

# Province of British Columbia Panda Bond Market



November 2017

Ministry of Finance  
Website: <http://www.gov.bc.ca/>

# *British Columbia Opening New Capital Markets*



# ***British Columbia's Interest in Panda Bond Market***

- **Support internationalization of RMB and Canada's RMB trade and investment hub**
- **Support China-Canada-British Columbia economic and peoples' relationship**
- **First foreign government to be approved by NAFMII to issue in CIBM**
- **Access to third largest bond market in the world**
- **Promising initiatives to open market and welcome foreign investors and issuers**
- **Diversify province's investor base**
- **Early-mover in the market**

# British Columbia's Panda Program

Terms	Specifications
Issuer	Province of British Columbia
Registered amount under the Programme	CNY 6 billion
Term of the bonds	Not exceeding 10 years; inaugural issue not to exceed 5 years
Custodian institution	Shanghai Clearing House
Joint lead underwriters	Bank of China Limited, HSBC Bank (China) Company Limited
Bookrunner	Bank of China Limited
Approval date	December 3, 2015
Expiration date	December 3, 2017
Remainder under program	CNY 3 billion

# *British Columbia's 1st Panda Bond*

<b>Pricing date</b>	21 January 2016
<b>Settlement date</b>	25 January 2016
<b>Maturity date</b>	25 January 2019
<b>Interest payable</b>	Annual
<b>Coupon</b>	2.95%
<b>Price</b>	100.00
<b>Issue size</b>	CNY 3 billion (C\$577 million as at 8 <sup>th</sup> Nov, 2017)
<b>Joint lead underwriters</b>	Bank of China Limited, HSBC Bank (China) Company Limited
<b>Bookrunner</b>	Bank of China Limited

# *British Columbia's Return to the Panda Bond Market*

<b>Tenor</b>	3-year
<b>Size</b>	CNY 1 billion
<b>Announce tenor, size to market (T-3)</b>	17 November 2017
<b>Set pricing range (T-1)</b>	21 November 2017
<b>Book build and pricing date (T)</b>	22 November 2017
<b>Settlement date (T+1)</b>	23 November 2017
<b>Joint lead underwriters</b>	Bank of China Limited, HSBC Bank (China) Company Limited
<b>Bookrunner</b>	Bank of China Limited

# *The Compelling Canada Story*

- One of only two G-7 country to receive AAA credit rating
- One of the world's soundest banking system according to World Economic Forum
- Government of Canada securities among the world's most sought-after investments
- Lowest net debt-to-GDP ratio in G-7

# Credit rating comparisons

	AAA	AA+	AA	AA-	A+	A	A-	BBB	BB	B-	CCC
BC	●										
Canada	●										
Germany	●										
United States*	→ ●										
United Kingdom*		→ ●									
France*			●								
Japan*				→ ●							
Italy*							→ ●				
Greece**									→ ●		

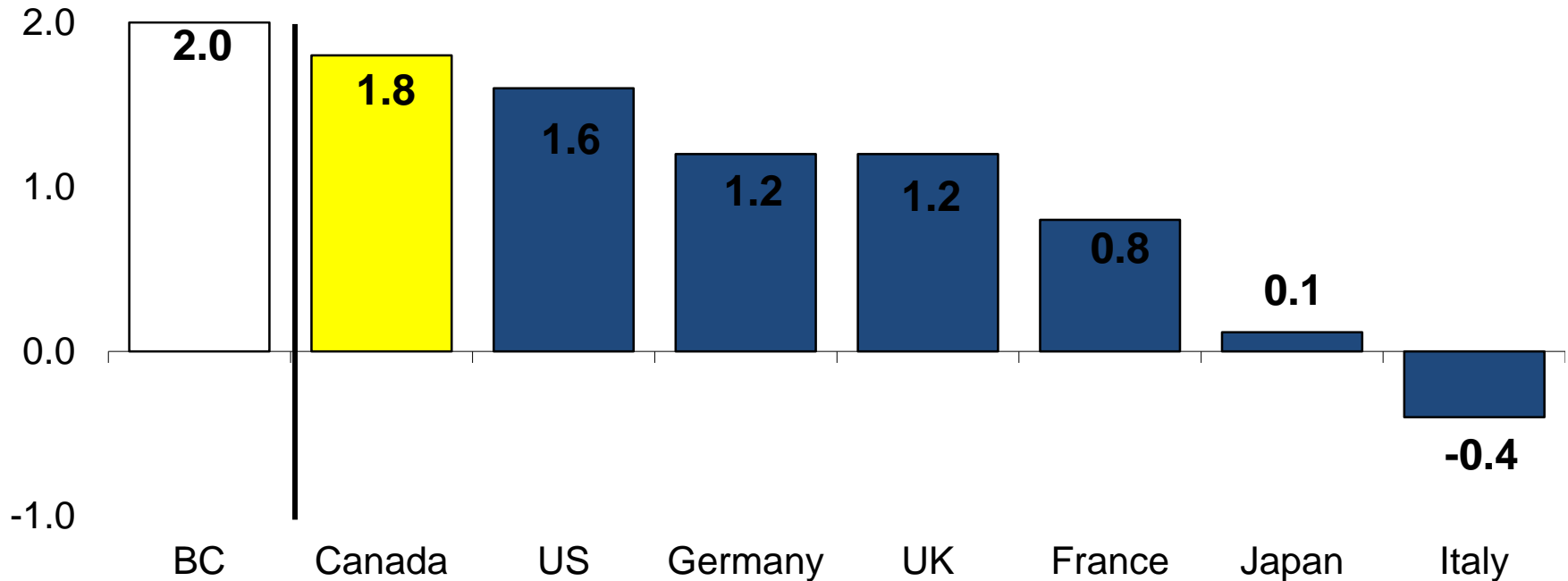
\*Credit rating downgrades between 2009 and 2016.

Source: Standard and Poor's



# *Economic Activity in Canada*

Average annual real GDP growth, 2007 - 2016, per cent



# *Quick Facts on British Columbia*

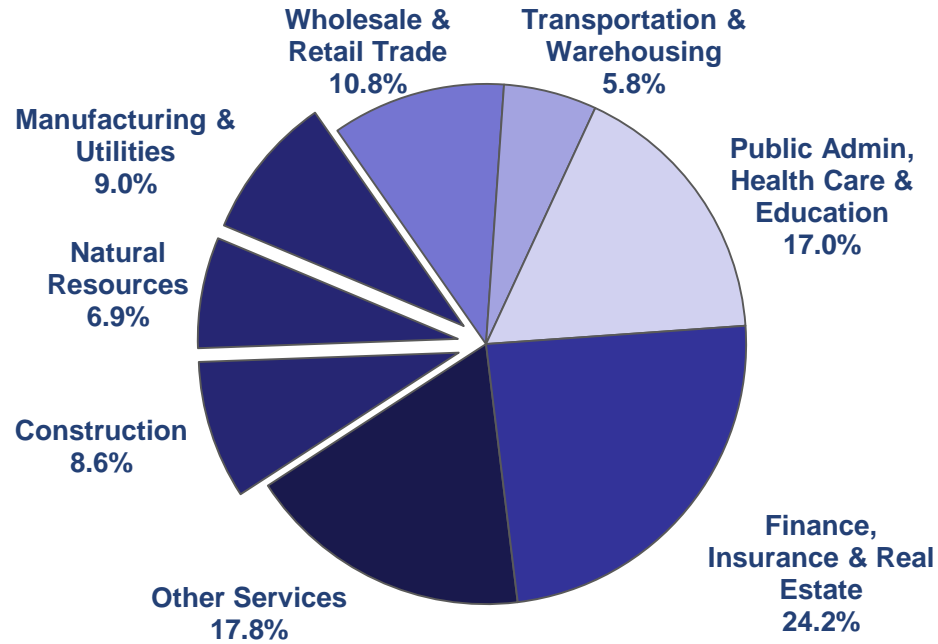
- **4.8 million population**
- **364,764 sq. mi on west coast of Canada; third-largest province; size of France and UK combined**
- **Borders the Pacific Rim**
- **Strategic ports for North America trade**
- **Parliamentary system of government**
- **2015 nominal gross domestic product: C\$250 Billion (13% of Canadian economy)**

