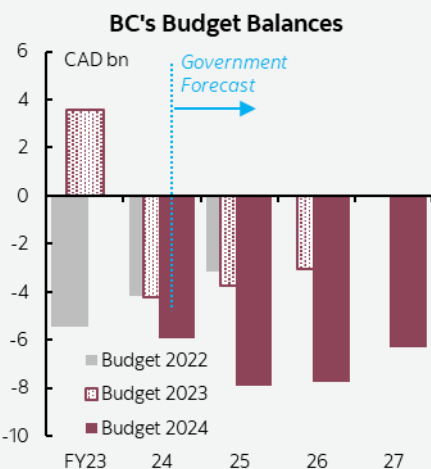


Contributors

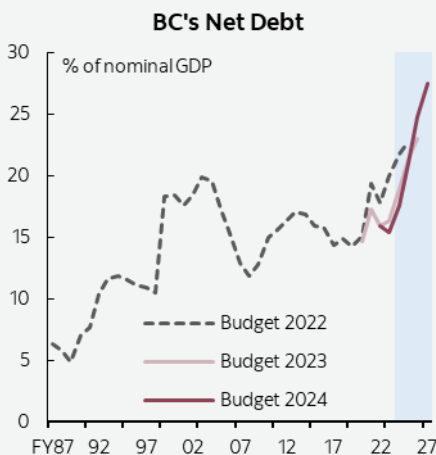
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Chart 1



Sources: Scotiabank Economics, BC Finance.

Chart 2



Sources: Scotiabank Economics, BC Finance, Statistics Canada.

British Columbia: 2024–25 Budget

CRACK OPEN THE SPENDING TAPS

- **Budget balance forecasts:** **-\$5.9 bn (-1.4% of nominal GDP) in FY24, -\$7.9 bn (-1.9%) in FY25, -\$7.8 bn (-1.8%) in FY26, and -\$6.3 bn (-1.4%) in FY27;** deficit is set to swell in FY25–FY26 as a share of output, surpassing the pandemic high (chart 1).
- **Net debt:** expected to rise from 17.6% of nominal GDP in FY24 to 27.5% in FY27 (chart 2)—a much higher trajectory than in previous plans, reaching the heftiest debt burden the province has seen in nearly four decades.
- **GDP expectations:** +0.8% real growth and +3.3% nominal growth this calendar year—virtually unchanged from prior projections of +0.7% and +3.5%, respectively. The budget expects real and nominal growth to pick up sharply next year to +2.3% and +4.4%.
- **New borrowing:** \$20.2 bn in FY24, \$24.4 bn in FY25, \$29.5 bn in FY26, and \$28.4 bn in FY27.
- **The bulk of new discretionary spending (\$13 bn or 1% of nominal GDP annually) aims at meeting increased demand for healthcare and government services, while there is also a hefty \$7.4 bn allotted to fund public-sector wage increases.**
- **The government prioritized strategic investments in the province’s long-term competitiveness with a pre-election budget aimed at addressing increasing demand for critical services. Although high interest rates make it more challenging to manage escalating debt burden and fulfill its growing borrowing needs in a sustainable manner, the government has some leeway with its still-affordable debt position.**

OUR TAKE

BC’s NDP government kicks off the budget season with a bang, unveiling a hefty spending plan less than nine months before the provincial election, featuring significant investments in healthcare and other priorities. The province expects a deeper shortfall in FY24 at **-\$5.9 bn (-1.4% of GDP)**, before widening to **-\$7.9 bn (-1.9%)** in FY25 and remaining elevated over the planning horizon. The government’s upgraded program spending drove the **-\$8.4 bn deterioration** over the next two years relative to its previous medium-term plan, offsetting a slight upward revision in revenues.

Revenue is expected to grow steadily over the planning horizon with the support from a few tailwinds while incorporating the impact of incremental tax measures. Own-source revenue forecast remains intact, projecting 6% growth in FY25 followed by average trend-like 3.5% growth in the subsequent two years. This near-term uptick is propelled by an increase in corporate tax installments from the federal government, while a medium-term boost can be anticipated from a rise in carbon tax revenues. Federal transfers are forecast to rise by 3% in each year in the next two years, benefitting from increased payments in CHT and CST. The tax measures introduced in the budget are temporary and targeted, providing relief to lower- and medium-income families, while extending property transfer tax exemptions for first-time homebuyers and newly constructed homes and rental properties. The government is also looking to implement a new tax on home flipping starting January 2025, designed to discourage short-term speculation in the housing market.

The forecasting assumptions underpinning the budget appear realistic and align well with our baseline view. The budget assumes that BC’s economy will grow at +0.8% in

real terms in 2024 and +2.3% in 2025, a touch higher than our current projection of +0.6% and +2.2% despite a lower growth profile for Canada. The average private-sector growth forecasts are weaker than these assumptions for both years, underscoring potential downside risks amidst high uncertainty. Absent a forecast allowance, a 1 ppt decrease in nominal GDP could lead to \$200–300 mn deterioration in the province’s bottom line. The government pencilled in strong near-term population gains, projecting +2.8% growth in BC’s July 1 population in 2024, +1.9% in 2025 and +1.6% in 2026. The removal of forecast allowances exposes the fiscal plan to considerable downside risks.

