MOODY'S RATINGS

CREDIT OPINION
10 April 2025

Update

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RATINGS

British Columbia, Province of

Domicile	British Columbia, Canada
Long Term Rating	Aa1
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)

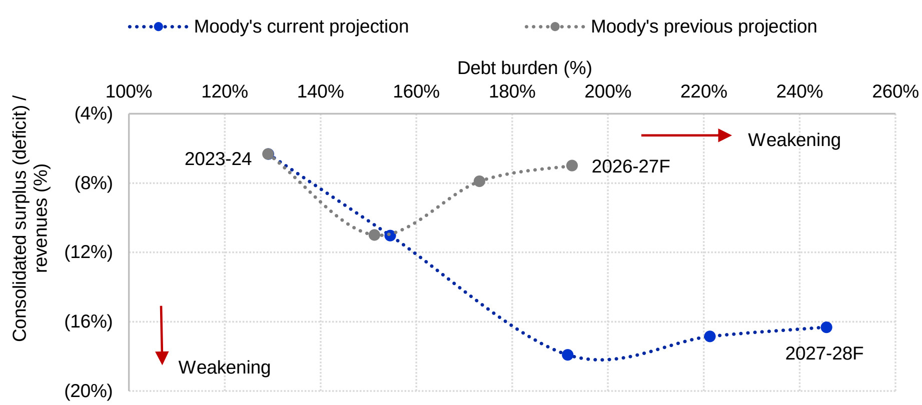
Update following rating action

Summary

The credit profile of the Province of British Columbia (Aa1 negative) reflects its large economy, mature and stable institutional framework and a high level of fiscal flexibility providing access to a wide range of revenue sources and ability to alter spending plans. The credit profile also reflects challenges from large and structural deficits – with no clear visibility on timing to return to balance - mainly due to significant increases in spending over the next three years, especially for healthcare and social initiatives. The province is also exposed to fiscal pressure stemming from tariffs imposed by the US (Aaa negative). At the same time, debt levels will continue to rise to finance operations and capital, with net debt potentially exceeding 240% of revenue by 2027-28, weakening debt affordability.

Exhibit 1

Material spending increases and slower revenue growth contribute to large deficits and rising debt
(fiscal years ending March 31)



Sources: Province of British Columbia and Moody's Ratings

Credit strengths

» Resilient and diverse economy with lower reliance on US trade than provincial peers

» Well-established institutional framework provides significant policy flexibility

» Sizeable levels of cash and investments, but declining from recent high levels

Credit challenges

» Structural deficits driven by policy decisions to prioritize spending over fiscal controls

» Debt will continue to rise to finance operations and capital, weakening debt affordability

Rating outlook

The negative outlook reflects the risks that, despite the contingencies and other buffers embedded in the operating and capital forecasts, the province is unable to meaningfully reduce the size of its deficits and curb the growth in its debt burden over the next 18-24 months. The uncertain trade environment with potential further negative implications on the provincial economy and fiscal position adds further risks to British Columbia's credit profile.

Factors that could lead to an upgrade

Given the negative outlook, an upgrade in the rating is unlikely. The outlook could be stabilized if spending controls and a meaningful economic recovery allow the province to reduce the size of its deficits and point to an eventual stabilization in net debt at a level consistent with Aa1 peers.

Factors that could lead to a downgrade

The rating could be downgraded if the province were unable to meaningfully slow the increase in debt over the next 18-24 months. Substantially weaker provincial liquidity metrics or a material weakening in BC Hydro's financial metrics would also result in downward rating pressure.

Key indicators

Exhibit 2
Province of British Columbia

(Year Ending March 31)	2022	2023	2024	2025F	2026F	2027F
Net Direct and Indirect Debt as a % of Revenue	118.5	104.1	129.8	155.3	191.9	222.4
Net Direct and Indirect Debt as a % of GDP	24.1	21.5	25.2	30.2	34.4	38.9
Cash Financing Surplus (Requirement) as a % of Revenue	-2.8	4.1	-21.4	-25.0	-35.1	-33.1
Consolidated Surplus (Deficit) as a % of Revenue	1.7	0.9	-6.3	-11.0	-17.9	-16.9
Adjusted Interest Expense as a % of Revenues	2.6	2.5	3.1	4.1	5.0	5.9
Intergovernmental Transfers as a % of Revenue	16.5	15.4	17.2	17.1	19.1	18.3
Real GDP Growth (%) [1]	3.8	2.4	1.2	0.3	0.8	1.9

(1) Corresponds to calendar year
Sources: Province of British Columbia and Moody's Ratings

Recent developments

On 2 April 2025, we downgraded the province's Baseline Credit Assessment (BCA) to aa2 from aa1, and downgraded its long-term ratings to Aa1 from Aaa. We affirmed the province's P-1 commercial paper ratings. The outlook remains negative.