# *Jurisdictional Authority in Canadian Federation*

<b>Federal</b>	<b>Provincial</b>	<b>Federal/Provincial</b>
Foreign Policy	Health	Agriculture
National Defence	Education	Employment
Criminal Law	Social Welfare	Housing
Citizenship	Property and Civil Rights	Environment
Immigration	Natural Resources	Economic Development
Trade	Local Affairs	Income Security
Aboriginal Issues		Justice
Indirect Taxation		Transportation
		Communication
		Direct Taxation

# BC's Diversified Economy

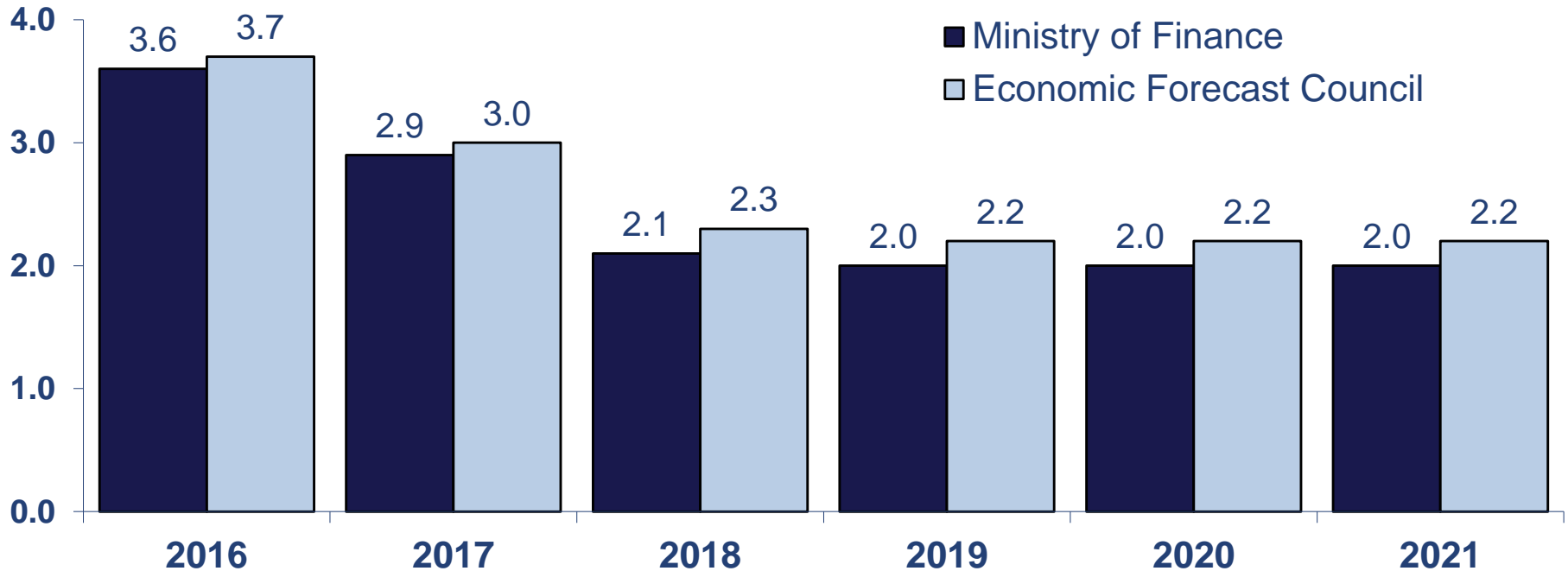
Share of BC GDP at basic prices (chained \$2007) by major industry, 2016



Source: Statistics Canada (may not add to 100 per cent due to rounding)

# Prudent Economic Forecast

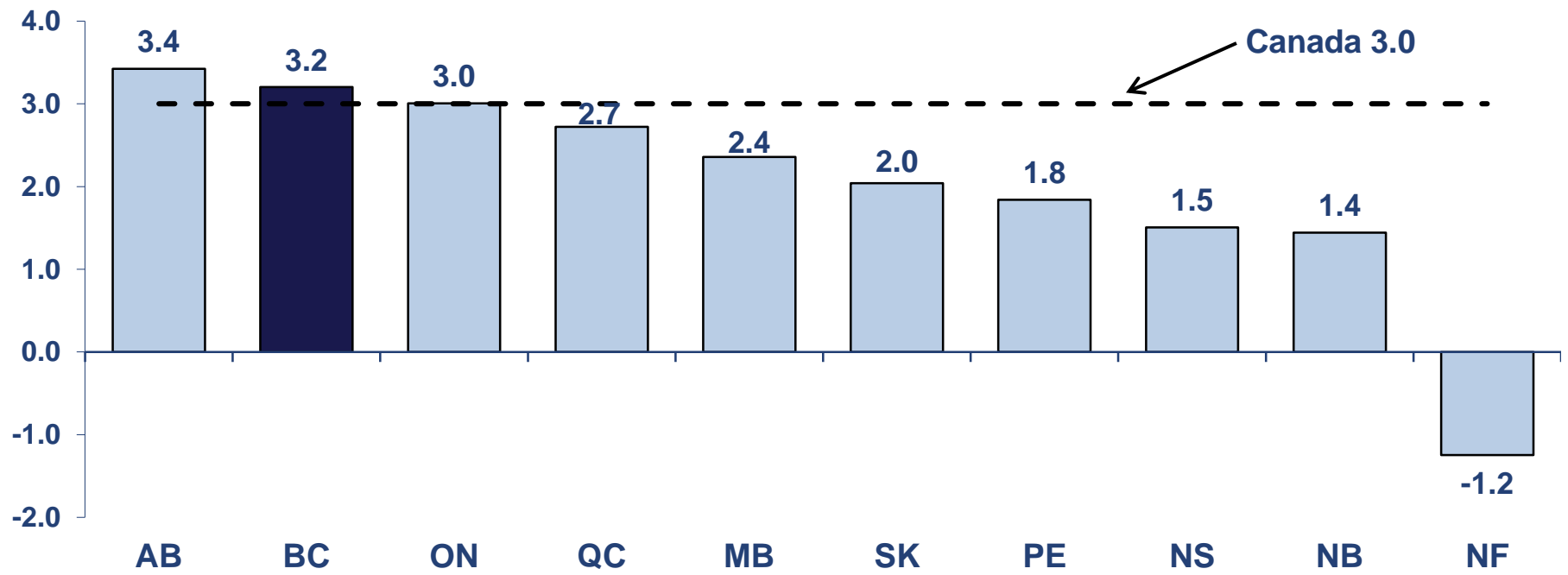
BC real GDP (annual per cent change)



Sources: BC Ministry of Finance, Economic Forecast Council

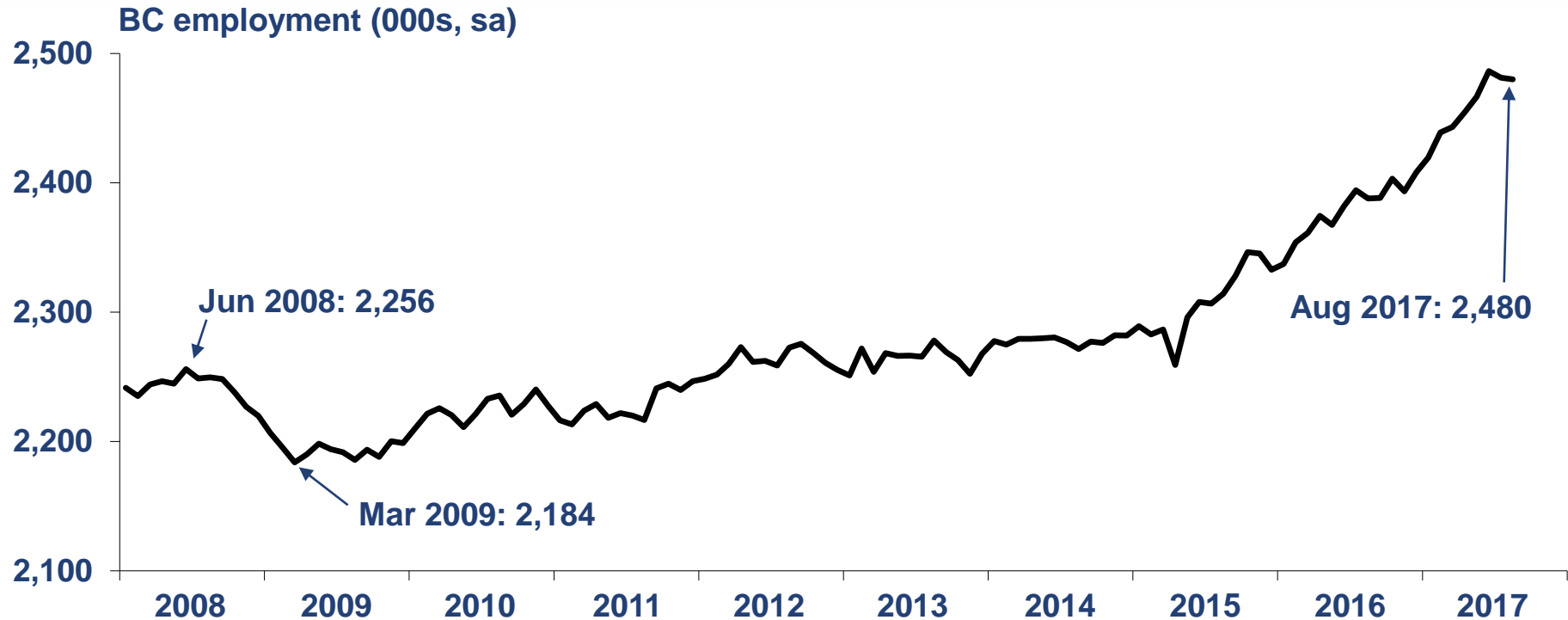
# Private Sector Economic Growth Expectations