The government overturned its initially planned spending restraint, announcing \$13 bn (around 1% of nominal GDP annually) of new spending over the next three years (chart 3), directed towards addressing a wide array of priorities.

Program spending is now projected to surge by 6.7% in FY25, a departure from the previously anticipated stalled growth in expenditures. Healthcare-related investments comprise the bulk of expenditure increases, totalling \$6 bn across three years, driving a +14.6% increase in health-related spending in FY25. An additional \$2 bn has been dedicated to enhancing other key government services, including education and public safety. The budget also allotted \$1.3 bn in new funding for climate change and emission reduction initiatives. Furthermore, \$7.4 bn permanent funding has been earmarked for public-sector wage increases, building on increases incurred in FY24. These substantial investments aim to increase capacity to meet growing demands and bolster the province’s competitiveness, paving the way for future growth.

Anticipating future spending needs, BC’s updated blueprint continues to include substantial contingencies. The budget included a sizable buffer of \$3.9 bn in contingencies in FY25, \$3.0 bn in FY26 and \$3.7 bn in FY27. Abundant contingencies provide some flexibility to absorb unforeseen spending needs and deliver narrower deficits if unallocated.

The government continues to beef up its capital spending program over the medium term (chart 4), driving the province’s debt burden on a much more elevated trajectory relative to its previous plan.

Taxpayer-supported outlays are now expected to jump by 40% in FY25, then remain elevated in FY26 and FY27, totaling \$43.3 bn over the three-year fiscal plan. BC is projected to grow its debt as a share of nominal output from 17.6% in FY24 to 27.5% in FY27—a new record in the province’s recent history. The current estimates likely represent an upper bound considering the contingencies embedded over the planning horizon. As the government continues to ratchet up its debt levels, debt service costs are projected to rise from 3.2% of revenue in FY24 to 5.4% in FY27—still affordable compared to the over 6% of revenue paid by Ontario and Quebec.

BC’s borrowing program is expected to pick up in light of stepped-up capital spending and heightened deficits.

New borrowing requirements are expected to rise from \$20.2 bn in FY24 to \$24.2 bn in FY25, and continue to grow to \$29.5 bn in FY26 and remain elevated at \$28.6 bn in FY27. Around \$2 bn remains to be funded in FY24, and the province may opt to pre-finance for FY25.

Chart 3
Comparing BC Spending Plans

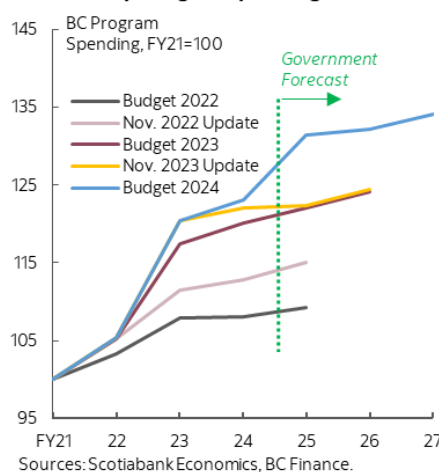
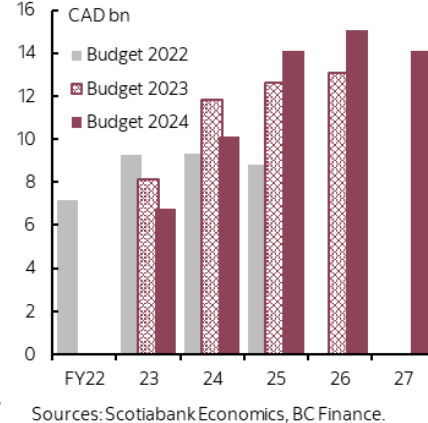


Chart 4
Taxpayer-Supported Infrastructure Outlays



Updated Fiscal Forecast							
\$ billions except where noted							
	FY24		FY25		FY26		FY27
	Nov.'23	Bud. '24	Sep.'23	Bud. '24	Sep.'23	Bud. '24	Bud. '24
Total Revenue	77.7	77.3	80.7	81.5	81.5	82.8	86.4
Own-Source	63.8	63.3	67.1	67.1	67.8	67.9	71.7
Fed. Transfers	13.9	14.0	13.7	14.4	13.7	14.9	14.7
Total Expenditure	82.5	83.2	83.4	89.4	85.2	90.6	92.7
Programs	79.3	79.9	79.5	85.3	80.8	85.8	87.0
Health	31.1	31.5	32.0	35.9	32.9	36.9	37.5
Education	17.9	17.9	18.4	19.5	18.7	19.8	20.0
Social Services	9.1	9.1	9.6	10.5	10.0	10.7	10.7
COVID-19	1.0	-	-	-	-	-	-
Other	20.1	21.5	19.3	19.4	19.2	18.4	18.8
Debt Service	3.3	3.3	3.9	4.1	4.4	4.8	5.7
Reserve	0.7	-	0.5	-	0.5	-	-
Balance	-5.6	-5.9	-3.1	-7.9	-4.1	-7.8	-6.3
% of GDP	-1.4	-1.4	-0.8	-1.9	-1.0	-1.8	-1.4
Net Debt	69.3	71.9	84.7	88.6	98.1	109.2	126.5
% of GDP	17.0	17.6	20.3	21.0	22.6	24.8	27.5

Sources: Scotiabank Economics, BC Finance.

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