

Financial Statement Discussion and Analysis Report

Highlights

The highlights section provides a summary of the key events affecting the financial statements based on information taken from the Summary Financial Statements and Provincial Debt Summary included in the Public Accounts. The budget figures are from pages 139, 145, 148 and 149 of the *Budget and Fiscal Plan 2018/19–2020/21*.

Budget and Actual Results 2018/19

	In Millions				Variance	
	2018/19 Budget	2018/19 Updated Forecast	2018/19 Actual	2017/18 Actual	2018/19 Actual to Budget	2018/19 vs 2017/18
	\$	\$	\$	\$	\$	\$
Revenue.....	54,193	56,636	57,128	52,020	2,935	5,108
Expense.....	(53,624)	(55,762)	(55,593)	(51,706)	(1,969)	(3,887)
Surplus(deficit) before forecast allowance	569	874	1,535	314	966	1,221
Forecast allowance.....	(350)	(500)			350	
Surplus (deficit) for the year.....	219	374	1,535	314	1,316	1,221
Capital spending:						
Taxpayer-supported capital spending....	5,174	4,771	4,452	3,908	(722)	544
Self-supported capital spending.....	4,061	4,192	4,106	2,729	45	1,377
Total capital spending.....	9,235	8,963	8,558	6,637	(677)	1,921
Provincial debt:						
Taxpayer-supported.....	45,198	43,957	42,681	43,607	(2,517)	(926)
Self-supported.....	23,824	23,459	23,281	21,312	(543)	1,969
Total provincial debt.....	69,022	67,416	65,962	64,919	(3,060)	1,043
Taxpayer-supported debt to GDP ratio	15.5 %	14.9 %	14.5 %	15.6 %	(1.0)	(1.1)

Summary Accounts Surplus (Deficit)

The province ended the year with a surplus of \$1,535 million, which was \$1,316 million higher than the surplus forecast in the *Budget and Fiscal Plan 2018/19–2020/21*. The 2018/19 surplus of \$1,535 million was \$1,221 million greater than the surplus of \$314 million in fiscal year 2017/18.

Revenue increased by \$5,108 million over fiscal year 2017/18 and was \$2,935 million higher than budget. The annual increase in revenue in the current year was mainly in taxation revenue reflecting economic growth, new tax policy measures and higher prior year income tax assessments.

Expense increased by \$3,887 million over fiscal year 2017/18 and was higher than budget by \$1,969 million. The increases in spending in the current year were mainly in the natural resources, health, protection of persons and property and education sectors for service delivery requirements and wildfire activities. Additional spending over budget was authorized through Supplementary Estimates and various statutory appropriations.

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Capital Spending

Taxpayer-supported infrastructure spending on hospitals, schools, post-secondary facilities, transit, and roads totaled \$4,452 million in 2018/19, \$722 million lower than budget mainly due to project scheduling changes. This spending has been deferred to future years.

Self-supported infrastructure spending on electrical generation, transmission and distribution projects and other capital assets totaled \$4,106 million in 2018/19. Self-supported capital spending was \$45 million higher than budget.

Provincial Debt

When calculating total provincial debt, the province adds to its financial statement debt, all debt guarantees and the debt directly incurred by self-supported Crown corporations, reduced by sinking fund assets. This balance is referred to as the total provincial debt.

Taxpayer-supported provincial debt decreased by \$926 million in 2018/19 mainly due to the elimination of provincial government direct operating debt. Self-supported provincial debt increased by \$1,969 million due to an increase in capital infrastructure related to power projects. The increase in total provincial debt of \$1,043 million was \$3,060 million less than the budgeted increase in total debt of \$4,103 million. The key measure of taxpayer-supported debt to GDP ended the year at 14.5%, which is lower than the 15.5% forecasted in the budget.

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Discussion and Analysis

The detailed analysis section provides an overview of significant trends relating to the Statement of Operations, Statement of Financial Position and Provincial Debt.

Revenue Analysis

Revenue analysis helps users understand the government's finances in terms of its revenue sources and allows them to evaluate the revenue producing capacity of the government.

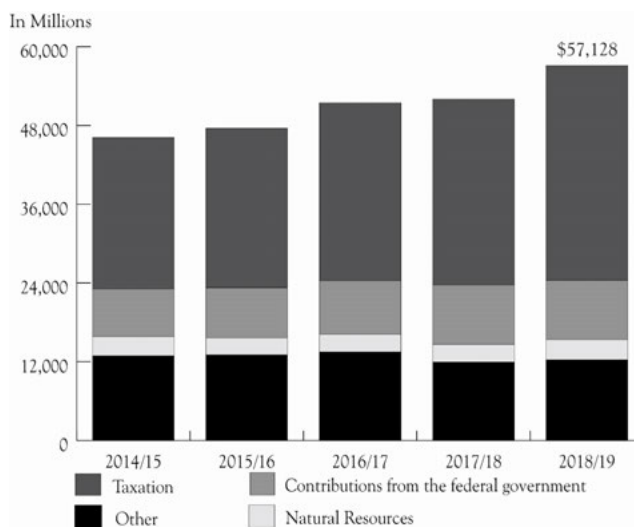
Revenue by Source

Revenue by source provides an outline of the primary sources of provincial revenue and how results change between those sources over time. Revenues are broken down into separate components of taxation, contributions from the federal government, natural resources and other sources, which include fees and licences, contributions from self-supported Crown corporations, and investment income.

	In Millions				
	2014/15 Actual	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Actual
	\$	\$	\$	\$	\$
Taxation.....	23,056	24,326	27,093	28,321	32,714
Contributions from federal government.....	7,279	7,647	8,167	9,055	9,052
Fees and licences.....	5,425	5,836	6,213	6,249	5,593
Miscellaneous.....	2,860	3,298	3,508	3,543	3,413
Net earnings of self-supported Crown corporations.....	3,437	2,710	2,525	1,056	2,005
Natural resources.....	2,937	2,571	2,711	2,695	3,108
Investment income.....	1,171	1,213	1,232	1,101	1,243
Total revenue.....	46,165	47,601	51,449	52,020	57,128

2014/15 to 2018/19

Provincial revenues increased by \$5,108 million in 2018/19. The improvement in provincial revenue was primarily due to increases in taxation revenue of \$4,393 million, net earnings of self-supported Crown corporations of \$949 million, natural resource revenue of \$413 million and an increase in the other sources of revenue of \$9 million. Increases in these significant sources of revenue were offset by a decrease in fees and licences of \$656 million.



