2023 British Columbia Budget

Province to Keep Spending Taps Open

Rishi Sondhi, Economist | 416-983-8806

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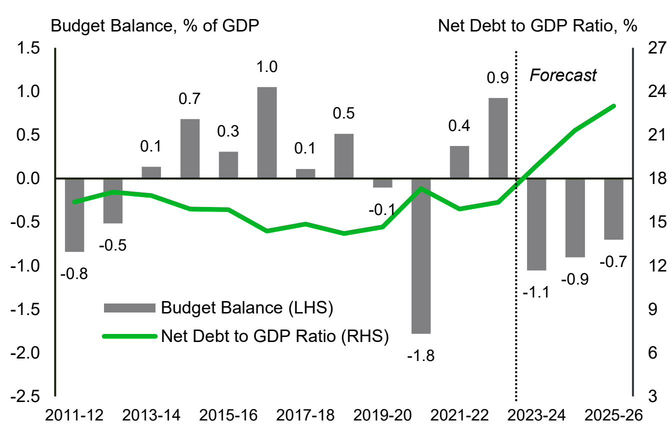
Highlights

- B.C.'s budget balance is set to swing from a solid surplus of $3.6 billion (0.9% of GDP) in FY 2022/23 to a $4.2 billion shortfall (-1.1%) in the upcoming fiscal year. The government plans to keep spending on several priority areas including healthcare and affordable housing. Meanwhile, revenue growth is forecast to decline this year amid a rapidly cooling economy.
- There's some risk that economic growth is weaker than policymakers anticipate, particularly next year. Indeed, revenues could be $220 - $330 million lower in 2024 if our forecast (versus the B.C. governments') is on the mark.
- B.C.'s taxpayer supported debt is poised to surge over 50% over the next 3 years, thanks to on-going deficits and capital spending. The province does have room to absorb higher debt loads due to a favourable starting point. Note that taxpayer supported interest costs are projected to total only 3.9% of revenues by the end of the projection, even as net debt-to-GDP climbs 6.6 ppts to 23.0% by FY 2025/26.

B.C.'s fiscal position is set to worsen in the near-term. Budget 2023 makes clear the governments' intention to ramp up program spending in priority areas like healthcare, cost of living initiatives, affordable housing, climate change, public safety, and skills training. At the same time, economic growth is poised to cool considerably, eating into revenues. All told, the budget balance is set to swing from $3.6 billion surplus in FY 2022/23 to a $4.2 billion shortfall this fiscal year (with the latter representing about 1.1% of GDP). The province's deficit is then expected to shrink to $3.0 billion by FY 2025/26.

Fortunately, B.C. has some room to absorb these deficits as it remains one of the least indebted provinces in Canada. On this front, net debt-to-GDP is forecast to increase from 16.4% in FY 2022/23 to 23% FY 2025/26. Still, this is a hefty climb which could heighten the province's vulnerability to future downturns. For context, B.C.'s debt ratio has averaged 15.4-15.7% over the past 5-10 years.

Chart 1: Net Debt to GDP Ratio To Move Higher in B.C.



Source: B.C. Budget 2023, Statistics Canada, Department of Finance Canada, TD Economics.

FY 2022/23 Surplus Carved From November Update

Heading into the upcoming fiscal year, the government's starting position is slightly worse than expected at the time of the November 2022 fiscal update. Back then, the government was forecasting a $5.7 billion FY 2022/23 surplus. However, in the lead up to today's budget, policymakers had signaled their intention to spend a share of the surplus through the end of FY 2022/23 and plow some money into debt reduction. As such, the FY 2022/23 surplus is now about $2.1 billion lower than what was presented last November.

B.C. Economic Assumptions [Percent change unless otherwise noted]				
Budget 2023				
Calendar Year	**2022**	**2023**	**2024**	**2025**
Nominal GDP	11.0	2.8	3.7	4.2
Real GDP	3	0.4	1.5	2.4
Unemployment rate (%)	4.6	5.7	5.6	5.4
CPI	2.8	2.9	2.2	2.0
Retail Sales	3.0	1.8	2.9	3.4

Source: British Columbia 2023-24 Budget, TD Economics.

Economic Growth, Revenue Gains Slated to Cool

The B.C. government is forecasting real and nominal GDP growth to ease to considerably this year before picking up to something closer to the long-run average by 2025. We are generally in line with the government in 2023 (albeit with a somewhat weaker nominal GDP forecast). However, where we diverge significantly is in 2024, where we're expecting real GDP growth of only 0.3% (due to the lagged impacts of rate hikes), and the government has built in a 1.5% gain (and 3.7% increase in nominal GDP). Using the government's sensitivities suggests that revenues could be $220 - $330 million lower-than-expected next year if our nominal GDP growth forecast (2.6%) is on the mark.

