Research Announcement: Moody’s notes British Columbia’s capital plans will continue to weaken its debt metrics despite balanced budgets

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- Forecast of balanced budgets in 2020/21 and economic growth above the national average support the province’s strong credit profile

- Debt financing of capital infrastructure plans continues to pressure the province’s debt levels

Moody’s Investors Service says in a new report that British Columbia’s 2020/21 budget maintains a path of balanced budgets into the future, with the province projecting small surpluses that average CAD 260 million (0.4% of revenues) over the next three years. Nevertheless, the province’s significant capital infrastructure plans will require material new debt issuance which will weaken its debt metrics.

“The forecast of balanced fiscal results and expectations of economic growth above the national average are in line with our previous expectations and continue to position British Columbia as one of the fiscally strongest Canadian provinces,” says Adam Hardi, a Moody's Assistant Vice President. “However, the province’s capital spending over the next three years of CAD 32.6 billion will result in a CAD 14 billion rise in net debt which will pressure its debt levels.”

The balanced budget forecasts are based on the province's expectation of a marginally faster acceleration in average revenue growth of 2.7% over the next three years compared to average spending growth of 2.6% over the same period. The province’s economy will remain strong with low unemployment rate and real GDP growth that is expected to be above the national growth rate.

The increase in capital spending over the next three years includes projects supporting a range of renewal and new capital infrastructure expenses. New borrowing will finance a significant component of the capital spending plans, and we forecast that the province’s net direct and indirect debt will rise by CAD 14 billion between 2019/20 and 2022/23. As a result, net debt will reach nearly 91% of revenue in 2022/23 from 72.7% in 2018/19. Net debt in excess of 95% of revenue on a sustained basis would lead to downward pressure on the province's credit profile.

Subscribers can access the report at: http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1213952

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