2024 British Columbia Budget

Province Opts for Running Deeper Deficits

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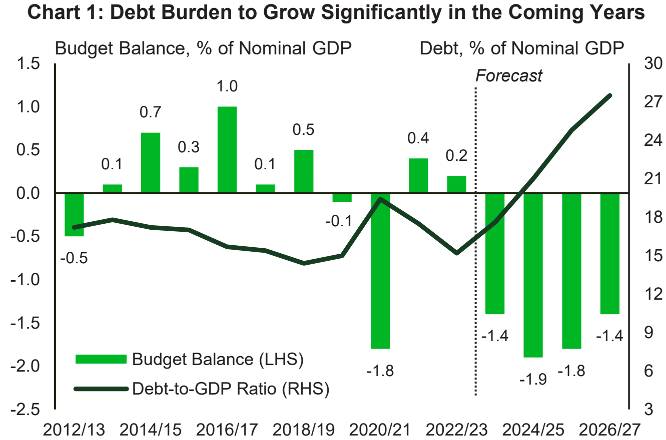
Highlights

- B.C.'s budget balance is set to stay in deficit territory in FY 2024/25 to the tune of $7.9 billion (-1.9% of GDP), deeper than the $5.9 billion shortfall estimated for FY 2023/34. The projected deficit trajectory over the next three years has also been raised relative to last year's budget.
- The government plans to keep the spending tap open on several priority areas including healthcare, education, and infrastructure. The 6.7% increase in program expenses in FY 2024/25 is set to outstrip a decent jump in revenue growth for the upcoming year.
- The government is building in significant contingencies totaling $10.6 billion over the next 3 fiscal years.
- B.C.'s taxpayer-supported debt is poised to surge over the next 3 years, thanks to ongoing deficits and additional capital spending. The province still has room to absorb the higher borrowing due to a favorable starting point, but the runway is narrowing. B.C.'s debt-to GDP ratio is expected to climb rapidly from 17.6% to 27.5% in FY 2026/27, the highest on record in the province.

B.C.'s fiscal position is set to worsen in the near-term largely on the back of higher spending across priority areas like healthcare, cost of living initiatives, affordable housing, climate change, and public safety. At the same time, economic growth is expected to continue cooling this year before regaining some modest traction in the coming years. All told, the Province's budget balance is forecast to move further into the red, reaching $7.9 billion in FY 24/25 or 1.9% of GDP. The deficit is then expected to shrink marginally to $6.3 billion by FY 2026/27.

B.C. has some room to absorb these deficits as it remains one of the least indebted provinces in Canada. However, over the three-year projection horizon, net debt-to-GDP to slated to increase by roughly 10 percentage points to 27.5% by FY 2026/27. This is a hefty climb which could heighten the province's vulnerability to future economic downturns. For context, B.C.'s debt ratio has averaged 15.4-15.7% over the past 5-10 years and puts it 7 percentage points (ppts) higher than the previous high of 19.8% in 2002-03.

Chart 1: Debt Burden to Grow Significantly in the Coming Years



Note: Debt = Taxpayer-Supported Debt. Source: B.C. Budget 2024, TD Economics.

FY 2023/24 Deficit Grows 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 2023 fiscal update. At the time, the government was forecasting a $5.6 billion FY 2023/24 deficit. Due to a combination of lower revenues, higher expenses, and the removal of the

B.C. Economic Assumptions [Percent Change Unless Otherwise Noted]				
Budget 2024				
Calendar Year	2023	2024F	2025F	2026F
Nominal GDP	3.2	3.3	4.4	4.5
Real GDP	1.0	0.8	2.3	2.4
Unemployment Rate (%)	5.2	6.1	5.9	5.6
CPI	3.9	2.7	2.2	2.0
Retail Sales	0.8	2.3	3.4	3.8

Source: B.C. Budget 2024, TD Economics.

forecast allowance, the deficit is now about $300 million higher than what was tabled last November.

Revenues to Jump Despite Sluggish Growth

Following a 5.2% drop in FY 2023/24, total revenues are expected to rebound by 5.4% this fiscal year despite a relatively tepid economic backdrop. The near term revenue gains are primarily driven by an increase in corporate tax installments from the federal government. Further out, revenues are supported by marginal gains from carbon tax revenues and federal transfers. After FY 2024/25, revenue growth is expected to average around 3.0% annually, lower than the 4.0% average growth rate since 2000.