In 2018/19, tax revenue increased by \$4,393 million (15.5%). Personal income tax revenue increased by \$2,441 million (27.4%) mainly reflecting estimated household income growth, higher prior year tax assessments and new tax policy measures. Corporate income tax revenue increased by \$1,015 million (24.4%) due to increased federal government installments and prior year settlements. Employer health tax, which came into effect in fiscal 2018/19, was \$464 million. Property transfer tax revenue decreased by \$315 million (14.7%) due to weaker housing sales. All other tax revenues increased by \$788 million over the same period.

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The net earnings of self-supported Crown corporations were \$949 million higher than 2017/18 due to an adjustment of \$950 million to the regulatory assets reported by the British Columbia Hydro and Power Authority (BC Hydro) made in fiscal 2017/18. The net earnings in the Insurance Corporation of British Columbia (ICBC) were \$173 million higher than the previous year and were offset by a decrease of \$162 million in BC Hydro earnings and by decreased earnings in other self-supported Crown corporations of \$12 million.

Natural resource revenues were \$413 million higher than 2017/18, mainly the result of improvements in the forestry sector.

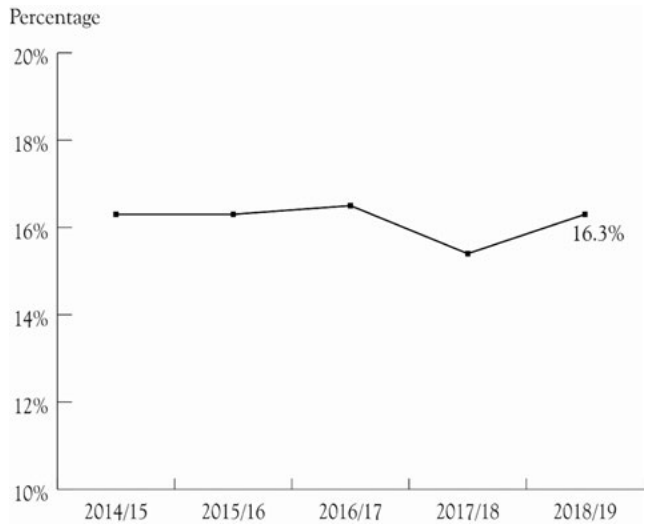
The decrease in fees and licences of \$656 million was due to the reduction in Medical Service Plan premiums offset by increases in tuition revenues in post-secondary institutions.

Own-source Revenue to GDP

The ratio of own-source revenue to GDP represents the amount of revenue the provincial government is taking from the provincial economy in the form of taxation, natural resource revenue, earnings of self-supported Crown corporations and user fees and licences (own-source revenue is all revenue except for federal transfers).

Own-source revenue to GDP has remained stable ending the year at 16.3%.

2014/15 to 2018/19

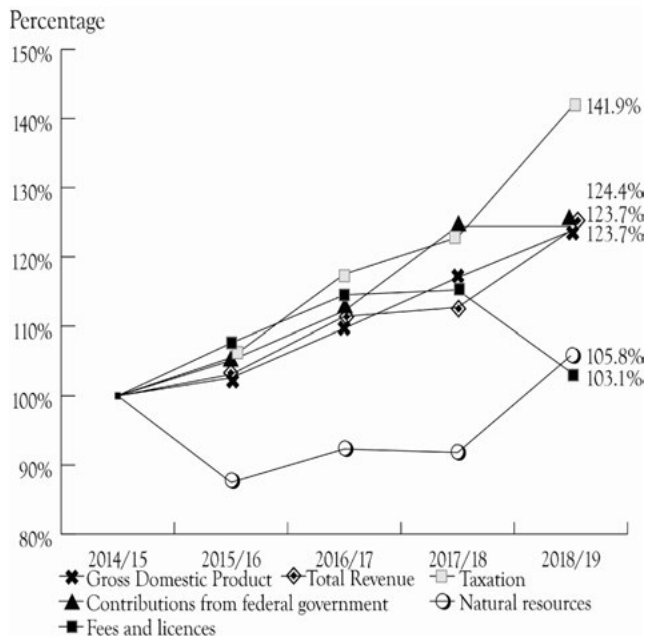


Percentage Change in Revenue

Trend analysis of revenue provides users with information about significant changes in revenue over time and between sources. This enables users to evaluate past performance and assess potential implications for the future.

Over the five years since 2014/15, total revenue has increased in relation with the increase in GDP. Taxation revenue has continued to exceed the growth in GDP. Natural resource revenues have increased by 14.0% over fiscal 2017/18 due to improvements in the forestry sector. Fees and licences revenue have declined due to the reduction in Medical Service Plan premiums.

2014/15 to 2018/19



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Natural Resource Revenue

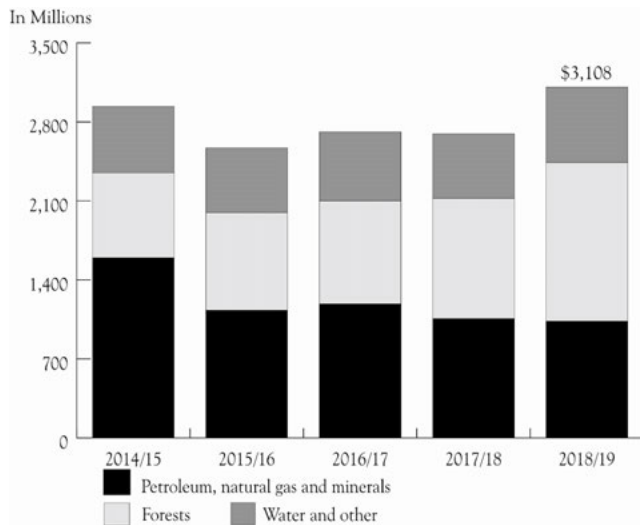
The chart of natural resource revenue by source explains past trends of natural resource revenue in total and by major category.