Following the 14% jump in FY 2022/23, a weaker economic backdrop is expected to drag down revenue growth in the upcoming fiscal year. Revenues are forecast to decline by 6% in FY 2023/24, driven lower by tax and natural resource revenues. Notably, land transfer taxes are slated to drop, consistent with housing market weakness, although federal transfers are forecast to increase 9%. After FY 2023/24, revenues are expected to pick up, in line with improving economic growth.

Program Spending to Remain Elevated in FY 2023/24

Expenses are forecast to jump 8% in the upcoming fiscal year. Healthcare sees an 11% gain, boosted by the government's intention to strengthen healthcare support services, including mental health, addictions, and treatment services as well as offer free prescription contraception. Over the next 3 years, the government will also implement its new primary care compensation model and roll out its strategy to attract workers. Meanwhile, education spending is forecast to climb 5.9% in FY 2023/24.

Other key areas include housing affordability and attainability, where the government will spend $1.1 billion this fiscal year and a total of $4.2 billion over the next 3 years on the construction of new homes and supports to reduce homelessness, among other measures. To help residents reduce costs, the government will provide more financial support for students, people on income and disability assistance, and foster families and other caregivers. The government will also make permanent increases to the Climate Action Tax Credit and enhancements to the B.C. Family Credit (both part of inflation-relief packages rolled out earlier). The government will also introduce the income-tested Renters Tax Credit, projected to save renters $400 annually. Elsewhere, spending is pledged to improve public safety and access to justice services. The government will also devote resources ($1.4 billion over 3 years) towards building a sustainable and clean economy, including funds for disaster response and spending to close short-term and future labour supply gaps.

After FY 2023/24, expense growth is forecast to average 2.8%, leaving it negative in real, per capita terms. That said, the government is also building in some prudence, with a $1.7 billion contingency over the next 3 fiscal years.

Capital Spending to Lift B.C.'s Debt Burden

Capital spending is forecast to soar 30% in the upcoming fiscal year, driven by outlays for healthcare and transit infrastructure. Notably, this is at odds with the recently released capital spending intentions survey that called for a 5% decline public sector investment in 2023. Ultimately, the combination of higher debts and ongoing deficits should drive the near 7 ppt increase in the government's net debt-to-GDP ratio from FY 2022/23 to FY 2025/26. Notably, if the government's debt ratio increases to 23% by the end of FY 2025/26, that would mark the highest burden since at least the mid-80s.

Provincial new borrowing requirements are slated to total $18.2 billion in FY 2023/24, up substantially from $8.7 billion during the prior fiscal year and lifted by the government's capital plan.

Bottom Line

B.C.'s government has made the decision to allocate its unexpected surplus into new spending. However, the government's favourable debt position means that policymakers have some leeway to push ahead with their spending agenda. Notably, taxpayer-supported debt servicing payments currently gobble up only 2.4% of revenues – one of the lowest shares in Canada – with this figure forecast to drift to a still-low 3.9% by FY 2025/26. That said, the province's debt level is projected to surge, suggesting increased vulnerability to negative shocks moving forward.

The government's spending plans could offer some marginal lift to overall economic growth (and thus to some extent, inflation). That said, shorter-term metrics suggest that inflation in the province has cooled significantly.

With households in the province the most indebted in Canada, there is some risk that economic growth could be weaker than anticipated. Indeed, our baseline forecast envisions weaker growth next year than policymakers expect.

B.C. Government Fiscal Position

[Millions of C$ unless otherwise indicated]

Fiscal Year	2022-23 Revised	2023-24 Plan	2024-25 Plan	2025-26 Plan
Revenues	**82,700**	**77,690**	**79,724**	**82,223**
% change	14.2	-6.1	2.6	3.1
Expenditures	**74,393**	**80,206**	**82,978**	**84,766**
% change	4.7	7.8	3.5	2.2
Pandemic and Recovery Contigencies	2,000	1,000	-	-
Supplementary Estimates	2,715	-	-	-
Forecast Allowance	-	700	500	500
Surplus (+)/Deficit (-)	**3,592**	**-4,216**	**-3,754**	**-3,043**
% of GDP	0.9	-1.1	-0.9	-0.7
Net Debt	**63,701**	**75,617**	**88,436**	**99,395**
% of GDP	16.4	18.9	21.3	23.0

Source: B.C. Budget 2023-24, TD Economics.