

Contributors

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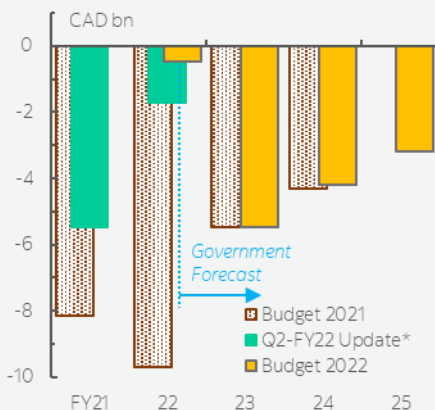
Updated Fiscal Forecast
\$ billions except where noted

	FY22		FY23		FY24	FY25
	Nov'21	Bud.'22	Bud.'22	Bud.'22	Bud.'22	Bud.'22
Total Revenue	68.2	70.2	68.6	70.2	72.3	
Own-Source	56.7	58.7	57.2	58.4	60.4	
Fed. Transfers	11.5	11.5	11.3	11.7	11.9	
Total Expenditure	68.9	69.7	73.0	73.4	74.5	
Programs	66.2	67.0	70.1	70.1	70.9	
Health	26.3	26.3	27.7	28.5	29.2	
Education	16.1	16.1	16.7	16.9	17.1	
Social Services	7.2	7.2	7.9	8.0	8.0	
COVID-19	3.3	3.3	2.0	1.0	--	
Other	13.3	14.2	15.8	15.8	16.5	
Debt Service	2.7	2.7	2.9	3.3	3.6	
Reserve	1.0	1.0	1.0	1.0	1.0	
Balance	-1.7	-0.5	-5.5	-4.2	-3.2	
% of GDP	-0.5	-0.1	-1.5	-1.1	-0.8	
Net Debt	62.3	61.7	73.5	83.3	90.8	
% of GDP	18.2	17.8	20.0	21.8	22.8	

Sources: Scotiabank Economics, BC Finance.

Chart 1

BC's Budget Balances



* FY21 figure is final result.

Sources: Scotiabank Economics, BC Finance.

British Columbia: 2022–23 Budget

RAMPING UP PRIORITY SPENDING TO ADDRESS MEDIUM-TERM CHALLENGES

- **Budget balance forecasts:** **-\$0.5 bn** (-0.1% of nominal GDP) in 2021–22 (FY22), **-\$5.5 bn** (-1.5%) in FY23, **-\$4.2 bn** (-1.1%) in FY24, **-\$3.2 bn** (-0.8%) in FY25 (chart 1).
- **Net debt:** net debt-to-GDP shows a material improvement relative to Budget 2021 with a 2.4 ppt decline in FY22 projected (from 20.2% of GDP in FY21) before ticking up modestly to 22.8% by FY25 (chart 2, p2).
- **Real GDP growth forecast:** 5% in 2021, 4.0% in 2022, 2.5% in 2023 and 2.1% in 2024—expected to bring BC’s economy back to pre-pandemic trend levels in 2022.
- **New borrowing:** \$9 bn in FY22, \$19 bn in FY23, \$16.5 bn in FY24, \$14 bn in FY25.
- **The budget confirmed the province’s fiscal resilience** facing the past year’s health crisis and natural disasters with material improvements to the bottom line in the near term. Modest new spending measures have been announced targeting affordability and health care priorities, but the outlook has also incorporated substantial contingencies and prudent forecasting assumptions.

OUR TAKE

After projecting a nearly balanced budget in FY22, BC is set to run modest budget deficits as it shifts the focus from pandemic support to addressing challenges associated with medium-term recovery and climate change. Overall, deficits are relatively modest: -1.5% of GDP in FY23 declining to -0.8% by FY25. This includes over \$16 bn in various contingencies, reserves and forecasting allowances over this horizon. While revenue windfalls have driven substantial improvements in the bottom line for FY22, Budget 2022 expects a decline in FY23 due to lower natural resource revenues and federal transfers, and is set to pick up again in FY24 and FY25, boosted by increased economic activity and rebuilding initiatives. Reflecting BC’s rising share of population, the combined CHT and CST contributions are estimated to grow at an annual average of 5.7% in FY24 and FY25, offsetting a decline in other transfers. Meanwhile, the government’s plan to step up spending is expected to keep the budget balance in the deficit territory for the near-term future. While the Budget does not provide an explicit fiscal anchor, it suggests that the government will return to the practice of increasing expenditures within the bound of revenue growth, thus gradually balancing the budget.