Forecast annual growth in 2017 real GDP (per cent)



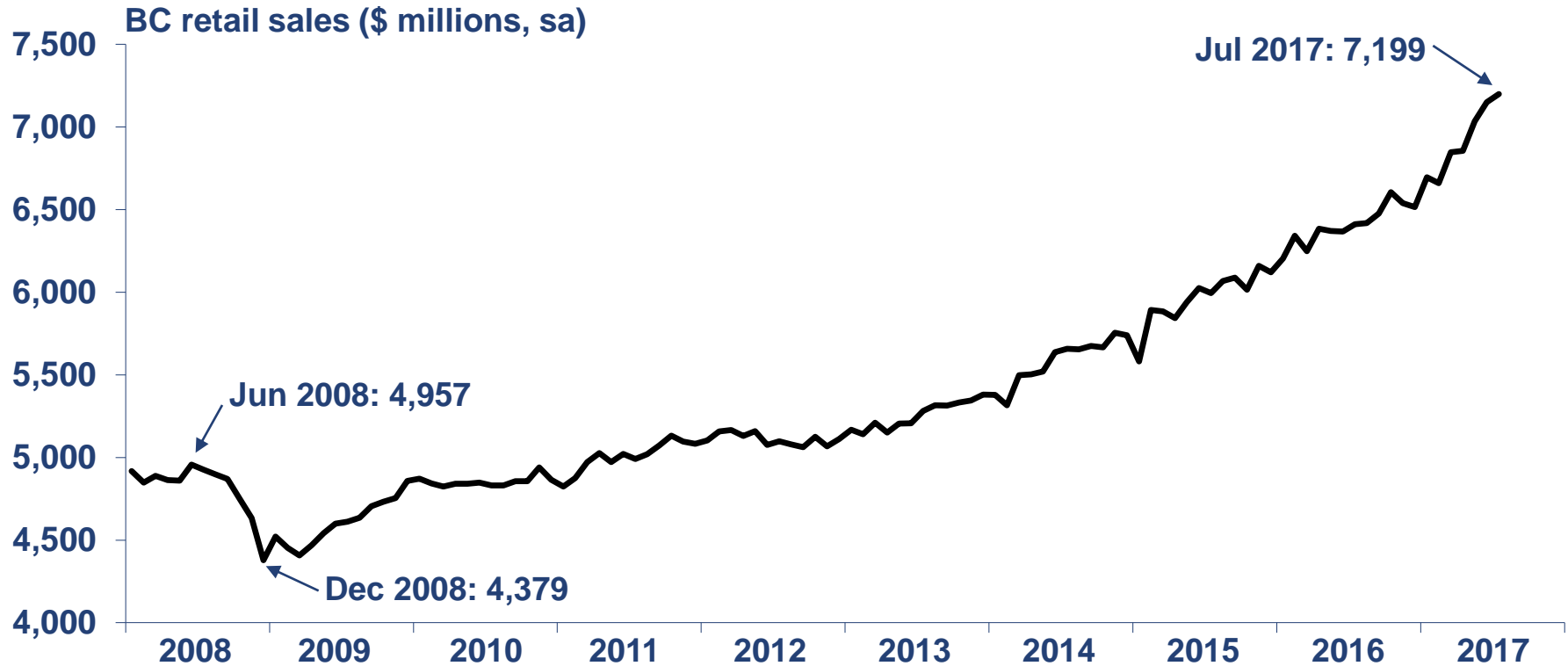
Source: Private Sector Average (subset of the Economic Forecast Council: BMO, RBC, CIBC, TD, Scotiabank and IHS Markit) as of September 22, 2017.