Detailed credit considerations

Baseline credit assessment

The credit profile of the Province of British Columbia, as expressed in its Aa1 negative rating, combines a BCA for the province of aa2, 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.

Resilient and diverse economy with lower reliance on US trade than provincial peers

British Columbia is the third largest Canadian province by population and fourth largest provincial economy, accounting for around 14% 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.

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. British Columbia's level of taxation is at the lower end of the Canadian provinces, providing some flexibility to raise taxes, although we believe that in the current economic environment it is unlikely that significant new tax measures would be introduced in the near term. Our view is also supported by the province's recent decision to eliminate the contentious consumer carbon tax effective April 1, 2025.

The province's 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 is estimated in new upstream, pipeline and liquefaction plant construction projects in the province by LNG Canada.

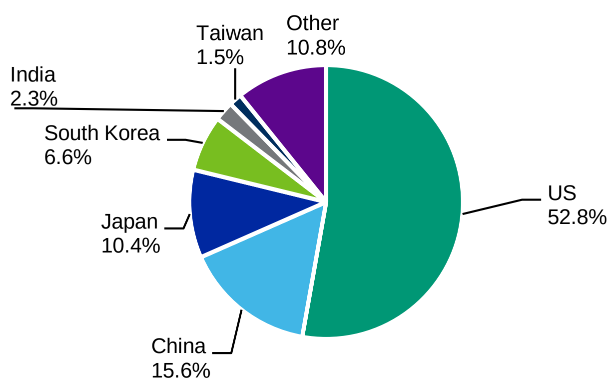
Real GDP growth continued to slow in 2024 to an estimated 1.2% (from 2.4% in 2023). While the economy was slated to grow faster in 2025, we now expect sub-1% real GDP growth in 2025 and 2026 given a more uncertain global trade environment, including the protectionist stance by the US administration.

The province's export profile is more diversified with a lower reliance on US trade relative to other provinces (approximately half of British Columbia's exports are destined for US markets, below the 70-80% for the majority of provinces), which provides greater resilience against US tariffs. Nevertheless, the US remains the sole or main export destination for several key resources, including natural gas, electricity, metals and lumber products, exposing these resources to trade risk.

Exhibit 3

A diversified export profile shields the province against trade uncertainty

British Columbia's share of international goods exported by destination, 2024



Source: Province of British Columbia

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.

Sizeable levels of cash and investments, but declining from recent high levels

The province maintains sizeable levels of cash (including cash equivalents) and investments totalling CAD12 billion at March 31, 2024 and covering 11.7% of net direct and indirect debt and 14.2% of total expenses. Following a buildup of a significant liquidity cushion during the pandemic to provide a buffer against fiscal pressures, we project levels will revert to slightly lower, but still robust, long-term levels of around CAD10 billion over the next three years, as the province will draw down part of its reserves to fund operating needs and a portion of the capital plan.

Given that much of the province's wealth is held in long-term investments, the liquidity ratio (cash and cash equivalents as a % of operating revenue) of 7.9% at March 31, 2024 is at the low end relative to provincial peers. Nevertheless, cash and total investments provide a buffer for bondholders against fiscal shortfalls and rising expenses including debt costs. The province also maintains significant credit facilities for liquidity management, if needed, including a CAD500 million uncommitted and a CAD2.5 billion committed credit facility with Canadian banks.

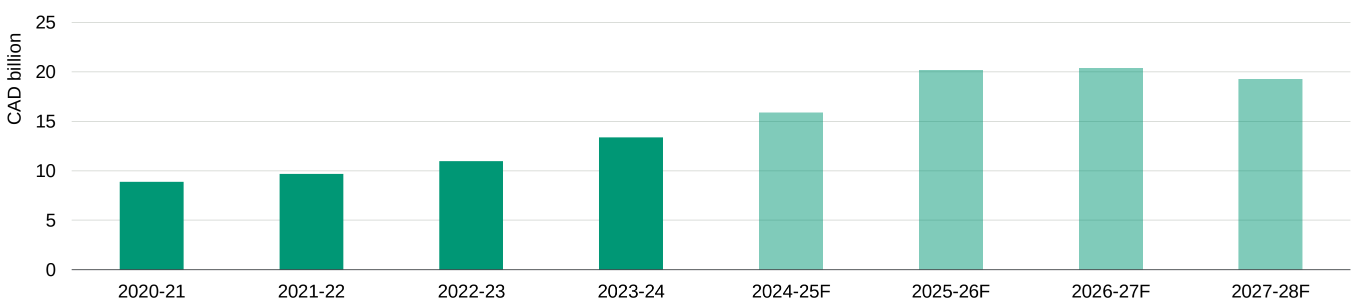
Structural deficits driven by policy decisions to prioritize spending over fiscal controls

As outlined in its 2025-26 budget, the province is committed to increasing spending, particularly for healthcare and social programs. We therefore project materially higher and more entrenched deficits than under our previous forecasts. Further, the province does not have a clear timeline to return to balance.