The government expects to advance its expenditures by 4.7% to \$73 bn in FY23 but a slower pace of growth in outer years with health-related investments comprising the bulk of new spending. The plan aims to improve the health care sector by boosting the planned expenditure by 11% over three years, accompanied by an additional \$8.6 bn capital spending on health sector infrastructure over the same period. BC also announced an additional \$284 mn for childcare, bringing the joint investment with the federal government to \$4.4 bn over the next three years to lower the cost of childcare. Another \$633 mn was committed to addressing homelessness, while an additional \$166 mn was announced over three years for housing investments, bringing the level of housing support to close to \$1.3 bn per year by FY25. These measures are not likely to have a material impact on growth or affordability in the near term.

Without providing an estimate on the cost of repairing damage and destruction from the November 2021 flooding events, the budget allocated \$1.5 bn over the next three years to support recovery, building on the \$5 bn contributed by the federal government. The province also committed over \$500 mn across the fiscal plan period to increase its capacity to prepare and respond to climate-related events. A further \$65 mn

in capital funding was incorporated from FY23 to FY25 as a part of the \$295 mn ten-year investment to strengthen the transportation infrastructure (Climate-Ready Transportation Networks).

The province also plans to ramp up capital spending in priority areas. BC expects record taxpayer-supported capital spending totalling \$27.4 bn over the next three years, \$1.1 bn higher than in the previous budget due to increasing outlays on health care and transportation (chart 3). By FY25, the province committed to an average capital investment of \$2.4 bn each year in schools, \$2.9 bn in health care and \$2.4 bn in transportation.

The budget is built around conservative growth assumptions and other forms of prudence, acknowledging downside risks to the economic recovery. Real GDP is projected to grow 4.0% in 2022, 2.5% in 2023 and 2.1% in 2024, 0.2 ppts lower than the respective forecast provided by the Economic Forecast Council for each year. These conservative growth assumptions still put BC slightly ahead of the national average except for in 2023. Nominal GDP growth assumption is also lower than the average private-sector forecast by 0.3–0.6 ppts from 2022 to 2024, which could translate into another \$60–180 mn in revenues each year based on the government’s own sensitivity estimates. The plan also includes forecast allowances of \$1 bn per year from FY23 to FY25, another \$3 bn COVID-19 contingencies for FY23 and 24, and over \$10 bn general programs contingencies for the next three years.

Committing to more investments in health care, natural disaster recovery and other rebuilding initiatives, BC is projected to grow its debt as a share of GDP to 22.8% in FY25. Though on an upward trajectory, the province still has a lower debt burden compared to most of its peer jurisdictions and this is likely an upper bound estimation given the amount of prudence baked in the planning.

The province expects to increase its borrowing requirement to an estimated total of \$49.4 bn from FY23 to FY25 to finance operating and capital investments outlined in the budget, plus the refinancing of debt maturities. Following the \$9 bn of requirements in FY22, BC forecasts new borrowing of \$19 bn in FY23, \$16.5 bn in FY24, and \$14 bn in FY25. As of February 22, approximately \$8.8 bn borrowing had been completed for the current fiscal year, with 39.4% funded in international markets. The remaining \$0.5 bn for FY22 is expected to be a combination of long-term and short-term financing.

Chart 2

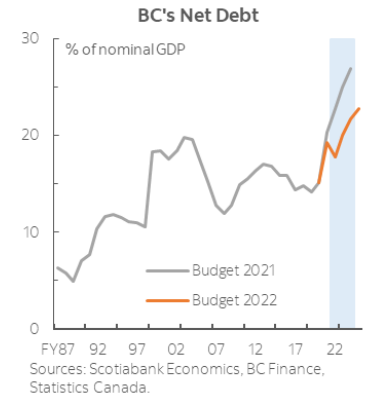
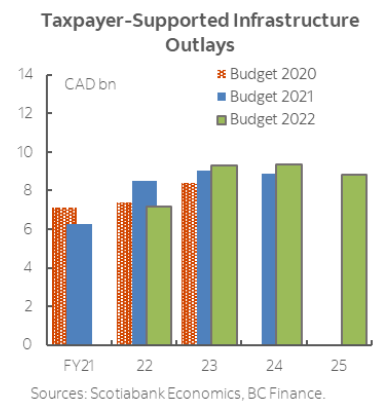


Chart 3



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