# BC Employment



Source: Statistics Canada

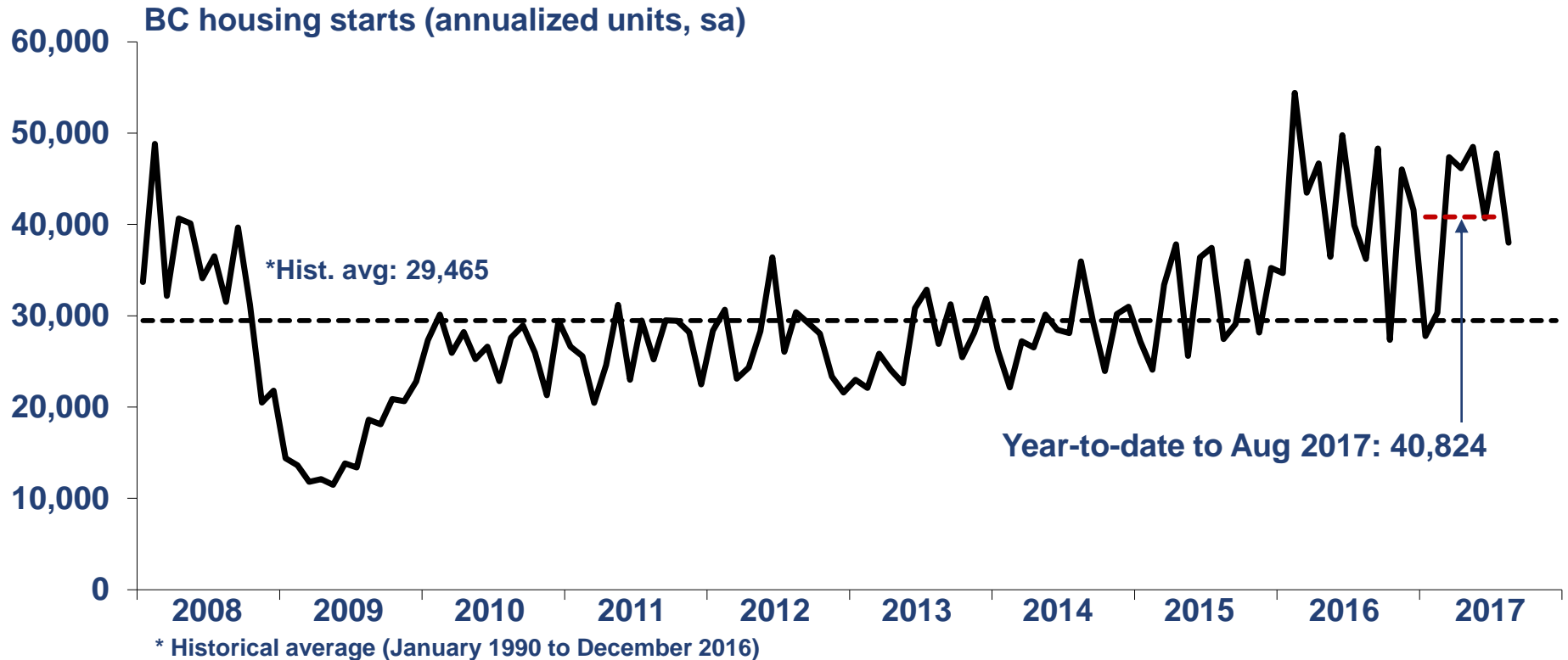
# BC Retail Sales



Source: Statistics Canada

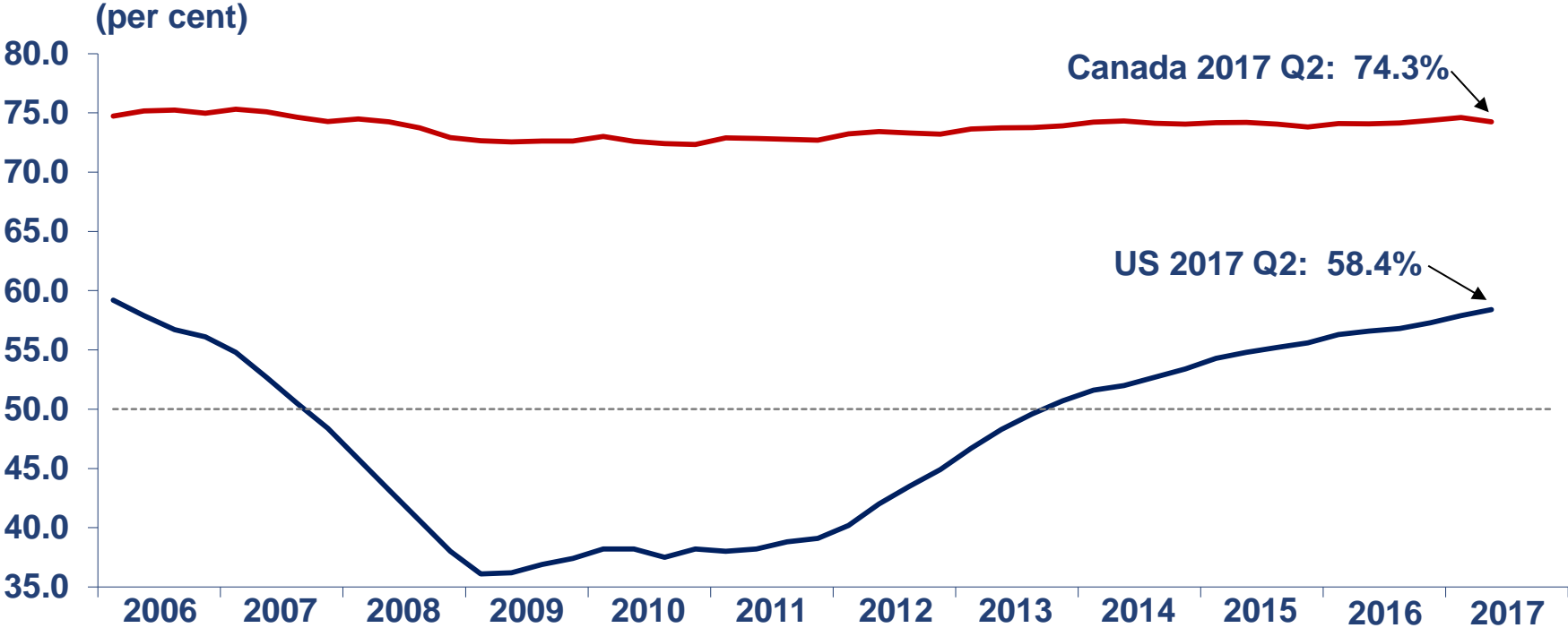


# BC Housing Starts



Source: Canada Mortgage and Housing Corporation

# Owner's Equity as a Share of Residential Assets



Sources: Statistics Canada, St. Louis Federal Reserve

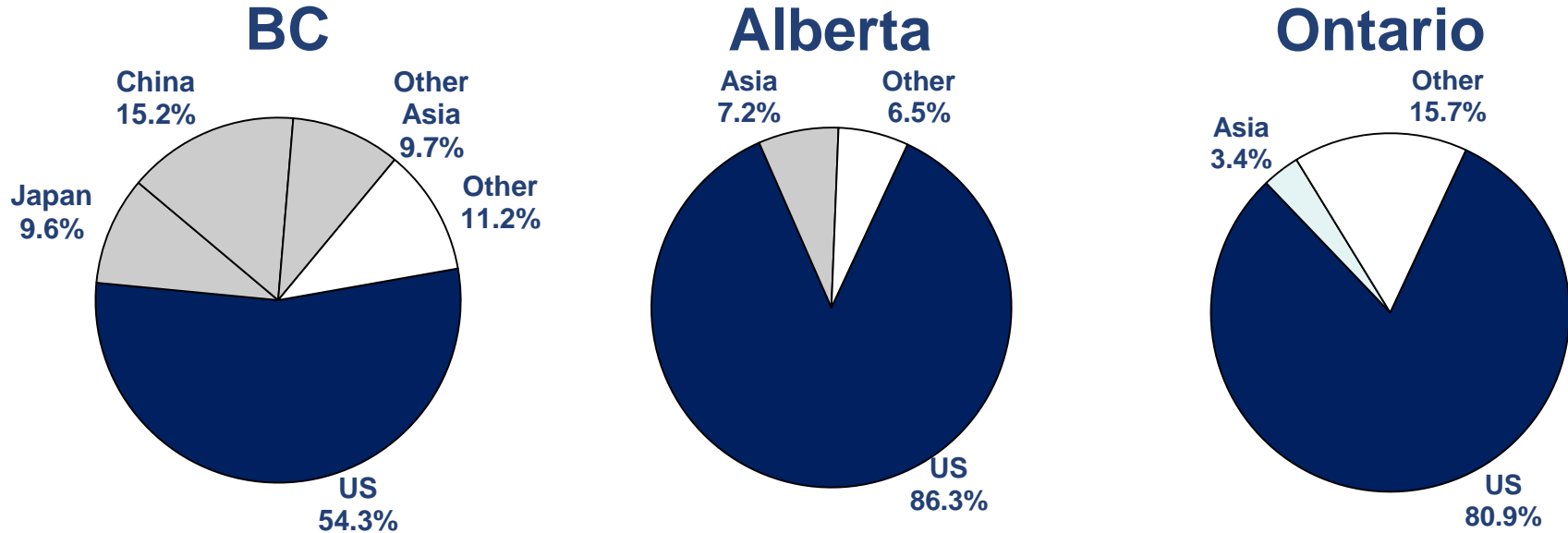
# BC Exports



Source: BC Stats

# BC Trade Diversity

Annual share of international goods exports by province, 2016



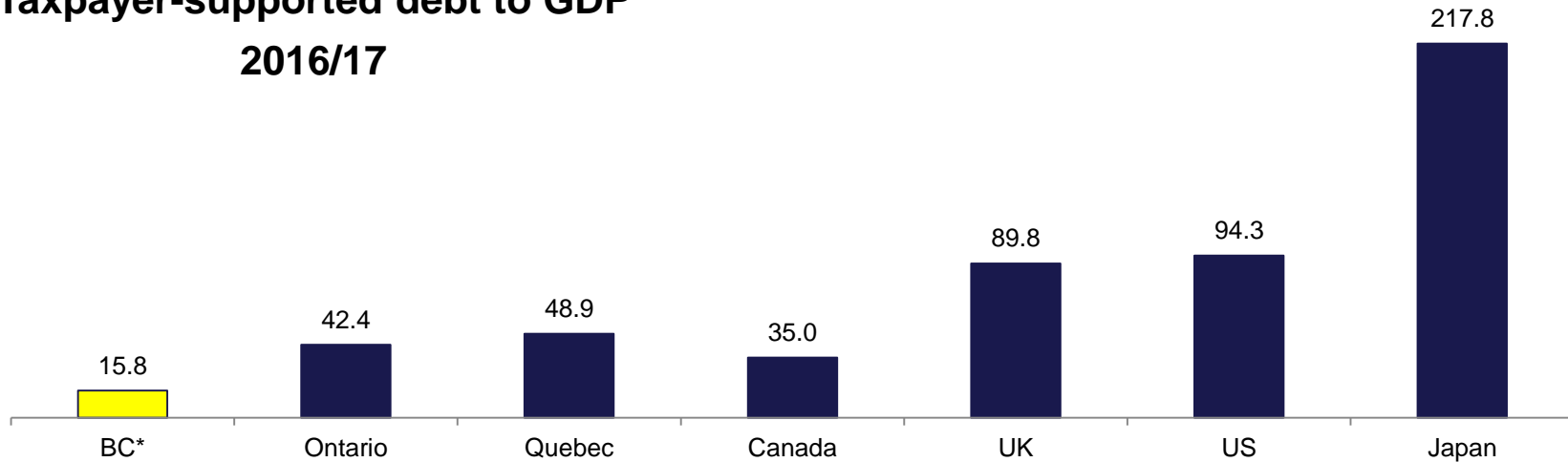
Source: BC Stats (may not add to 100 per cent due to rounding)

