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GLOBAL ECONOMICS

FISCAL PULSE

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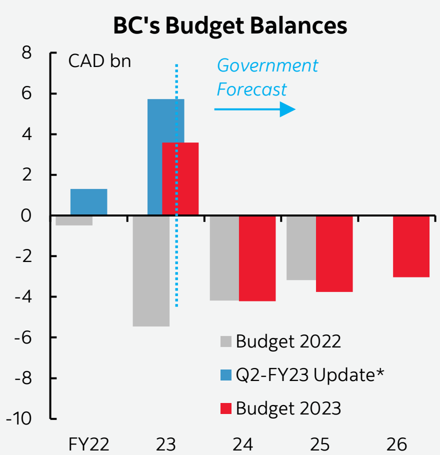
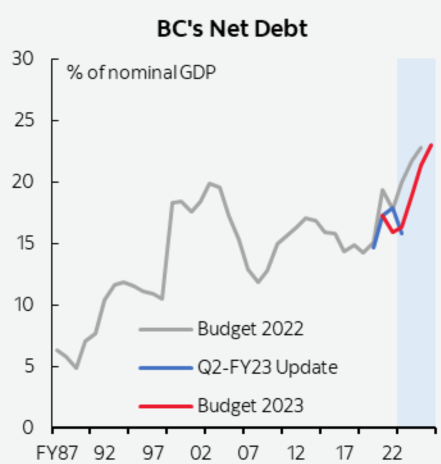
Chart 1



* FY22 figure is final result.
Sources: Scotiabank Economics, BC Finance.

Chart 2



Sources: Scotiabank Economics, BC Finance, Statistics Canada.

British Columbia: 2023–24 Budget

RETURN OF THE DEFICITS

- **Budget balance forecasts: $3.6 bn (0.9% of nominal GDP) in FY23, -$4.2 bn (-1.1%) in FY24, -$3.8 bn (-0.9%) in FY25, and -$3.0 bn (-0.7%) in FY26 (chart 1).**
- **Net debt: revised up slightly relative to the mid-year update as a share of nominal output; the net debt-to-GDP ratio is now expected to increase steadily from 16.4% in FY23 to 23.0% by FY25 (chart 2).**
- **Real GDP growth forecast: +2.8% in 2022, +0.4% in 2023, and +1.5% in 2024—a lower trajectory than forecast in Budget 2022 reflecting the impact of higher interest rates.**
- **New borrowing: $8.7 bn in FY23, $18.9 bn in FY24, $20.4 bn in FY25, and $19.3 bn in FY26.**
- **The bulk of new discretionary spending ($8.7 bn or 2% of nominal GDP) targets healthcare and housing affordability for FY24–26, while there is also a hefty $7.6 bn (1.9% of GDP) allotted for recently negotiated public-sector wage hikes.**
- **The budget also announced new and enhanced tax measures with an estimated cost of $4.5 bn between FY24 and FY26, aiming to provide cost-of-living relief through an enhanced Climate Action Tax Credit and the long-promised Renter's Tax Credit.**
- **The return to deficits has been largely expected as the province faces one of the sharpest downturns in the country, but the budget largely contains new discretionary spending to the highest priorities and constrain the affordability support measures. BC still has the advantage of a lower net debt burden than most of its peers, combined with the substantial prudence built into its budget, giving it some leeway as the province navigates through the near-term challenges.**

OUR TAKE

In BC's Budget 2023, the province's projected near-term fiscal position weakened slightly relative to its fall update, and the FY24–25 balance forecasts remain close to last budget's estimates. The province now estimates a surplus in FY23 at $3.6 bn (0.9% of nominal GDP), down from $5.7 bn (1.5%) expected in the fall update, and maintains the projected deterioration in FY24 to a modest deficit of -1.1% of GDP. As widely anticipated, revenue windfalls are set to unwind rapidly as the impact of rising interest rates disproportionally affects the province, driving tax revenue lower by -10.6% in FY24 relative to FY23, combined with a -21.4% drop in natural resource revenue. The shortfall is expected to narrow to -0.7% of GDP by FY26 owing to projected improvements in tax revenue as the economic rebound takes hold.