For 2025-26 (ending March 31, 2026), we forecast a deficit of CAD14.3 billion or 17.9% of revenue, followed by deficits averaging 16.5% between 2026-27 and 2027-28. At these levels, deficits will be much wider than we typically see amongst highly-rated regional governments globally. Our projections incorporate fiscal adjustments made to consider the impact of tariffs and retaliatory measures amid heightened trade uncertainty, as well as the estimated net impact of the province's post-budget elimination of the consumer carbon tax starting 1 April 2025. Nevertheless, even absent these fiscal impacts, the rise in spending represents a significant deterioration in the province's fiscal prospects and credit profile.

The deficits reflect a material rise in spending commitments over the next three years with total expenses estimated to exceed CAD98 billion by 2027-28. The largest spending increases are dedicated to healthcare, easing housing affordability - as one of the most expensive regions in Canada - and addressing mental health and addiction concerns. Moreover, for the 2025-26 to 2027-28 period, the province estimates capital spending to total CAD59.9 billion, exceeding the size of previous three-year capital plans.

Exhibit 4
Capital spending levels over the forecast period exceed those of prior years
Capital plan



Sources: Province of British Columbia and Moody's Ratings

Our fiscal forecasts for the province incorporate the CAD4 billion in annual contingencies (nearly 30% of deficits) from the provincial budget for spending uncertainties, providing some buffer to fiscal outcomes.

The increase in the severity and frequency of weather-related events including floods and wildfires - as evidenced by significant wildfires in 2023 and 2024 – has recently created additional challenges. Although the province has comprehensive response plans for these events, the uncertainty regarding timing and magnitude of weather events could create additional spending pressures relating to suppression and mitigation.

Debt will continue to rise to finance operations and capital, weakening debt affordability

Given the significant projected deficits, we project that debt levels will rise materially. A substantial portion of debt will also be issued to finance capital projects in healthcare (including new hospitals and redevelopments), education and transportation.

We estimate that the province's net direct and indirect debt, which includes financing of both capital spending and deficits, will increase by nearly CAD100 billion between 2023-24 and 2027-28. Relative to revenues, net direct and indirect debt will rise to 192% in 2025-26 from 130% in 2023-24, and could exceed 240% by 2027-28, very high levels compared with regional governments in Canada and globally. We note that historically the province has only been able to complete about 75-80% of its capital spending targets, which provides some buffer against our projected debt increases, although a rapid increase in debt is very likely.

Our calculation of net direct and indirect debt includes the debt issued by the province on behalf of British Columbia Hydro and Power Authority (BC Hydro, Aa1 negative), the provincially owned utility company. Debt issued on behalf of BC Hydro currently constitutes approximately 30% of the province's total debt. BC Hydro's largest project, the Site C hydroelectric dam, has largely wound down which provides relief against further spending for this project. Nevertheless, our credit considerations remain unchanged that BC Hydro will continue to service its debt without liquidity or other operating support from the province.

The rising leverage continues to weaken the province's debt affordability, which has historically been significantly stronger than most Canadian provincial peers. We project interest costs of 5.0% of revenue in 2025-26 and rising to 7.1% in 2027-28, up from 3.1% in 2023-24.