# Three-year Operating Plan

\$ millions	Actual 2016/17	Budget Estimate 2017/18	Plan 2018/19	Plan 2019/20
Revenue .....	51,459	52,407	52,557	53,677
Expense excluding Contingencies Vote ....	(48,722)	(51,261)	(51,729)	(52,720)
Contingencies Vote .....	-	(600)	(300)	(350)
Total Expense .....	<u>(48,722)</u>	<u>(51,861)</u>	<u>(52,029)</u>	<u>(53,070)</u>
<b>Surplus before forecast allowance .....</b>	<b>2,737</b>	<b>546</b>	<b>528</b>	<b>607</b>
Forecast allowance .....	-	(300)	(300)	(350)
<b>Surplus .....</b>	<b><u>2,737</u></b>	<b><u>246</u></b>	<b><u>228</u></b>	<b><u>257</u></b>

# Affordable Debt

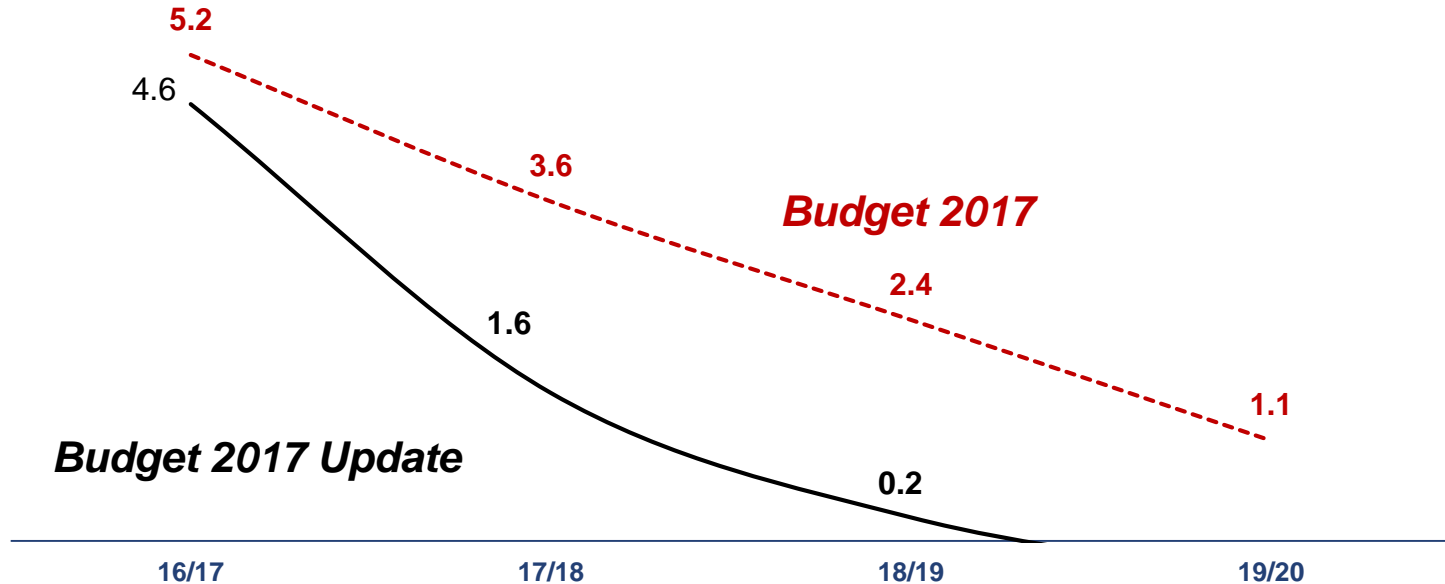
## Taxpayer-supported debt to GDP 2016/17



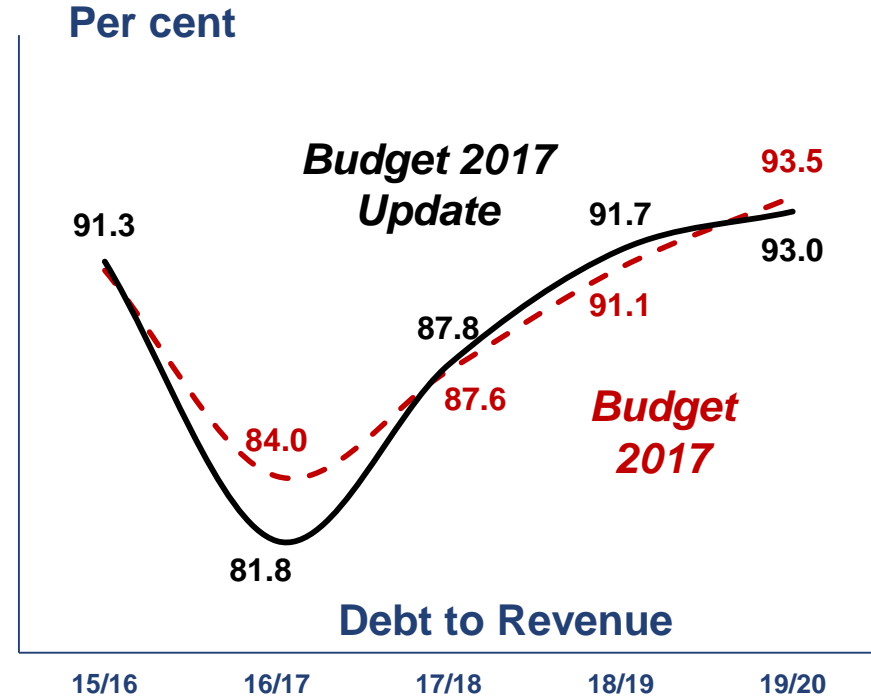
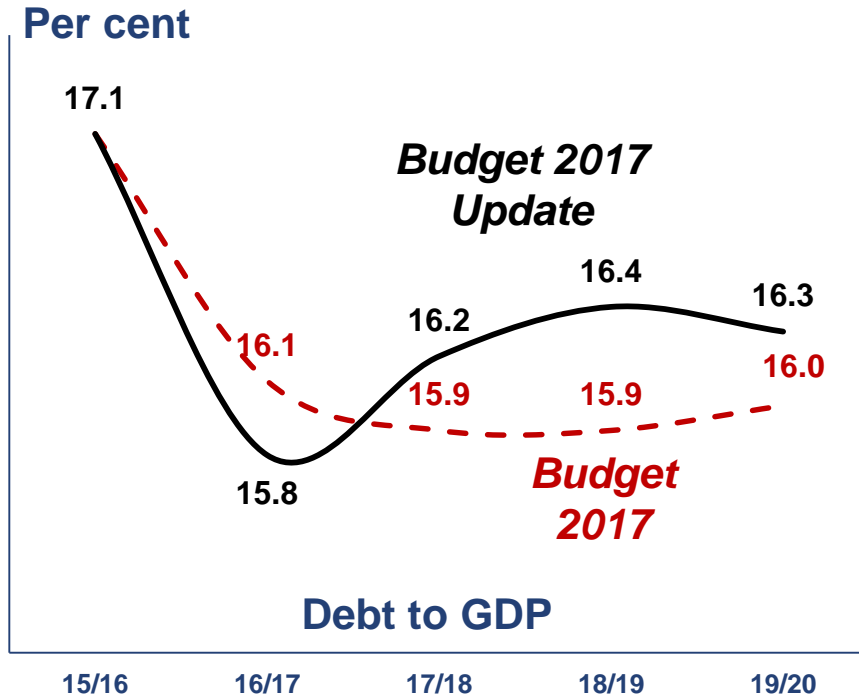
Source: Moody's; \*BC Budget 2017 September Update

