23.

Cash and investments, together with the material contingencies, also provide a buffer for bondholders against fiscal shortfalls and rising expenses including debt costs. Although we project that the coverage relative to debt and expenses will weaken over the next three years as debt levels continue to rise and expenses stay elevated, the province will maintain cash reserves covering 9.7% of net direct and indirect debt and 9.4% of total expenses in 2024-25.

At the onset of the pandemic, British Columbia – similar to all Canadian provinces - benefitted from federal emergency support and liquidity support through the Bank of Canada. Although the federal government has subsequently wound down the majority of these support mechanisms, we anticipate that further federal programs would be forthcoming if the provincial market experienced significant liquidity constraints.

The province also maintains significant credit facilities for liquidity management, if needed, including a CAD0.5 billion uncommitted and a CAD3 billion committed credit facility with Canadian banks.

Prioritizing spending initiatives pushes up spending and results in structural deficits

The province forecasts significant and persistent deficits, averaging CAD7.3 billion, or 8.8% of revenue, over the next three years. This follows the province's expectation of a CAD5.9 billion, or 7.6% of revenue, deficit for 2023-24. Although projections contain significant contingencies to the projections, accounting for between 40% and 60% of deficits which provide some buffer to the forecasts, we view these deficits as structural in nature, especially given the lack of clarity by the government on a path back to balance.

The deficits partly reflects a combination of slowing economic growth and continued higher than historical interest rates for much of 2024, which will keep debt and refinancing costs elevated. Expenses are further pressured by inflation, global supply chain disruptions and labour scarcity which put upward pressure on both operating and capital spending. The province's spending will increase across the key areas of health (up 14%), education (9%) and social services (15%), outpacing projected revenues by a significant margin.

These spending increases result in significantly higher estimated total expense for 2024-25 (CAD89.4 billion, 7.4% higher than the revised estimate for 2023-24) including rental protection and one-time affordability credits, with spending projected to continue to rise over the three-year budget horizon.

The increase in the severity and frequency of weather-related events including floods and wildfires - as evidenced by the significant 2023 wildfires – creates additional challenges. Although the province has comprehensive response plans for these events, the uncertainty regarding timing and magnitude of weather events could further impair the province's fiscal trajectory and its plans to return to balance.

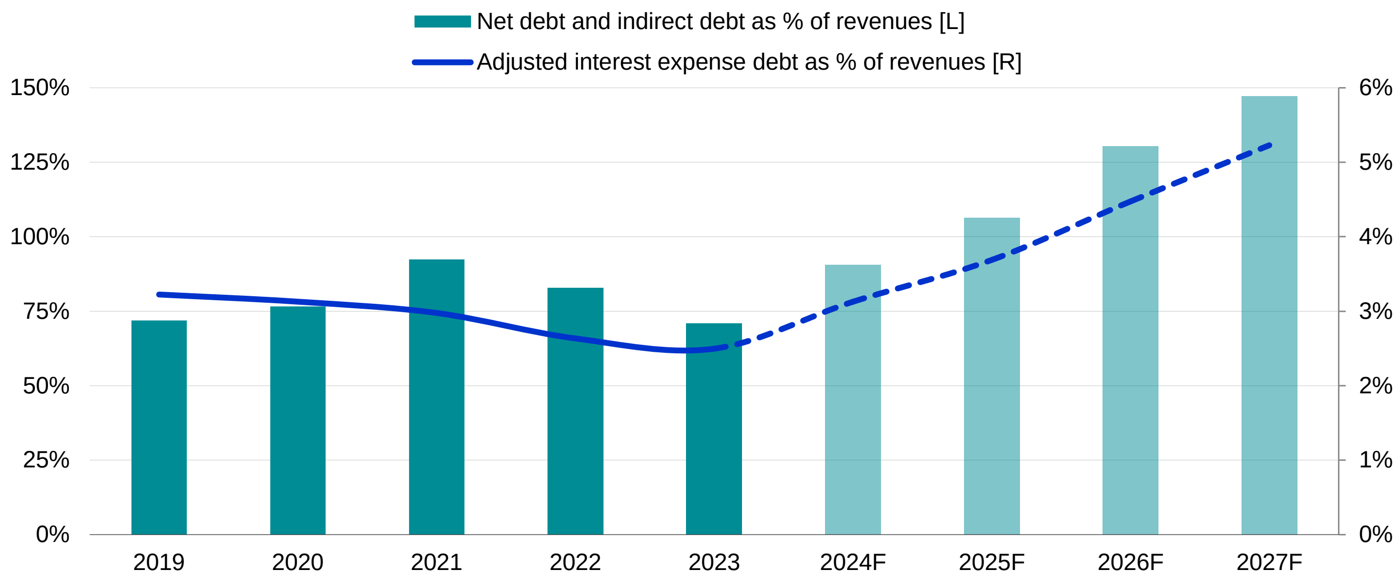
Material rise in the debt burden weakens debt affordability and reduces fiscal flexibility

