

British Columbia: 2021–22 Mid-Year Update

PRE-STORM FORECASTS SHOW SIGNIFICANT FISCAL IMPROVEMENT

- Budget balance forecasts: **-\$1.7bn (-0.5% of nominal GDP) in FY22, a reduction of nearly \$8 bn versus Budget 2021 (-\$9.7 bn, -3.1%) (chart 1).**
- Net debt: expected to account for just 18.2% of nominal GDP in FY22—4.6 ppts lower than projected in Budget 2021 and fewer than 2 ppts higher than expected before the pandemic (chart 2, p.2).
- Real GDP growth forecast: increased to 6% in calendar year 2021, stronger than prior projection of 4.4% in the April 2021 Budget; nominal GDP projection raised from 6.4% to 11%.
- Borrowing program: total borrowing requirement reduced to **\$10.5 bn** for FY22, including a provision of **\$1 bn** forecast allowance. Over 70% of borrowing requirement for FY22 completed as of November 22nd, 2021.
- While this Update does not include forecasts related to the recent natural disaster that will no doubt have economic and fiscal consequences—not to mention an unfortunate human toll—it provides a strong basis for providing necessary supports in the aftermath.

Just as we've seen so far in Ontario, PEI, and New Brunswick, BC's much faster than anticipated economic recovery puts it on a considerably stronger financial trajectory than expected at the time of the April 2021 budget. The improvement in projected budget balances was dominated by a more than \$8 bn gain in own-source revenues versus the April forecast. In fact, net of pandemic contingencies and the standard forecast allowance, this Update puts the province on pace to run a surplus of more than \$3.5 bn in FY22! This underscores the benefits of prudent assumptions that formed the basis of financial planning, as well as strong fundamentals and fiscal discipline that have served the province well including resiliency to unexpected shocks.

The Update did not factor in costs related to recent floods and mudslides. BC declared a state of emergency on Wednesday, November 17th, 2021. It is still early to estimate the costs of emergency response and infrastructure damages. Public Safety Minister Mike Farnworth spoke at a press conference on Thursday November 18th and committed to efforts to rebuild "a stronger, better province" after the flood, with the expectation that the province would be able to bear the fiscal costs required. The province has also committed to financial assistance of up to \$300k per claim for eligible damages, which should offer some relief from such costs. These developments will likely have impacts in Budget 2022.

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Updated Fiscal Forecast

\$ billions except where noted

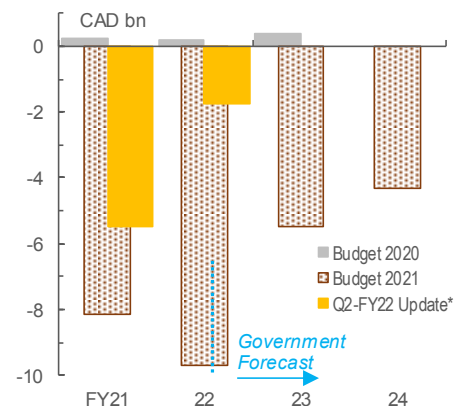
	FY21		FY22	
	Bud.'21	Final	Bud.'21	Q2
Total Revenue	61.0	62.2	58.9	68.2
Own-Source	47.6	49.3	48.4	56.7
Fed. Transfers	13.4	12.9	10.5	11.5
Total Expenditure	69.1	67.6	67.6	68.9
Programs	66.4	64.9	64.8	66.2
Health	24.3	25.6	26.1	26.3
Education	15.4	14.9	15.8	16.1
Social Services	6.8	7.8	7.2	7.2
COVID-19	7.5	--*	3.3	3.3
Other	12.3	16.6	12.5	13.3
Debt Service	2.7	2.7	2.8	2.7
% of Revenue	4.4	4.4	4.8	4.0
Reserve	0.0	0.0	1.0	1.0
Balance	-8.1	-5.5	-9.7	-1.7
% of GDP	-2.8	-1.8	-3.1	-0.5
Net Debt	60.0	59.8	71.6	62.3
% of GDP	20.3	19.3	22.8	18.2

* Not broken out in Public Accounts.

Sources: Scotiabank Economics, BC Finance.

Chart 1

BC's Budget Balances



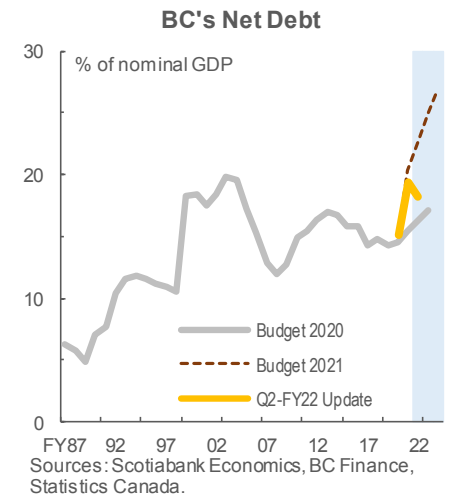
* FY21 figure is final result.

Sources: Scotiabank Economics, BC Finance.

Still, with a relatively strong fiscal position now and significant prudence built into current-year projections, BC should be able to absorb these costs and make further progress on consolidation as the storm passes. The 18.2% taxpayer-supported debt-to-GDP ratio projected in this Update is—at it stands—the lowest anticipated by any Canadian jurisdiction for FY22 and not far off the province's pre-pandemic expectations.

In a separate release, the province also reduced its borrowing requirement by nearly half to \$10.5 bn for FY22, with \$7.5 bn already completed as of November 22nd, 2021. On that date, 42% of borrowing had been completed in international markets. The remaining \$3.8 bn is expected to be a combination of long-term and short-term financing.

Chart 2



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