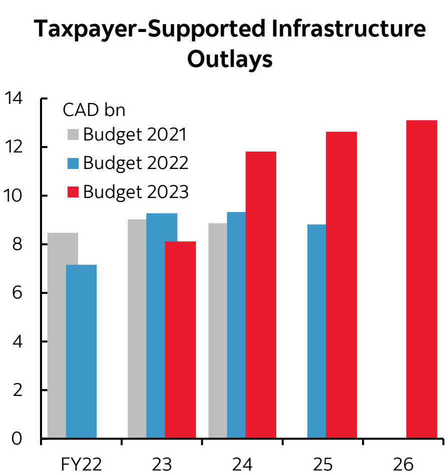
The Budget announced $8.7 bn (around 2% of nominal GDP) targeted new spending over FY24–26, with healthcare and housing-related investments comprising the bulk of expenditure increases. Over 70% of new spending goes to improving the health care system and mental health, which are roughly evenly split across the three years. The BC government also stepped up its investments in housing affordability—long identified as a major vulnerability in the province—with $2.2 bn in operating investments and another $4.2 bn in capital investments. The new housing initiatives focus on facilitating supply instead of demand—wisely in our view—with the exception of the Renter's Tax Credit, which totals $939 mn over three years and provides support to households with income up to $60k. Increases in new affordability support measures seem relatively contained at $1.3 bn over three years providing support to students and those on income and disability assistance. Another major spending item announced in the Budget is the hefty $7.6 bn (1.9% of GDP) over three years planned for public-sector wage increases, further weighing on the province's bottom line.

This budget continues to build in prudence in forms of conservative planning assumptions, forecast allowance and abundant contingencies. Real GDP is projected to grow 2.8% in 2022, 0.4% in 2023 and 1.5% in 2024, 0.1–0.2 ppts lower than forecasts provided by the Economic Forecast Council for each year. The budget acknowledges the material downside risks to the near-term economic outlook by pencilling in a forecast allowance of $700 mn in FY24 and another $500 mn each year for FY25 and FY26—equivalent to the fiscal impact of around 2–3 ppts decrease in nominal GDP. In addition, BC's updated blueprint continues to include substantial contingencies in case of future spending needs, incorporating a sizable buffer of $5.5 bn in contingencies in FY24, $5.3 bn in FY25 and $4.7 bn in FY26. Hence, the province likely has the capacity to absorb significant downside risks, while unallocated contingencies also provide some flexibility to deliver narrower deficits in outer years should stronger growth transpire.

The capital spending outlook in BC for FY24 has been revised up substantially in outer years as the government looks to spend more on health and transportation. Taxpayer-supported capital spending was lower in FY23 ($8.1 bn) than what was set out in Budget 2022 ($9.3 bn) but will increase to over $11.5 bn per year beginning in FY24, totalling $37.5 bn over the next three years (chart 3). Health and transportation initiatives will combine for over 60% of taxpayer-supported capital spending each year.

BC's borrowing program is expected to pick up in light of stepped-up capital spending and anticipated deficits. New borrowing requirements are expected to jump from $8.7 bn in FY23 to $18.9 bn in FY24, and continue to grow to $20.4 bn in FY25 and $19.3 bn in FY26. The slowing nominal growth and projected deterioration in budget balances sent the net debt-to-GDP ratio on an upward trajectory, yet on a lower path compared to in last year's budget and from a very low starting point.

Chart 3



Sources: Scotiabank Economics, BC Finance.

Updated Fiscal Forecast
$ billions except where noted

	FY23		FY24	FY25	FY26
	Nov. '22	Bud. '23	Bud. '23	Bud. '23	Bud. '23
Total Revenue	**81.1**	**82.7**	**77.7**	**79.7**	**82.2**
Own-Source	*68.5*	*70.2*	*64.1*	*66.5*	*68.7*
Fed. Transfers	12.6	12.5	13.6	13.2	13.5
Total Expenditure	***75.1***	***79.1***	***81.2***	***83.0***	***84.8***
Programs	72.3	76.2	78.0	79.3	80.6
Health	27.7	28.0	30.9	32.1	33.0
Education	16.6	16.6	17.6	18.1	18.4
Social Services	7.9	9.5	9.2	9.6	10.0
COVID-19	2.0	2.0	1.0	-	-
Other	18.1	20.2	19.3	19.4	19.3
Debt Service	2.7	2.9	3.2	3.7	4.1
Reserve	***0.3***	**-**	***0.7***	***0.5***	***0.5***
Balance	**5.7**	**3.6**	**-4.2**	**-3.8**	**-3.0**
% of GDP	*1.5*	*0.9*	*-1.1*	*-0.9*	*-0.7*
Net Debt	**61.9**	**63.7**	**75.6**	**88.4**	**99.4**
% of GDP	*15.8*	*16.4*	*18.9*	*21.3*	*23.0*

Sources: Scotiabank Economics, BC Finance.