# Operating Debt Elimination

\$ billions

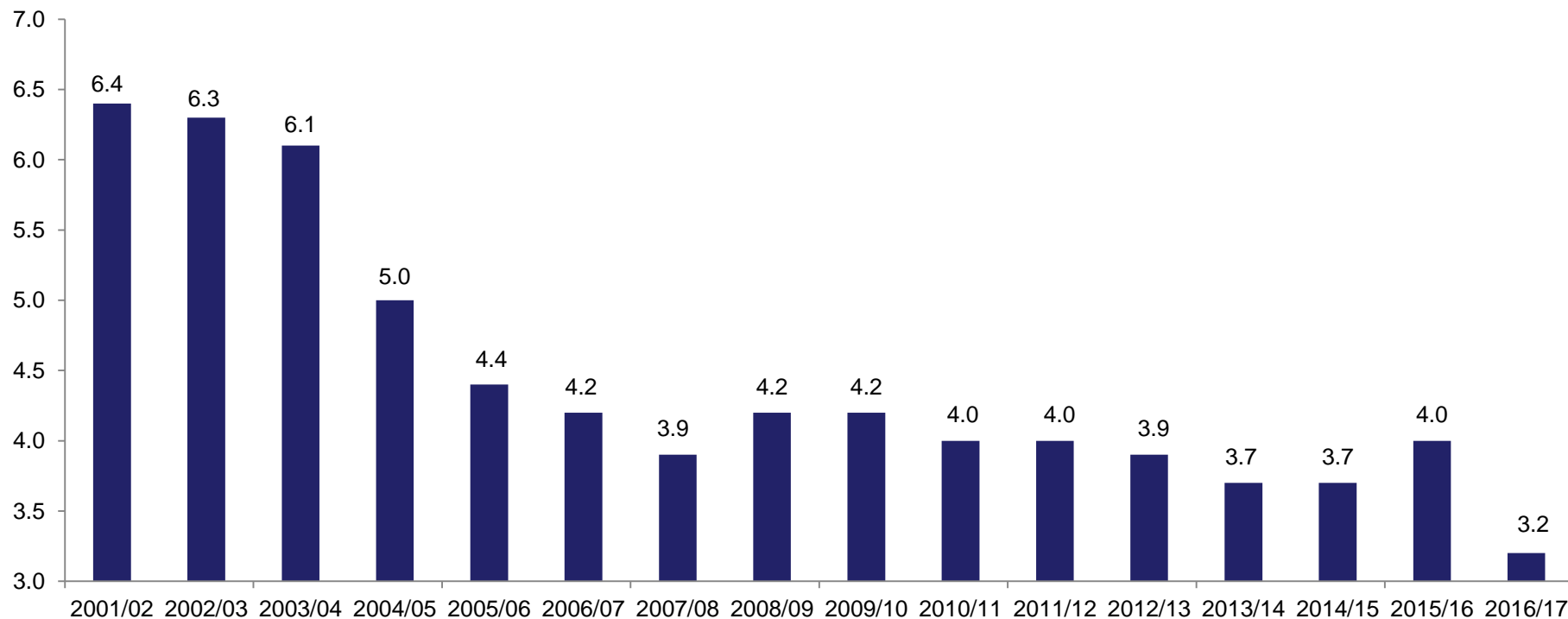


# Maintaining Debt Affordability





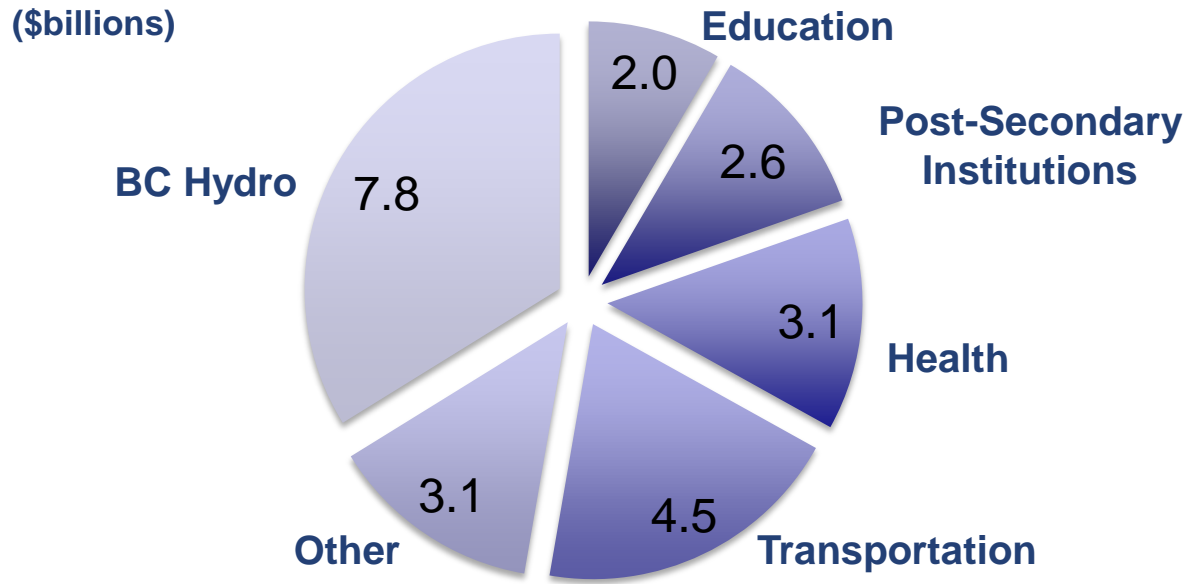
# *Taxpayer Supported Interest Cost per Dollar of Taxpayer Supported Revenue*



Source: 2017 British Columbia Financial and Economic Review

# Infrastructure Spending Allocations

Three-year infrastructure spending totals \$23.1 billion



# *Priority Investments*

**Over \$1.8 billion in new ministry investments over 3 years in support of:**

- **improving affordability**
- **enhancing services**
- **building a strong, sustainable economy**

# *Improving Competitiveness*

- Reducing health care premiums by 50%
- PST on electricity phased out beginning with a 50% cut in the coming months and eliminated April 1, 2019.
- Small business corporate income tax rate reduced to 2% from 2.5% effective April 1, 2017.
- Restore tax treatment for credit unions.
- Innovation Commissioner / Emerging Economy Task Force

# *Risks to the Fiscal Plan*

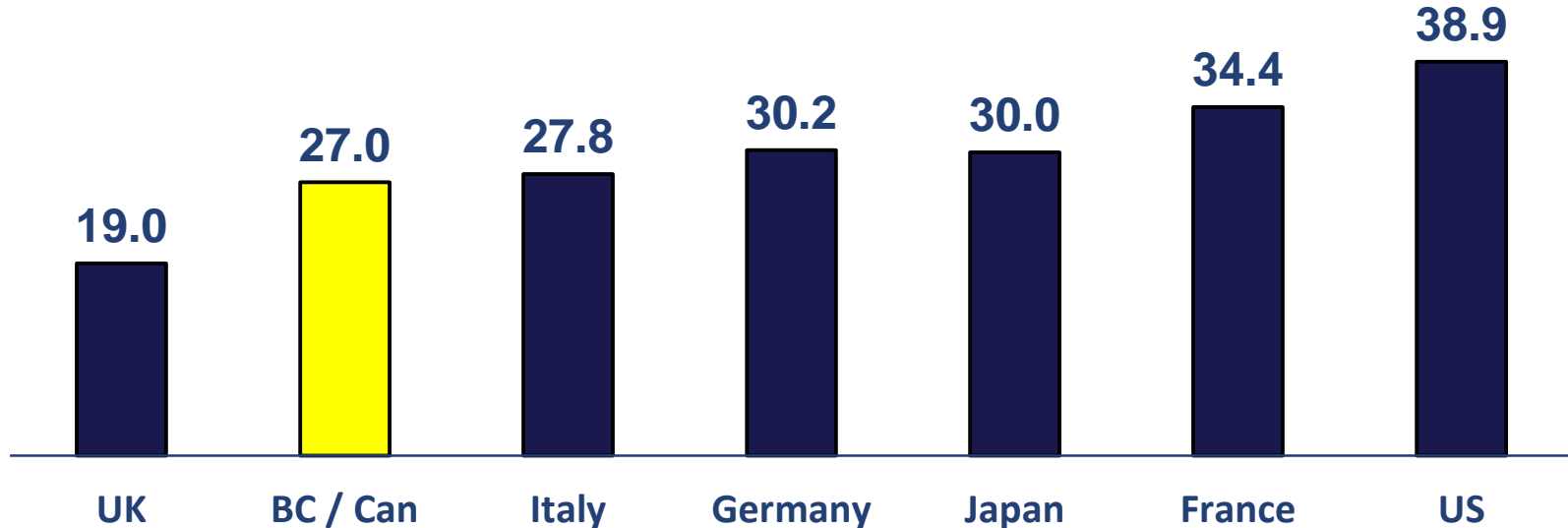
- **Wildfires**
- **Softwood lumber and NAFTA**
- **New compensation mandate**
- **Increasing interest rates**