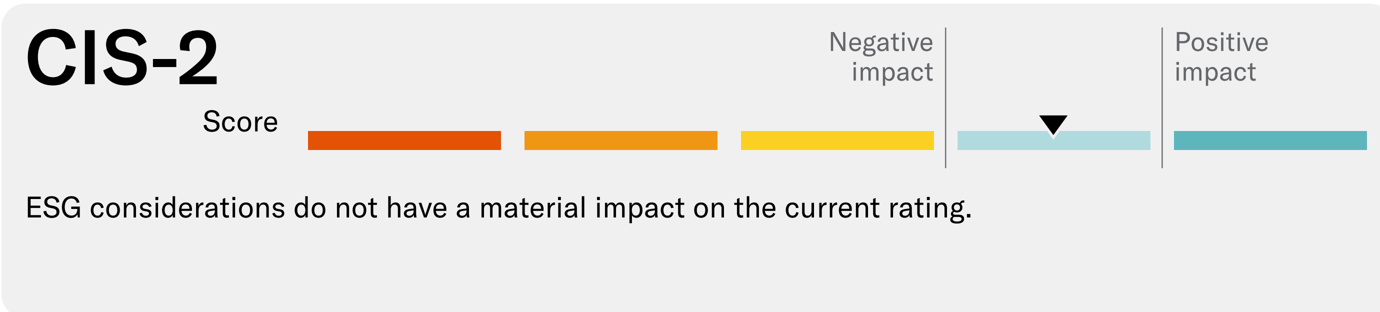
Extraordinary support considerations

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

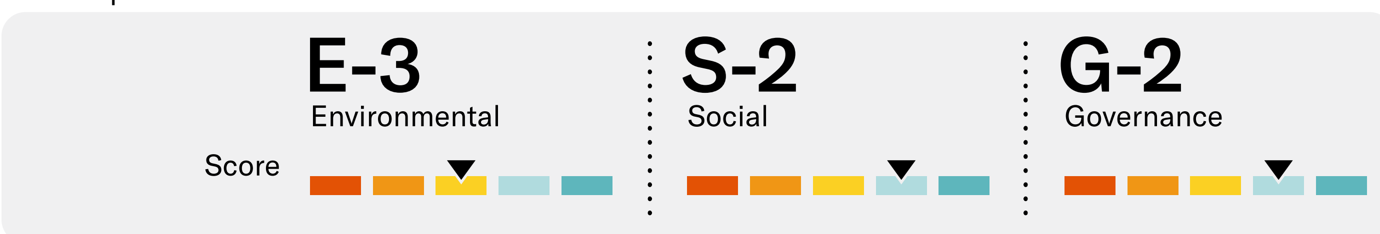
Exhibit 5
ESG credit impact score



Source: Moody's Ratings

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

Exhibit 6
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 strong governance attributes with forward-looking multi-year planning and transparent reporting and disclosure. However, the government's recent efforts to prioritize spending growth - over attaining fiscal balance or limiting debt growth - point to weaker risk controls and budget management than we previously assessed.

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 aa2 is one notch above the BCA scorecard-indicated outcome of aa3. For details of our rating approach, please refer to Regional and Local Governments.

Exhibit 7

British Columbia, Province of

Regional & Local Governments

Baseline Credit Assessment – Scorecard	Score	Value	Sub-factor Weighting	Sub-factor Score	Factor Weighting	Total
Factor 1: Economy					**25%**	**0.89**
Regional Income [1]	1.94	62532.62	15%	0.29		
Economic Growth	9.00	baa	5%	0.45		
Economic Diversification	3.00	aa	5%	0.15		
Factor 2: Institutional Framework and Governance					**30%**	**0.60**
Institutional Framework	1.00	aaa	15%	0.15		
Governance	3.00	aa	15%	0.45		
Factor 3: Financial Performance					**20%**	**1.86**
Operating Margin [2]	12.20	0.46%	10%	1.22		
Liquidity Ratio [3]	11.75	7.92%	5%	0.59		
Ease of Access to Funding	1.00	aaa	5%	0.05		
Factor 4: Leverage					**25%**	**2.04**
Debt Burden [4]	8.49	129.80%	15%	1.27		
Interest Burden [5]	7.62	3.08%	10%	0.76		
Preliminary BCA Scorecard-Indicated Outcome (SIO)						**(5.38) a1**
Idiosyncratic Notching						**0.0**
Preliminary BCA SIO After Idiosyncratic Notching						**(5.38) a1**
Sovereign Rating Threshold						**Aaa**
Operating Environment Notching						**1.0**
BCA Scorecard-Indicated Outcome						**(4.38) aa3**
Assigned BCA						**aa2**

[1] Regional GDP per capita in terms of purchasing power parity (PPP) terms, in international dollars
[2] Primary Operating Balance / Operating Revenue
[3] Cash and Cash Equivalents / Operating Revenue
[4] Net Direct and Indirect Debt / Operating Revenue
[5] Interest Payments / Operating Revenue
Source: Moody's Ratings; Fiscal 2023.

Ratings

Exhibit 8

Category	Moody's Rating
BRITISH COLUMBIA, PROVINCE OF	
Outlook	Negative
Baseline Credit Assessment	aa2
Issuer Rating	Aa1
Senior Unsecured	Aa1
Commercial Paper	P-1

Source: Moody's Ratings

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