Forestry revenue increased by \$341 million in 2018/19. The proportion of natural resource revenue derived from forestry increased to 45.2% in 2018/19 from 39.5% in 2017/18.

Petroleum, natural gas and mineral revenues decreased slightly by \$21 million from 2017/18. These categories of natural resource revenue account for 33.3% of natural resource revenue compared to 39.2% in 2017/18.

Water and other resource revenues increased by \$93 million in the year. They comprise 21.5% of provincial natural resource revenue.

2014/15 to 2018/19

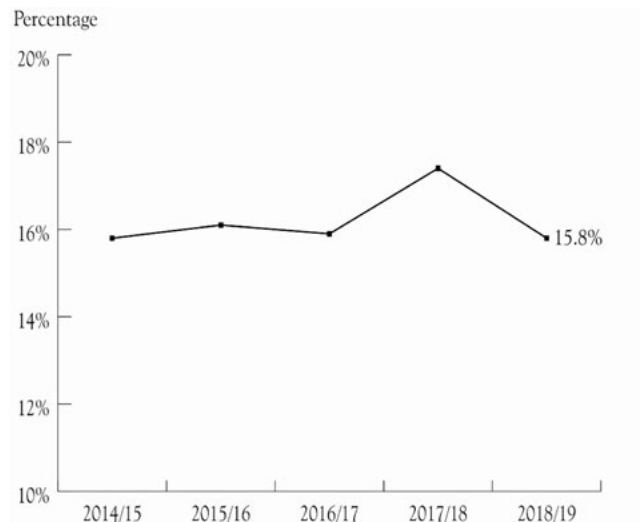


Government-to-Government Transfers to Total Revenue

The ratio of government-to-government transfers to total revenue is an indicator of how dependent the province is on transfers from the federal government. An increasing trend shows more reliance and a decreasing trend shows less.

Federal transfers decreased slightly in 2018/19, resulting in a stable ratio of 15.8%, indicating that there is no increase in dependence on federal transfers.

2014/15 to 2018/19



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Expense Analysis

The following analysis helps users to understand the impact of the government's spending on the economy, the government's allocation and use of resources, and the cost of government programs.

Expense by Function

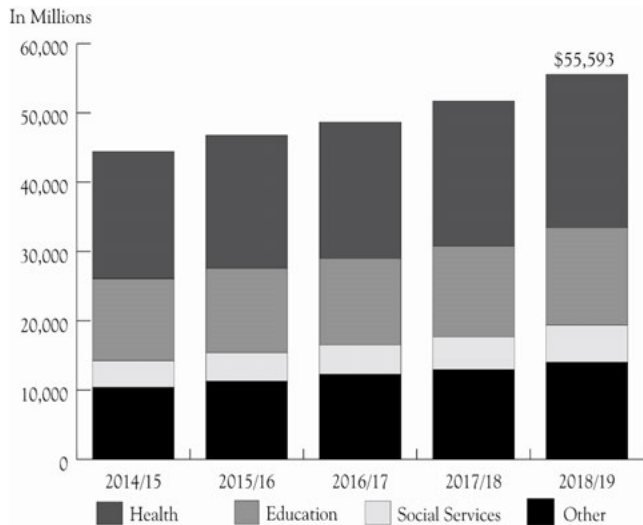
Expense by function provides a summary of the major areas of government spending, and changes in spending over time. Functions, which indicate the purpose of expenditures, are defined by Statistics Canada's Financial Management System of Government Statistics. The province uses the following functions: health, education, social services, interest, natural resources and economic development, other, transportation, protection of persons and property, and general government. The health, education and social services functions account for approximately three quarters of the province's total operating costs.

	In Millions				
	2014/15	2015/16	2016/17	2017/18	2018/19
	Actual	Actual	Actual	Actual	Actual
	\$	\$	\$	\$	\$
Health.....	18,370	19,203	19,689	20,927	22,151
Education.....	11,827	12,212	12,468	13,091	14,085
Social services.....	3,847	4,106	4,243	4,737	5,343
Interest.....	2,498	2,786	2,587	2,623	2,684
Natural resources and economic development.....	2,191	2,477	2,465	3,374	3,825
Other.....	1,288	1,264	2,260	1,553	1,810
Transportation.....	1,608	1,670	1,784	1,931	2,021
Protection of persons and property.....	1,451	1,572	1,655	1,930	2,004
General government.....	1,359	1,501	1,532	1,540	1,670
Total expense.....	44,439	46,791	48,683	51,706	55,593

2014/15 to 2018/19

Government spending on programs and services increased by \$3,887 million in 2018/19.

The province increased spending on the health sector by \$1,224 million (5.8%), the education sector by \$994 million (7.6%), the social services sector by \$606 million (12.8%), the natural resources and economic development sector by \$451 million (13.4%), the other sector by \$257 million (16.5%) and spending in all of the remaining sectors increased by \$355 million over 2017/18.



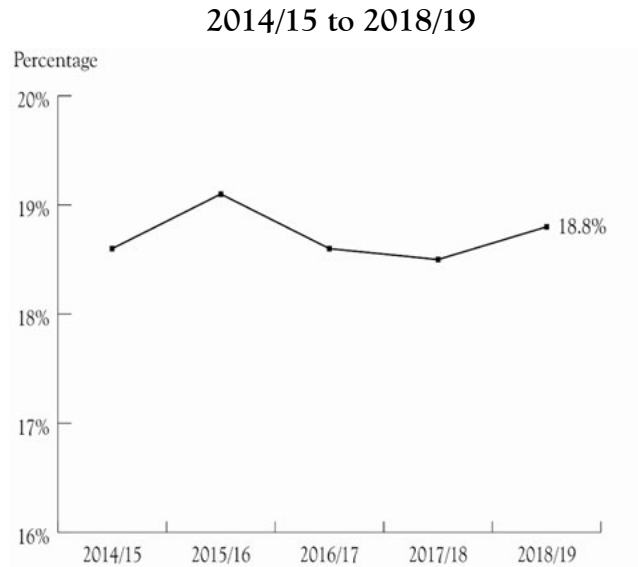
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In 2018/19, provincial operating expenses were \$55,593 million, a \$3,887 million (7.5%) increase from 2017/18. Program spending has increased by \$11,154 million (25.1%) since 2014/15. This is compared to increases in GDP of 23.7% over the same period.