# *Prudence Remains Important*

- **Contingencies Vote**
  - totals \$1,250M over the ensuing 3 years
- **Forecast Allowance**
  - totals \$950M over the ensuing 3 years
- **Prudent economic growth outlook**

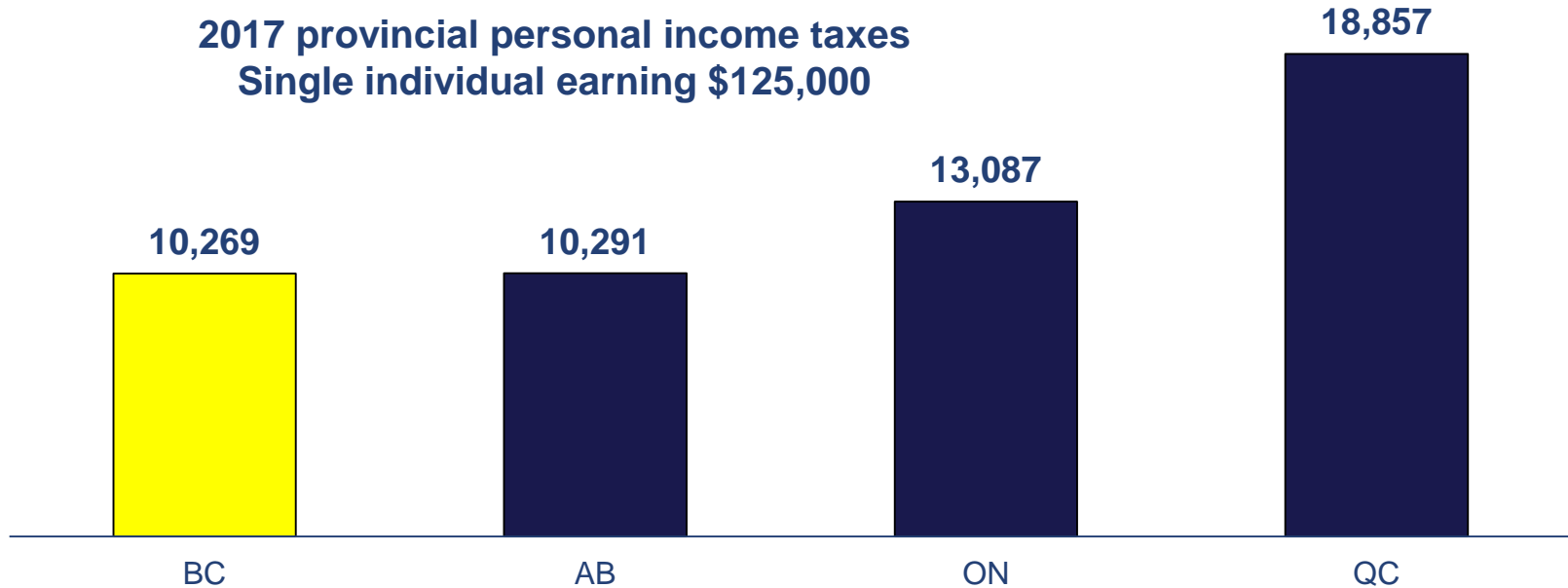
# Competitive Corporate Income Tax

% of taxable income



Combined central and sub-central corporate income tax rates for 2016 (source: OECD Tax Database)  
Combined BC/federal 2018 rate

# Competitive Personal Income Tax



Source: BC Ministry of Finance

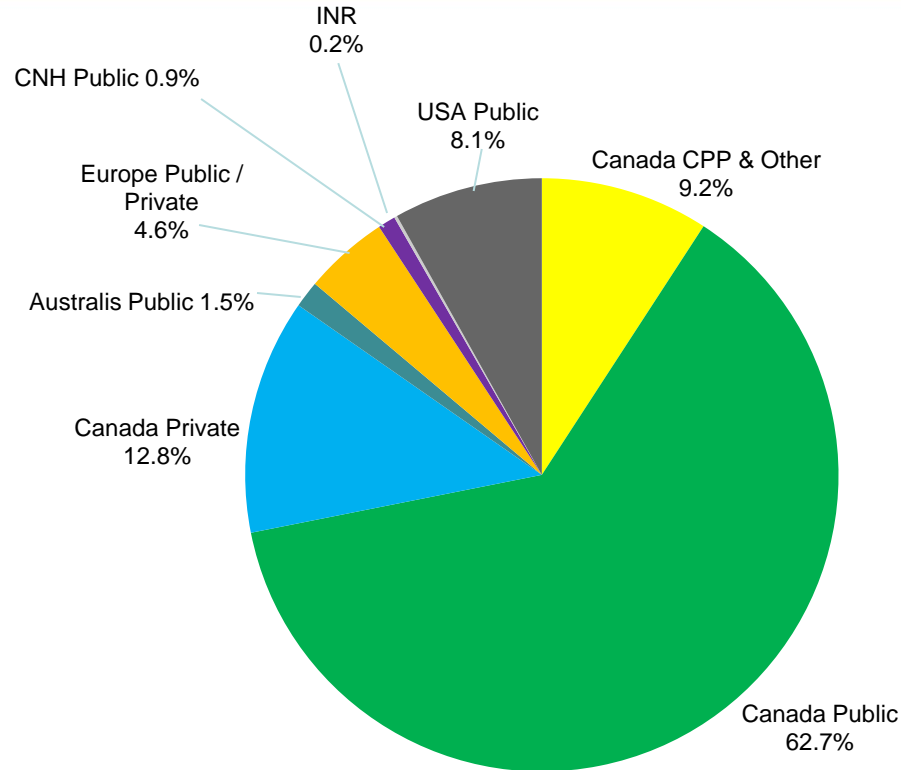


# *British Columbia's Public Sector Pension Risk Management*

- **Defined Benefit/Defined Contribution hybrid plan design**
- **Joint trusteeship**
- **Sound funding and actuarial policies set by the trustees**
- **Strong pension plan governance**
- **101-105% funded on a funded or actuarial basis**

# Gross Market Debt Outstanding by Source as of October 31, 2017

Gross Debt Outstanding: \$60.8 Billion



Market debt does not include guaranteed and non-guaranteed debt of SUCH sector and P3s.

# *Debt Management*

- **\$3.5 billion borrowing program for 2017/18; \$1.3 billion remaining**
- **\$5.3 billion to \$6.9 billion in outer years**
- **Manageable borrowing program**
- **Will rely on province's significant access to domestic and international capital markets**

# *Green Bond Program*

## **Objectives:**

- **Establish a credible & sustainable mechanism to fund green entities and projects in BC's public sector.**
- **Build on BC's existing financial management & environmental leadership.**
- **Follow international best practices**
- **Access a wider range of investors**
- **Open the domestic provincial bond market to support growth of low carbon economy**

## **Next Steps:**

- **Finalize internal program governance**
- **May consider issuance in 2018/19**

# ***BC's Strong Credit Ratings***

- |                                   |                 |               |
|-----------------------------------|-----------------|---------------|
| • <b>Moody's Investor Service</b> | <b>Aaa</b>      | <b>Stable</b> |
| • <b>Standard and Poor's</b>      | <b>AAA</b>      | <b>Stable</b> |
| • <b>Fitch</b>                    | <b>AAA</b>      | <b>Stable</b> |
| • <b>DBRS</b>                     | <b>AA(high)</b> | <b>Stable</b> |