The B.C. government is forecasting real and nominal GDP growth in 2024 to remain subdued at 0.8% and 3.3%, respectively, before picking up to something closer to the long-run average by 2026. We are generally in line with the government in 2024 (albeit with a somewhat weaker real GDP forecast). We diverge slightly more in 2025, where we're expecting real GDP growth of 1.8% (government 2.3%) and nominal GDP growth of 4.0% (government 4.4%). Applying the government's sensitivities suggests that cumulative revenues over this year and next could be $150 - $200 million lower-than-expected if our nominal GDP growth forecasts are on the mark.

Program Spending to Remain Elevated in FY 2024/25

Program spending is forecast to jump 6.7% in the upcoming fiscal year. Healthcare outlays are set to see the largest increase, but spending is also focused in alleviating high costs of living, housing initiatives and building a cleaner economy.

$8 billion is earmarked over the next three years for healthcare, education, and public safety. The funds are intended to support people's access to the full range of health services, increase school staffing and bolster community safety.

On cost of living, families will see a 25% increase to their monthly B.C. Family Benefit, with $248 million for a one-year BC Family Benefit Bonus starting in July 2024. A year-long BC Electricity Affordability Credit is also introduced, saving households and small business between $100-$400 over the year. The Climate Action Tax Credit payments to individuals and families will also receive a bump.

The government is also building on last year's Homes for People plan in order to enhance affordability and attainability for housing. Budget 2024 introduces a new B.C. Home Flipping Tax, effective from Jan.1, 2025, that will tax as much as 20 percent on income from the sale of properties within a two-year window. Further, the government will increase the threshold for property transfer tax exemptions for the First Time Homebuyers' program.

In response to past climate emergencies, the government is investing around $400 million to respond to future weather events. Budget 2024 allocates an additional $318 million to continue to fund grant and rebate programs for clean transportation, energy-efficient buildings and communities, and support the transition to a low-carbon economy.

After FY 2024/25, expense growth is forecast to average a modest 1.8%. That said, the government is also building in some prudence, with significant contingencies totaling a $10.6 billion over the next 3 fiscal years.

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

Capital spending is forecast to soar 26% in the upcoming fiscal year, driven by outlays for healthcare and transit infrastructure. Ultimately, the combination of higher debts and ongoing deficits should drive a near 7 ppt increase in the government's net debt-to-GDP ratio from FY 2024/25 to FY 2026/27. B.C. is currently the third least indebted province ahead of only Alberta and Saskatchewan. With the higher projected debt load, B.C. will likely also surpass New Brunswick for debt as a share of GDP.

Provincial new borrowing requirements are slated to total $24.2 billion in FY 2024/25, up substantially from the $20.2 billion during the prior fiscal year and lifted by the government's capital plan. Borrowing projections in this budget are a combined $10 billion higher over the next two years than what was projected in last year's Budget. The taxpayer-supported interest bite is forecast at 3.8 cents per revenue dollar and climbing to 5.4% by FY 2026/27. While this figure is still modest, it inches closer to 6% range paid by Ontario and Quebec.

Bottom Line

B.C.'s government has made the decision to keep its foot on the spending accelerator and run deeper deficits over the medium-term. The government will still likely record a debt burden below that of the all-province average, meaning that policymakers have some leeway to push ahead with their spending agenda. However, B.C.'s fiscal situation is becoming less enviable, as evidenced last year when S&P downgraded the province's credit rating from AAA to AA+. As the province's debt level is projected to surge, this creates increased vulnerability to negative shocks moving forward alongside a slowing growth backdrop.

This is the last tabled budget before the provincial election on October 19, 2024.

B.C. Government Fiscal Position

[Millions of C$ Unless Otherwise Noted]

Fiscal Year	2023/24 Forecast	2024/25 Plan	2025/26 Plan	2026/27 Plan
Revenues	**77,320**	**81,523**	**82,838**	**86,408**
% Change	-5.2	5.4	1.6	4.3
Expenditures	**83,234**	**89,434**	**90,611**	**92,696**
% Change	3.0	7.4	1.3	2.3
Allocation for Contingencies	5,500	3,885	3,020	3,730
Surplus (+)/Deficit (-)	**-5,914**	**-7,911**	**-7,773**	**-6,288**
% of GDP	-1.4	-1.9	-1.8	-1.4
Total Debt	**71,863**	**88,639**	**109,182**	**126,499**
% of GDP	17.6	21.0	24.8	27.5

Note: Debt = Taxpayer-Supported Debt. Source: B.C. Budget 2024, TD Economics.