Expense to GDP

The ratio of expense to GDP represents the amount of government spending in relation to the overall provincial economy.

Government spending as a percentage of GDP increased slightly from 18.5% to 18.8% in 2018/19, indicating that government spending continues to grow moderately in relation to the provincial economy.



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Changes in Actual Results from 2017/18 to 2018/19

	In Millions		
	Revenue	Expense	Surplus
	\$	\$	\$
2017/18 Surplus.....	52,020	51,706	314
Increase in taxation revenue.....	4,393		4,393
Increase in natural resources revenue.....	413		413
Increase in net earnings of self-supported Crown corporations.....	949		949
Decrease in fees and licences.....	(656)		(656)
Increase in other revenues.....	9		9
Increase in health spending.....		1,224	(1,224)
Increase in education spending.....		994	(994)
Increase in social services spending.....		606	(606)
Increase in natural resources and economic development spending.....		451	(451)
Increase in other sector spending.....		257	(257)
Increase in other program spending.....		355	(355)
Subtotal of changes in actual results.....	5,108	3,887	1,221
	<u>57,128</u>	<u>55,593</u>	
2018/19 Surplus.....			1,535
2017/18 Accumulated Surplus before Accumulated Other Comprehensive income.....			7,016
2018/19 Accumulated Surplus before Accumulated Other Comprehensive income.....			8,551
Accumulated other comprehensive income from self-supported Crown corporations and agencies.....			31
2018/19 Accumulated Surplus.....			<u>8,582</u>

The year over year increase in total revenue of \$5,108 million, offset by the increase in total expense of \$3,887 million, resulted in a surplus that was \$1,221 million higher than 2017/18. Accumulated surplus, including accumulated other comprehensive income, increased from \$6,781 million in 2017/18 to \$8,582 million at the end of 2018/19.

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Changes from 2018/19 Budget

	In Millions			
	Revenue	Expense	Forecast Allowance	Surplus
	\$	\$	\$	\$
Surplus per 2018/19 Budget	54,193	53,624	(350)	219
Increased taxation revenue.....	2,122			2,122
Increased natural resources revenue.....	695			695
Decreased net earnings of self-supported Crown corporations.....	(559)			(559)
Increased other revenues.....	677			677
Increased natural resources and economic development spending.....		1,392		(1,392)
Increased health spending.....		500		(500)
Increased protection of persons and property spending...		354		(354)
Decreased other sector spending.....		(557)		557
Increased other program spending.....		280		(280)
Forecast allowance.....			350	350
Subtotal of changes in actual results compared to budget.....	2,935	1,969	350	1,316
Actual Results	57,128	55,593	0	1,535

Revenue was \$2,935 million (5.4%) higher than the budgeted amount of \$54,193 million and expenses were \$1,969 million (3.7%) higher than the budgeted amount of \$53,624 million. Additional spending over budget was authorized through Supplementary Estimates and various statutory appropriations.

Net Liabilities and Accumulated Surplus

In accordance with Canadian generally accepted accounting principles, the government's Consolidated Statement of Financial Position is presented on a net liabilities basis. Net liabilities represent net future cash outflows resulting from past transactions and events. An analysis of net liabilities and accumulated surplus helps users to assess the government's overall financial position and the future revenue required to pay for past transactions and events.

	In Millions			Variance	
	2018/19 Budget	2018/19 Actual	2017/18 Actual	2018/19 Budget to Actual	2018/19 vs 2017/18
	\$	\$	\$	\$	\$
Financial assets.....	44,858	44,569	43,083	(289)	1,486
Less: liabilities.....	(89,601)	(86,703)	(84,917)	2,898	(1,786)
Net Liabilities.....	(44,743)	(42,134)	(41,834)	2,609	(300)
Less: non-financial assets.....	51,756	50,716	48,615	(1,040)	2,101
Accumulated surplus	7,013	8,582	6,781	1,569	1,801

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The accumulated surplus represents the sum of the current and prior years' operating results, and accumulated changes in other comprehensive income. At March 31, 2019, the accumulated surplus was \$8,582 million, \$1,569 million higher than budget.

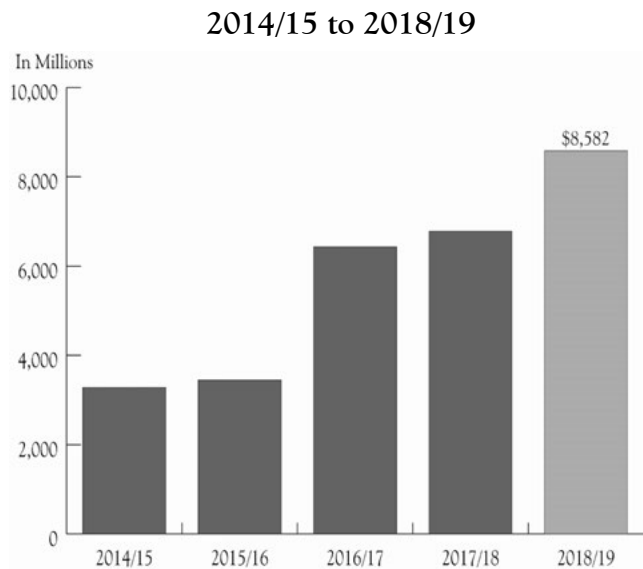
Financial assets were \$1,486 million higher than 2017/18 as the result of increases in loans for the purchase of assets, recoverable from agencies of \$2,013 million and accounts receivable of \$719 million. These increases were offset by decreases in cash, cash equivalents and temporary investments of \$411 million, equity in self-supported Crown corporations and agencies of \$394 million and \$441 million in other financial assets.

Liabilities increased by \$1,786 million from 2017/18. This increase was the result of an increase in self-supported debt of \$2,036 million due to investment in government power projects and an increase of \$1,293 million in other liabilities, including accounts payable and deferred revenue. These increases were offset by a decrease of \$1,543 million in taxpayer-supported debt due to the elimination of government direct operating debt.