Although historically the province maintained one of the lowest debt burdens among Canadian provinces, the need to finance operating deficits, as well as the province's large-scale capital spending program, puts upward pressure on debt levels. The three year capital plan totals CAD56.5 billion for 2024-25 to 2026-27, 16% higher than the 3-year capital spending in last year's budget. As a result, the province's debt financing needs will increase materially, leading to a faster rise in debt burden compared to our previous forecasts.

The province's aggregate borrowing program will increase by approximately CAD61 billion over the next three years. Net direct and indirect debt could reach CAD127 billion by 2026-27, and as a result we now project that the debt burden will rise to reach 147% in 2026-27, up from only 71% in 2022-23.

The large and increasing borrowing program over multiple years will result in an increasing interest burden, eroding some of the province's historically very high debt affordability, especially if interest rates remain high for a longer period of time than we currently estimate. As a result, we expect that if the debt burden rises in line with budget projections, the interest burden will rise from an estimated 3.1% in 2023-24 to 5.2% by 2026-27.

Exhibit 3
Debt burden will rise at a fast pace given the operating deficits and large capital needs
(Fiscal years ending March 31)



Source: Province of British Columbia and Moody's Ratings

A significant portion of debt is issued on behalf of British Columbia Hydro & Power Authority (BC Hydro, Aaa negative), the wholly-owned electric utility company of British Columbia. Although we exclude BC Hydro's related debt from our debt burden calculation of the province, we view it as a contingent liability of the province. .While BC Hydro generates a steady revenue stream with sufficient cash flow to support operations, its total reported debt has consistently risen in recent years and currently constitutes approximately 30% of the province's total debt. BC Hydro's largest current project is the Site C hydroelectric dam. Following earlier cost escalations, Site C construction is winding down which will provide some relief from further spending and debt escalation for this project.

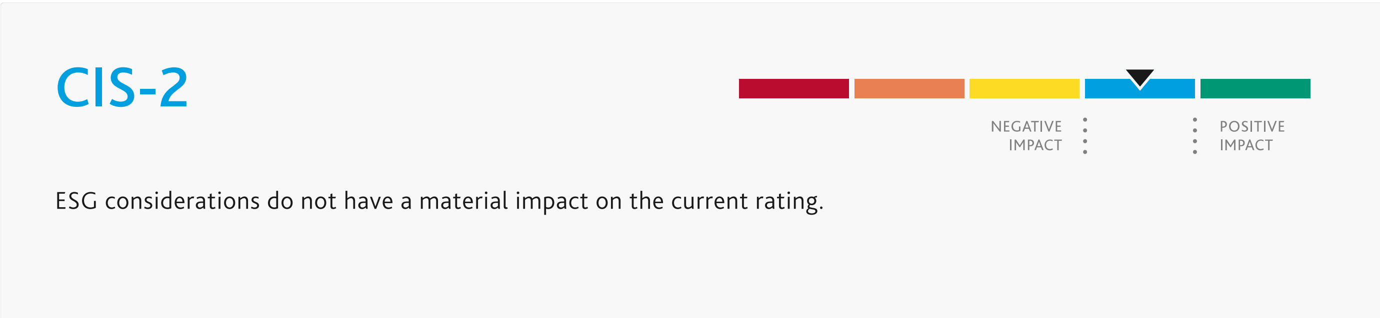
Extraordinary support considerations

We consider that there is a high likelihood that British Columbia would receive extraordinary support from the Government of Canada should the province experience an acute liquidity need. This reflects our assessment of the incentive to the federal government of minimizing the risk of potential disruptions to capital markets if British Columbia, or any province, were to default, as well as indications of a moderately positive federal government policy stance, as illustrated by the flexibility inherent in the system of federal-provincial transfers.

