MOODY'S
RATINGS

Rating Action: Moody's Ratings downgrades the Province of British Columbia's rating to Aa1, maintains negative outlook

02 Apr 2025

Toronto, April 02, 2025 -- Moody's Ratings (Moody's) has downgraded the Baseline Credit Assessment (BCA) of the Province of British Columbia (British Columbia) to aa2 from aa1, and downgraded its long-term issuer and senior unsecured debt ratings to Aa1 from Aaa and program and shelf ratings to (P)Aa1 from (P)Aaa. The outlook remains negative.

We affirmed the province's P-1 commercial paper ratings.

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

RATIONALE FOR THE DOWNGRADE

The downgrade reflects a structural deterioration in British Columbia's credit profile, with larger deficits and higher levels of debt than we previously projected driven by significant increases in both operating and capital spending. In our view, these developments also reflect a weakening in governance and risk controls, albeit from very strong levels.

In light of British Columbia's stated fiscal policy intentions and the province's economic environment, we project materially larger and more entrenched deficits for the province than under our previous forecasts, and without clear visibility on a timeline to return to balance. For 2025-26, 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 and local governments (RLGs) globally. The deficits reflect a material rise in spending commitment over the next three years (more than 50% above the aggregate 3-year spending commitments in the 2022-23 budget), with the largest spending increases dedicated to healthcare, easing housing affordability - as one of the most expensive regions in Canada - and addressing mental health and addiction concerns.

Our projections include the adverse revenue impacts of the province's recent decision and legislative change to eliminate the consumer carbon tax starting 1 April 2025, with an estimated net impact of CAD2 billion (2.5% of 2025-26 budget revenue) annually. 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.

In themselves, these changes in spending commitments and revenue policy would lead to a significant deterioration in fiscal prospects and British Columbia's credit profile, well beyond what we envisaged at the time of our last rating action. We also incorporate a negative impact of tariffs and retaliatory measures and heightened trade uncertainty on economic activity which will weigh on revenue.

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

As a result of much wider deficits, we project a continued rise in debt levels. A substantial portion of debt will finance capital projects in healthcare (including new hospitals and redevelopments), education and transportation. Debt will also be needed to support the capital projects of the province's fully owned electric utility, British Columbia Hydro & Power Authority (BC Hydro, Aaa negative). 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.

If the capital plan is fully realized, we estimate that net direct and indirect debt will rise to 190% of revenue in 2025-26 and could exceed 240% by 2027-28, very high levels compared with RLGs in Canada and globally. Historically the province has only been able to complete about 75-80% of its capital spending targets, providing some buffer against our projected debt increases, although a rapid increase in debt is very likely.

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.

The increase in deficits and rising debt largely stems from provincial policy choices, which we view as evidence of a continued weakening in governance and fiscal and debt management, from high standings. We view this as a notable departure from the province's historical approach of budgeting that focused on limiting the growth in debt or protecting its fiscal position. The lack of clarity by the government on a path back to balance further weakens fiscal management.

British Columbia's credit profile is supported by a resilient and diverse economy with several important sectors, supporting a large tax base and ensuring that provincial revenues are not strongly impacted by a decline in one particular sector. 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 the current 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.

The province retains exceptionally strong market access for its debt issuances both domestically and internationally. The province has established significant debt programs in multiple currencies which helps sustain investor demand. The province retains a modest level of liquidity which provides some buffer against uncertainties, however the overall level of liquidity and coverage ratios relative to debt and expenses has declined notably in the last few years.

The affirmation of the P-1 commercial paper ratings reflect British Columbia's high investment grade long-term debt rating, supported by the strength of the province's liquidity position and the existence of strict policy limits on floating rate, foreign exchange and credit exposures.

The Aa1 rating combines the aa2 BCA for the province 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

RATIONALE FOR THE NEGATIVE 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

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

The environmental issuer profile score (IPS) of E-3 reflects exposure to weather events including frequent occurrence of flooding and large wildfires which create significant damage. However, 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.

The social IPS of S-2 indicates strong health and safety measures and high livability 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.

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 points to weaker risk controls and financial management than we previously assessed.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

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

The rating could be downgraded if the province is unable to reduce the size of deficits and curb the growth in debt relative to our forecasts. Substantially weaker provincial liquidity metrics or a material weakening in BC Hydro's financial metrics would also result in downward rating pressure.

LIST OF AFFECTED RATINGS

Issuer: British Columbia, Province of

..Downgrades:

.... Baseline Credit Assessment, Downgraded to aa2 from aa1

.... LT Issuer Rating, Downgraded to Aa1 from Aaa

.... Senior Unsecured, Downgraded to Aa1 from Aaa

.... Senior Unsecured Medium-Term Note Program, Downgraded to (P)Aa1 from (P)Aaa

.... Senior Unsecured Shelf, Downgraded to (P)Aa1 from (P)Aaa

..Affirmations:

.... Commercial Paper, Affirmed P-1

..Outlook Actions:

....Outlook, Remains Negative

The principal methodology used in these ratings was Regional and Local

Governments published in May 2024 and available at https://ratings.moodys.com/rmc-documents/421891. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions .

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At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/rmc-documents/435880 .

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