Non-financial assets typically represent resources, such as tangible capital assets, that the government can use in the future to provide services. Non-financial assets increased by \$2,101 million over 2017/18 representing government's investment in current year infrastructure spending.

Accumulated Surplus

The accumulated surplus represents current and all prior years' operating results. In 2018/19, the province had an accumulated surplus of \$8,582 million, \$1,801 million higher than in 2017/18. The positive operating results of prior years and the current year provide the flexibility to sustain core public services.



Financial Statement Discussion and Analysis Report

Components of Net Liabilities

Financial Assets

Trend analysis of financial assets provides users with information regarding the amount of resources available to the government that can be converted to cash to meet obligations or fund operations.

	In Millions				
	2014/15	2015/16	2016/17	2017/18	2018/19
	Actual	Actual	Actual	Actual	Actual
	\$	\$	\$	\$	\$
Cash, cash equivalents, temporary investments.....	3,675	3,892	4,232	3,440	3,029
Accounts receivable.....	3,489	3,761	4,163	4,586	5,305
Equity in self-supported Crown corporations and agencies.....	8,254	7,514	7,494	6,111	5,717
Loans for the purchase of assets, recoverable from agencies.....	20,624	22,041	23,809	20,534	22,547
Other financial assets.....	6,603	7,455	7,067	8,412	7,971
Total financial assets.....	42,645	44,663	46,765	43,083	44,569

In 2018/19, financial assets increased by \$1,486 million primarily due to an increase in capital loans to Crown corporations and agencies. Recoverable capital loans increased by \$2,013 million due to investments in power projects. Equity in self-supported Crown corporations decreased by \$394 million related to the loss in earnings recorded by ICBC. The remaining financial assets decreased by \$133 million.

Liabilities

Trend analysis of liabilities provides users with information to understand and assess the demands on financial assets and the revenue raising capacity of government.

	In Millions				
	2014/15	2015/16	2016/17	2017/18	2018/19
	Actual	Actual	Actual	Actual	Actual
	\$	\$	\$	\$	\$
Taxpayer-supported debt.....	42,693	44,119	42,390	44,752	43,209
Self-supported debt.....	20,465	21,892	23,699	20,619	22,655
Total financial statement debt.....	63,158	66,011	66,089	65,371	65,864
Accounts payable and other liabilities.....	8,312	8,486	8,898	9,618	10,435
Deferred revenue.....	9,771	9,743	9,525	9,928	10,404
Total liabilities.....	81,241	84,240	84,512	84,917	86,703

In 2018/19, total liabilities increased by \$1,786 million. Liabilities are obligations that must be settled at a future date by the transfer or use of assets. Self-supported financial statement debt increased by \$2,036 million, while taxpayer-supported financial statement debt decreased in 2018/19 by \$1,543 million. Information relating to the government's debt management can be found in more detail in the analysis of the total provincial debt on page 25. Deferred revenue increased by \$476 million and accounts payable and other liabilities increased by \$817 million. Deferred revenue represents unearned revenues and restricted contributions that will be recognized as revenue in future periods.

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Non-financial Assets

Trend analysis of non-financial assets provides users with information to assess the management of a government's infrastructure and long-term non-financial assets.

	In Millions				
	2014/15 Actual	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Actual
	\$	\$	\$	\$	\$
Tangible capital assets.....	39,028	40,282	41,303	45,837	47,830
Other non-financial assets.....	2,834	2,724	2,875	2,778	2,886
Total non-financial assets.....	41,862	43,006	44,178	48,615	50,716

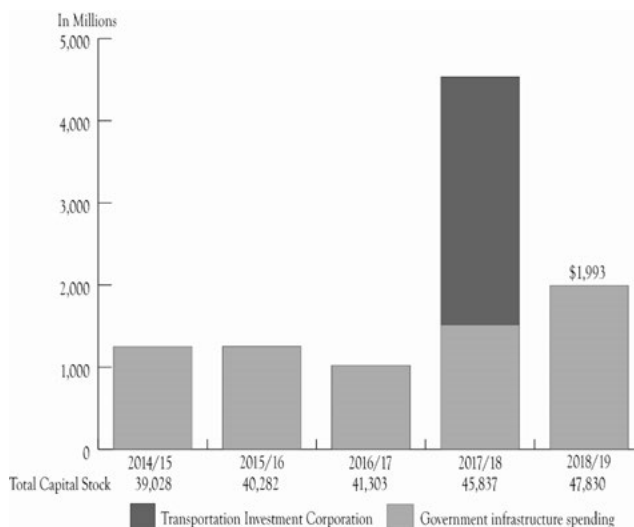
Management of non-financial assets has a direct impact on the level and quality of services a government is able to provide to the public. Non-financial assets typically represent resources that government can use in the future to provide services. At March 31, 2019, non-financial assets were \$50,716 million which was \$2,101 million higher than 2017/18 and \$8,854 million higher than fiscal 2014/15. The majority of the province's non-financial assets represent capital expenditures for tangible capital assets net of amortization. The government has increased its investment in infrastructure spending by \$1,993 million, to ensure service potential is available to deliver programs and services in future periods. Capital expenditures are not included on the Consolidated Statement of Operations and have no effect on the current surplus. They reduce future surpluses in the form of amortization expense as the service potential of assets is used to deliver programs and services.

Change in Capital Stock

This measure shows the impact of net changes to the government's stock of physical capital. Positive amounts demonstrate an investment in infrastructure to replace existing capital and provide service potential in future periods.

The net annual investment in capital was \$1,993 million in 2018/19, and \$10,052 million since the start of fiscal 2014/15 (including the Transportation Investment Corporation which was fully consolidated in fiscal 2017/18). Total capital stock has also increased steadily over that period which indicates that capital infrastructure is available to continue providing programs and services in future periods.