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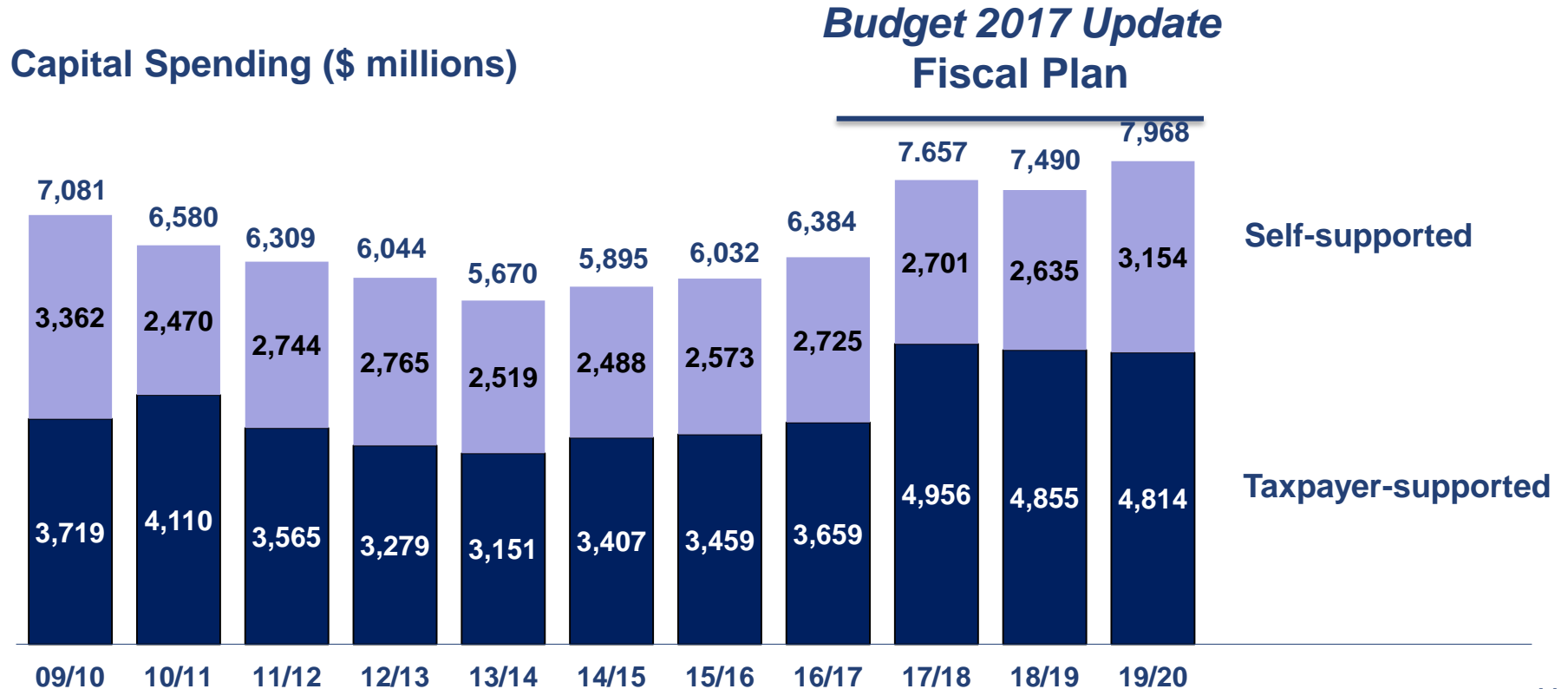
# *Appendix*

# *Canadian Mortgage Rules*

- Maximum amortization period of 25 years for insured mortgages
- Minimum down payment of 5 per cent for any insured mortgage for homes priced below \$500,000
- An additional 10 per cent down payment is required for the portion of a home price between \$500,000 and \$1,000,000
- Maximum refinancing of 80 per cent of the value of the home
- Interest rate stress test required for all insured mortgages
- Maximum borrowing of 65 per cent of the value of the property through a non-amortizing home equity line of credit
- Federally-backed mortgage insurance is available only for homes with a purchase price of less than \$1 million
- Insurance is mandatory for down payments below 20 per cent
- New borrowers qualifying interest rates at least 2% higher than their actual mortgage rate



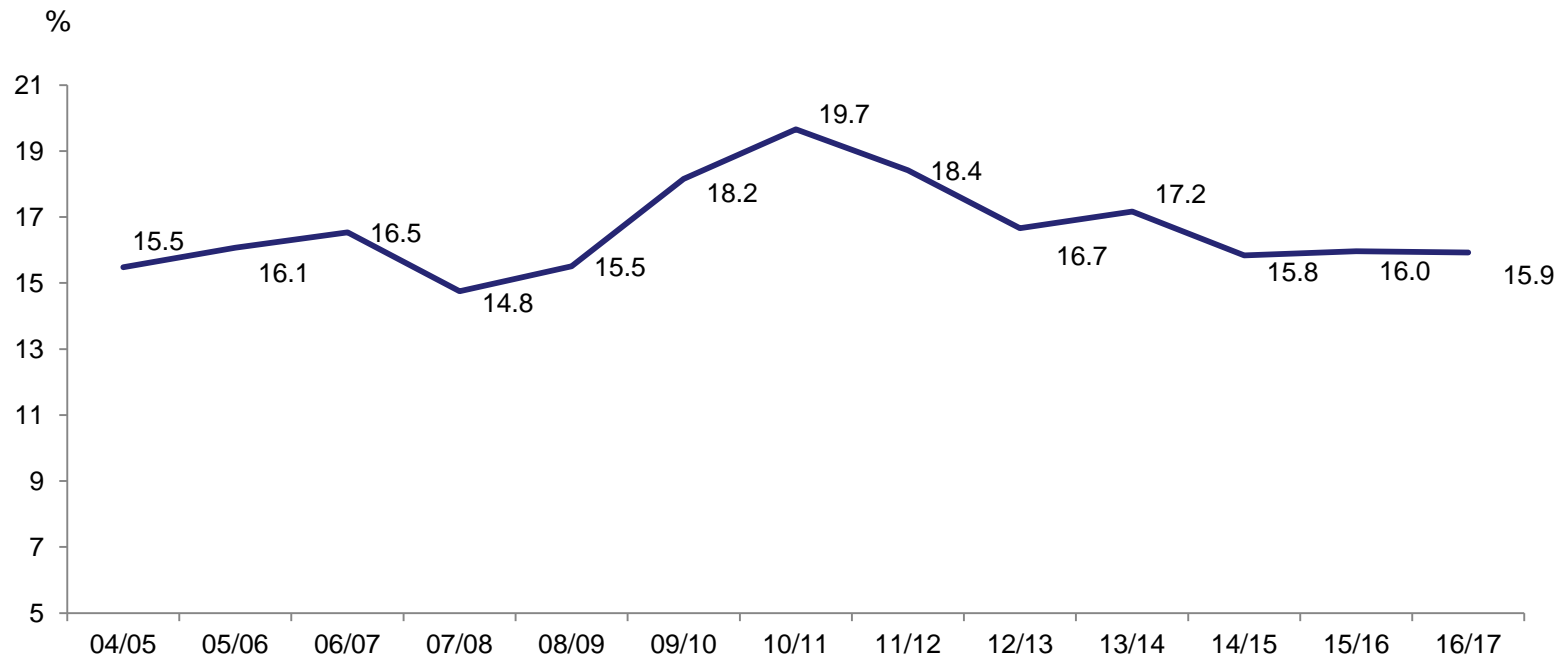
# Infrastructure Investments at Record Levels



# *Pension Plan Positions*

<b>Pension Plan</b>	<b>Number of Members (thousands)</b>	<b>Most recent Valuation</b>	<b>Funding Basis (millions)</b>	<b>Accrued Basis (millions)</b>
<b>Public Service</b>	119	Mar 31, 2014	<b>\$194</b> <b>101%</b>	\$804 105%
<b>Teachers'</b>	94	Dec 31, 2014	<b>\$449</b> <b>102%</b>	(\$704) 96%
<b>College</b>	26	Aug 31, 2015	<b>\$154</b> <b>104%</b>	\$162 105%
<b>Municipal</b>	321	Dec 31, 2015	<b>\$2,224</b> <b>105%</b>	\$1,034 103%

# Federal Contributions as a Percentage of Total Revenues



Source: BC Ministry of Finance – 2017 British Columbia Financial and Economic Review