ESG considerations

British Columbia, Province of's ESG credit impact score is CIS-2

Exhibit 4
ESG credit impact score



Source: Moody's Ratings

The **CIS-2** indicates that ESG considerations do not have a material impact on the current rating.

Exhibit 5
ESG issuer profile scores

Source: Moody's Ratings

Environmental

The environmental issuer profile score (IPS) of **E-3** reflects exposure to weather events including frequent occurrence of flooding and large wildfires which create economic damage. However, provincial budgets contain contingencies for weather-related expenses, and benefits from federal disaster recovery assistance. The province also has significant green initiatives and very strong environmental protection policies, supported by measurable and important targets relating to climate action and accountability, including greening of its transit fleet and a target of achieving net-zero carbon emissions by 2050.

Social

The social IPS of **S-2** indicates strong health and safety measures and high liveability which is a significant draw for international immigration, boosting economic activity. Labour and income trends are solid, although social pressures, especially relating to healthcare and housing supply and home affordability challenges add negative credit pressure on operating and capital spending.

Governance

The governance IPS of **G-2** reflects very strong governance attributes with forward-looking multi-year planning and transparent reporting and disclosure, although less robust overall risk controls and financial management than under Moody's previous assessment.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The assigned BCA of aa1 is one notch above the scorecard-indicated BCA of aa2. The scorecard-indicated outcome reflects (i) an idiosyncratic risk score of 3 (presented below) on a 1 to 9 scale, where 1 represents the strongest relative credit quality and 9 the weakest; and (ii) a systemic risk score of Aaa, as reflected in the sovereign bond rating for the Government of Canada.

For details of our rating approach, please refer to Regional and Local Governments published January 2018.

Exhibit 6

Province of British Columbia

Regional & Local Governments

Baseline Credit Assessment – Scorecard	Score	Value	Sub-factor Weighting	Sub-factor Total	Factor Weighting	Total
Factor 1: Economic Fundamentals				**3.80**	**20%**	**0.76**
Economic Strength [1]	5	103.02%	70%			
Economic Volatility	1		30%			
Factor 2: Institutional Framework				**1**	**20%**	**0.20**
Legislative Background	1		50%			
Financial Flexibility	1		50%			
Factor 3: Financial Position				**3.25**	**30%**	**0.98**
Operating Margin [2]	5	3.43%	12.5%			
Interest Burden [3]	3	2.56%	12.5%			
Liquidity	1		25%			
Debt Burden [4]	5	75.48%	25%			
Debt Structure [5]	3	10.96%	25%			
Factor 4: Governance and Management				**5**	**30%**	**1.50**
Risk Controls and Financial Management	5					
Investment and Debt Management	1					
Transparency and Disclosure	1					
Idiosyncratic Risk Assessment						**3.44 (3)**
Systemic Risk Assessment						**Aaa**
Suggested BCA						**aa2**
Assigned BCA						**aa1**

[1] Local GDP per capita as % of national GDP per capita
[2] Gross operating balance by function/operating revenues
[3] (Adjusted) interest expenses/operating revenues
[4] Net direct and indirect debt/operating revenues
[5] Short-term direct debt/total direct debt
Source: Moody's Ratings; Fiscal 2022-23.

Ratings

Exhibit 7

Category	Moody's Rating
BRITISH COLUMBIA, PROVINCE OF	
Outlook	Negative
Baseline Credit Assessment	aa1
Issuer Rating	Aaa
Senior Unsecured	Aaa
Commercial Paper	P-1

Source: Moody's Ratings

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