2014/15 to 2018/19



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Net Liabilities and Accumulated Surplus

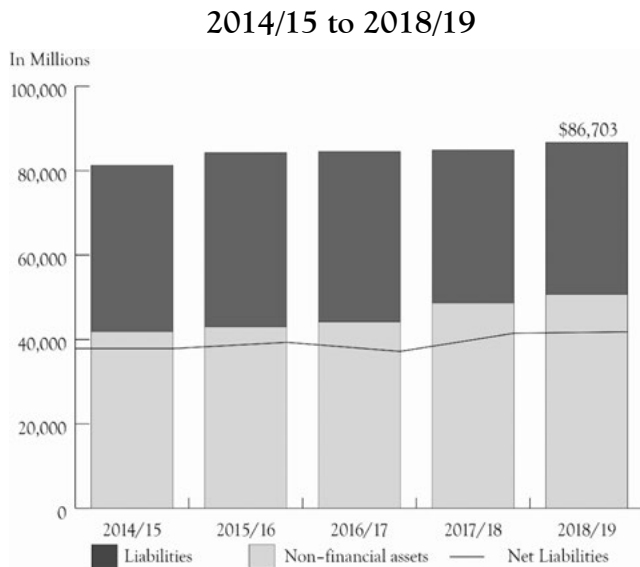
	In Millions				
	2014/15 Actual	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Actual
	\$	\$	\$	\$	\$
Financial assets.....	42,645	44,663	46,765	43,083	44,569
Less: liabilities.....	(81,241)	(84,240)	(84,512)	(84,917)	(86,703)
Net liabilities.....	(38,596)	(39,577)	(37,747)	(41,834)	(42,134)
Less: non-financial assets.....	41,862	43,006	44,178	48,615	50,716
Accumulated surplus.....	3,266	3,429	6,431	6,781	8,582

Net liabilities increased by \$300 million in 2018/19. Liabilities include deferred revenue of \$10,404 million which represents unearned revenues and restricted contributions that will be recognized as revenue in future periods.

The financial measure of net liabilities has remained stable while investments in infrastructure have increased resulting in an increase in accumulated surplus. The accumulated surplus of the province was \$8,582 million at the end of 2018/19, indicating that the cumulative result of all past annual surpluses and deficits is positive, or that the province remains in a positive net financial position.

Non-financial Assets as a Portion of Liabilities

The chart provides an indication of what proportion of liabilities are used to fund capital infrastructure as opposed to funding working capital requirements including accounts payable and other operating liabilities, as well as revenue deferred to future periods. Over the past five years, non-financial assets have increased while the measure of net liabilities has remained stable.



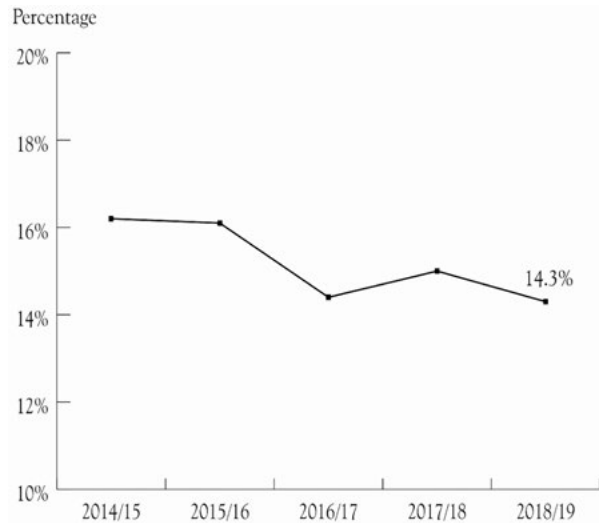
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Net Liabilities to GDP

The net liabilities to GDP ratio provides an indication of the province's ability to maintain existing programs and meet existing creditor requirements without increasing the debt burden on the economy as a whole.

The slight decrease in net liabilities to GDP is the result of net liabilities decreasing over and above the increase in economic growth as represented by GDP in 2018/19. Net liabilities include deferred revenue that will be recognized as revenue in future periods, and obligations to outside parties including accounts payable and debt.

2014/15 to 2018/19

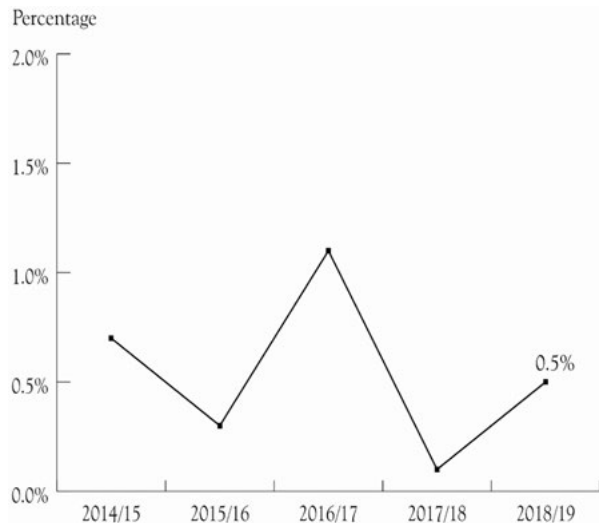


Surplus (Deficit) to GDP

The surplus (deficit) to GDP ratio is an indicator of sustainability that compares the province's financial results to the overall results of the economy.

Results in the positive range of the chart indicate that the economy is growing faster than net government spending.

2014/15 to 2018/19



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Total Provincial Debt

Total provincial debt is calculated differently than financial statement debt. Analysis of total provincial debt helps users to assess the extent of long-term liabilities and the government's ability to meet future debt obligations.

	In Millions				
	2014/15 Actual	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Actual
	\$	\$	\$	\$	\$
Gross debt.....	63,158	66,011	66,089	65,371	65,864
Less: sinking fund assets.....	(977)	(1,580)	(1,087)	(1,348)	(752)
Third party guarantees and non-guaranteed debt.....	739	820	835	896	850
Total provincial debt.....	62,920	65,251	65,837	64,919	65,962

When reporting to rating agencies, the province adds to its financial statement debt, all debt guarantees and the debt directly incurred by self-supported Crown corporations, reduced by sinking fund assets. This balance is referred to as the total provincial debt.

Total provincial debt is \$98 million higher than the amounts reported in the province's financial statements after deducting sinking funds held to pay down the debt, and including guaranteed debt and the debt of self-supported Crown corporations.

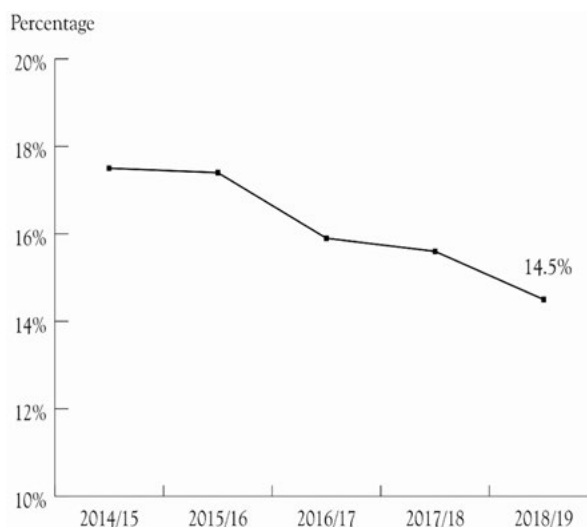
Total provincial debt increased by \$1,043 million in 2018/19 to fund capital projects. The debt of self-supported Crown corporations and agencies increased for investments in power projects. Taxpayer-supported debt decreased by \$926 million as a result of the elimination of provincial government direct operating debt of \$1,156 million and other decreases in taxpayer-supported debt of \$778 million. These decreases were offset by increases in debt for BC Transportation Financing Authority of \$905 million, health sector of \$65 million, and education sector of \$38 million.

Taxpayer-supported debt to GDP

The ratio of taxpayer-supported debt to GDP is a key measure used by financial analysts and investors to assess a province's ability to repay debt and is a key measure monitored by the bond rating agencies. A decreasing ratio means that debt is growing slower than the growth of the economy as measured by GDP.

At the end of 2018/19, taxpayer-supported debt to GDP was 14.5%, which was lower than the budgeted level of 15.5% and lower than the results for the past four years.

2014/15 to 2018/19



Financial Statement Discussion and Analysis Report

Strong Credit Rating

Reflecting the province's fiscal performance, British Columbia has maintained a strong and stable credit rating with all three credit rating agencies. In 2018/19, Moody's Investors Service Inc. gave the province an Aaa credit rating (2018: Aaa); Standard and Poor's gave the province an AAA credit rating (2018: AAA); and Dominion Bond Rating Service gave the province an AA(high) credit rating (2018: AA(high)).

Credit Ratings March 31, 2019

Jurisdiction	Rating Agency ¹		
	Moody's Investors Service Inc.	Standard and Poor's	Dominion Bond Rating Service
British Columbia	Aaa	AAA	AA(high)
Alberta	Aa1	A+	AA
Saskatchewan	Aaa	AA	AA
Manitoba	Aa2	A+	A(high)
Ontario	Aa3	A+	AA(low)
Quebec	Aa2	AA-	A(high)
New Brunswick	Aa2	A+	A(high)
Nova Scotia	Aa2	AA-	A(high)
Prince Edward Island	Aa2	A	A(low)
Newfoundland	Aa3	A	A(low)
Canada	Aaa	AAA	AAA

¹The rating agencies assign letter ratings to borrowers. The major categories, in descending order of credit quality, are: AAA/Aaa; AA/Aa; A; BBB/Baa; BB/Ba; and B. The "1", "2", "3", "high", "low", "-", and "+" modifiers show relative standing within the major categories. For example, AA+ exceeds AA.

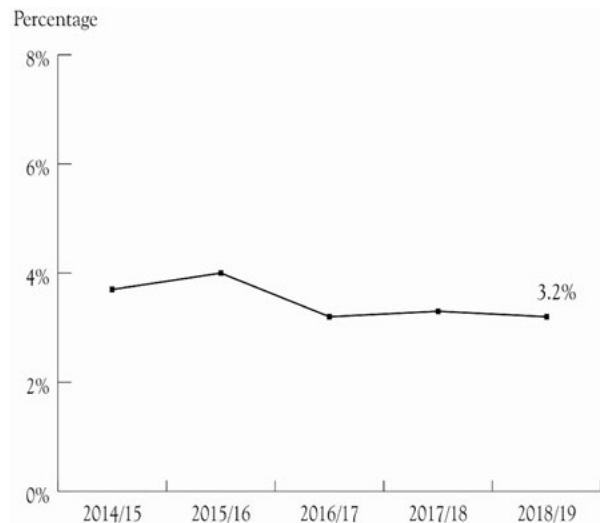
A more comprehensive overview of provincial debt, including key debt indicators is located on pages 131–146.

Public Debt Charges to Revenue (the Interest Bite)

The public debt charges to revenue indicator is often referred to as the "interest bite". This provides users with the percentage of the province's revenue used to pay interest on debt. The ratio is sensitive to the cost of debt arising from either increasing interest rates or increasing debt, as well as decreases in revenue.

If an increasing proportion of provincial revenue is required to pay interest on provincial debt, less money is available to provide core public services. The interest bite has remained stable over the last five years. In 2018/19, the province spent 3.2 cents of each revenue dollar on interest on the provincial taxpayer-supported debt.

2014/15 to 2018/19



Financial Statement Discussion and Analysis Report

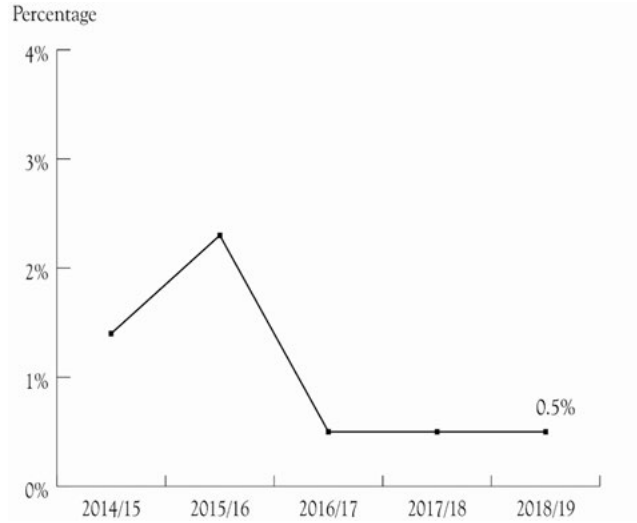
Non-Hedged Foreign Currency Debt to Total Provincial Debt

The ratio of non-hedged foreign currency debt to total provincial debt shows the degree of vulnerability of a government's public debt position to swings in exchange rates.

Non-hedged foreign currency debt directly offset by instruments in the same foreign currency are considered "natural hedges". These amounts are excluded from the ratio.

In 2018/19, the province had the equivalent of CAD\$303 million in natural hedges.

2014/15 to 2018/19



Financial Statement Discussion and Analysis Report

Economic Highlights

British Columbia's economy grew by an estimated 2.4% in the 2018 calendar year, the third highest rate among the provinces, according to preliminary GDP by industry data from Statistics Canada. The estimated 2.4% growth for British Columbia in 2018 is higher than the government's *Budget 2019* estimate of 2.2%.

Real Gross Domestic Product in Calendar Year 2018

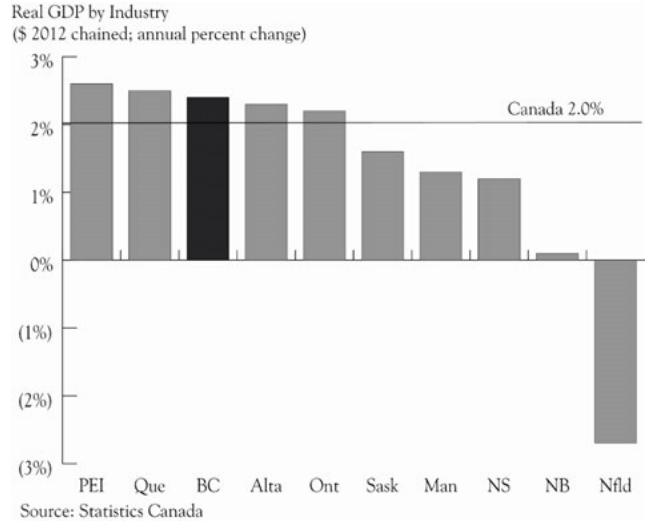
Growth was led by goods-producing industries (up 3.3%) with gains across most major industries in 2018. Notable increases were observed in mining, quarrying and oil and gas extraction (up 10.5%) largely due to increased natural gas extraction, construction (up 3.1%) and manufacturing (up 2.1%). Total construction expanded, although the pace of growth slowed from the pace observed in 2017. Growth was observed in both residential and non-residential building construction (up 3.7% and 13.2%, respectively), the latter experiencing growth after three consecutive annual declines.

Service-producing industries, which account for just over three-quarters of BC's GDP, grew by 2.2%. Slower growth was broad-based across most industries. Transportation and warehousing (up 3.8%) and health care and social assistance (up 3.0%) were strong drivers of growth. Real estate and rental and leasing (up 1.5%) also contributed significantly, although growth in the industry has noticeably slowed.

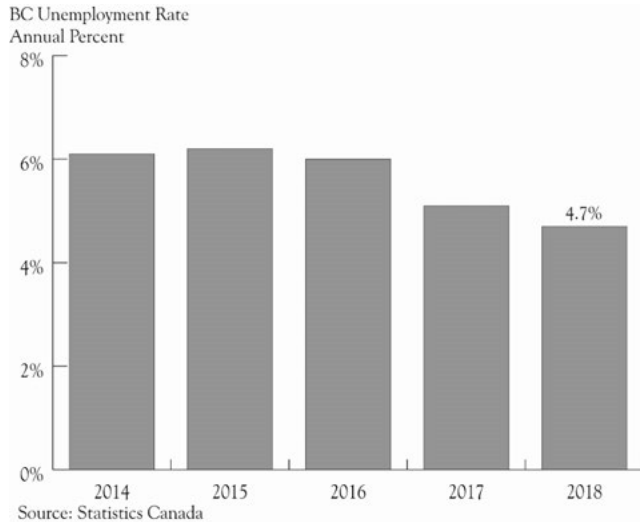
Unemployment Rate

British Columbia's annual unemployment rate was 4.7% in 2018, a decrease from 5.1% observed in 2017. The unemployment rate in BC in 2018 was lower than the national unemployment rate of 5.8%. The average level of employment in BC increased by 1.1% in 2018, following a 3.7% increase in 2017.

Provincial Comparison



2014 to 2018



Financial Statement Discussion and Analysis Report

Risks and Uncertainties

The government's main exposure to risks and uncertainties arises from variables, which the government does not directly control. These include:

- assumptions underlying revenue and Crown corporation forecasts such as economic factors, commodity prices and weather conditions;
- the outcome of litigation, arbitration, and negotiations with third parties;
- potential changes to federal transfer allocations, cost-sharing agreements with the federal government and impacts on the provincial income tax bases arising from federal tax policy and budget changes;
- utilization rates for government services such as health care, children and family services, and income assistance;
- exposure to interest rate fluctuations, foreign exchange rates and credit risk; and
- changes in Canadian generally accepted accounting principles.

The following are the approximate effect of changes in some of the key variables on the surplus:

Key Fiscal Sensitivities		
Variable	Increase Of	Annual Fiscal Impact (\$ millions)
Nominal GDP	1%	\$150 to \$250
Lumber prices (US\$/thousand board feet)	\$50	\$150 to \$175 ¹
Natural gas prices (Cdn\$/gigajoule)	25 cents	\$10 to \$40 ²
US exchange rate (US cents/Cdn\$)	1 cent	(\$25) to (\$50)
Interest rates	1 percentage point	(\$93)
Debt	\$500 million	(\$16) to (\$17)

¹Sensitivity relates to stumpage revenue only.

²Sensitivities can vary significantly, especially at lower prices.

Although the government is unable to directly control these variables, strategies have been implemented to mitigate these risks and uncertainties. The development of taxation, financial and corporate regulatory policy to reinforce British Columbia's position as an attractive place to invest and create jobs will help offset the increase in competition for investment as a result of globalization of economic and financial markets. As in previous years, the government applied a forecast allowance in the budget to account for risks to revenue, expenditure, Crown corporations', school districts', universities', colleges', institutes', and health organizations' (SUCH sector) forecasts. The use of forecast allowances recognizes the uncertainties in predicting future economic developments.

Risk management in relation to debt is discussed in Note 20 on page 67 of the Notes to the Consolidated Summary Financial Statements.