

Contributors

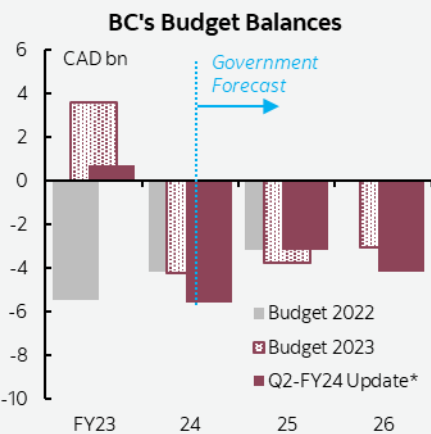
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# British Columbia: 2023–24 Mid-Year Update

## MOUNTING SPENDING PRESSURES DEEPEN FISCAL SHORTFALL

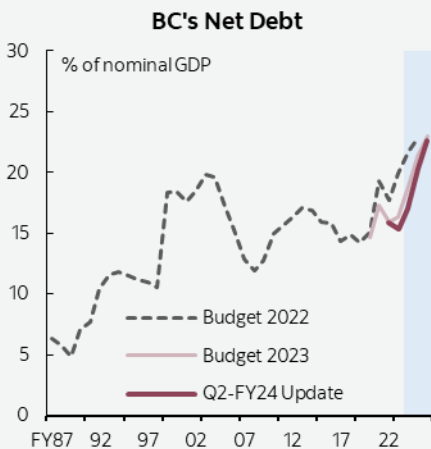
- **Budget balance forecasts:** **-\$5.6 bn (-1.4% of nominal GDP) in FY24**, a deterioration of **\$1.3 bn** versus Budget 2023 (**-\$4.2 bn, -1.1%**) (chart 1), while the FY23 surplus came in more than **\$2.9 bn** less than estimated in Budget 2023.
- **Net debt:** expected to rise from **15.3% of nominal GDP in FY23 to 17.0% in FY24**—**2 ppts** lower than projected in Budget 2023 (chart 2).
- **GDP growth forecast:** **+1.0% real growth and +3.1% nominal growth in 2023**—stronger than prior projections; slower real and nominal growth assumptions in 2024 (**+0.7% and +3.5%**).
- **Forecast allowance and contingencies:** **\$700 mn** in forecast allowance and **\$5.5 bn** in contingencies planned for FY24.
- **Borrowing program:** total borrowing requirement reduced to **\$17.7 bn** for FY24 including a provision of **\$0.7 bn** forecast allowance—a **\$1.3 bn** reduction from the Budget estimate. Around **55%** of borrowing requirement for FY24 was completed as of November 28th, 2023.
- **Despite a deeper deficit due to heightened spending, BC currently maintains a relatively robust fiscal position with significant prudence built into current-year projections. Nevertheless, absent a plan to achieve budgetary balance, the province’s debt burden—albeit still low relative to other jurisdictions—will remain on a persistent upward trajectory.**

Chart 1



\* FY23 figure is final result. FY25 and FY26 estimates are from the First Quarterly Report. Sources: Scotiabank Economics, BC Finance.

Chart 2



Sources: Scotiabank Economics, BC Finance, Statistics Canada.

## OUR TAKE

**After slashing its FY23 surplus by nearly \$3 bn, British Columbia projects a -\$1.3 bn deterioration in its bottom line in FY24 versus budget projections—albeit a less severe decline than anticipated in its first quarterly update.** The government revised its FY24 deficit projection from **-\$4.2 bn** to **-\$5.6 bn**, with total spending now tracking **\$1.3 bn** higher than the budget estimate. Revenue projection remains largely intact but the composition has changed, with gains in corporate income tax and sales tax offsetting the **-\$1.1 bn** projected loss in natural gas royalties due to lower-than-anticipated prices (averaging **\$1.4 Cdn/gigajoule** instead of **\$3.0** at budget time). Looking ahead, the province plans to continue running deficits in the order of **-\$3–4 bn** in the near future with no plan to balance the books, as laid out in its first-quarter update.

**The updated economic assumptions factor in a delayed slowdown, projecting a more robust 2023 and a weaker 2024 compared to budget assumptions, but still maintaining an optimistic stance.** The update assumes that BC’s economy will grow at **+1.0%** in real terms in 2023, a touch higher than our current projection of **+0.9%** despite a lower growth profile for Canada (**+1.1%** versus Scotiabank’s forecast of **+1.2%**). Real growth is expected to remain subdued at **+0.7%** in 2024—a significant downward revision from the **+1.5%** assumed in Budget 2023—in line with our current view. The average private-sector growth forecasts are weaker than these assumptions for both years, underscoring potential downside risks amidst high uncertainty.

**Amble prudence remains in the plan through allowance and contingencies, which serves to mitigate downside risks and could potentially result in narrower deficits should stronger growth transpire.** The province set aside a forecast allowance of **\$700 mn** in FY24, which could absorb a negative shock in nominal growth of up to **-2 ppts** according to the fiscal sensitivities provided in the budget. The **\$5.5 bn** contingencies planned for FY24 remain unchanged, with **\$1.0 bn** in the Pandemic Recovery, **\$2.2 bn**

allocated to Shared Recovery Mandate, and \$2.3 bn allocated to General Programs, CleanBC and Climate & Emergency Response.

**FY24 spending plans were raised by \$1.3 bn, attributed to expenses related to wildfires and investments in housing initiatives.** The largest single overshoot—\$782 mn in additional fire management costs—relates to wildfire spending incurred during the province’s record-breaking summer blazes this year. This is partially offset by a federal funding injection of \$358 mn for wildfire recovery under the Disaster Financial Assistance Arrangements. Although the additional spending pressure should subside beyond FY24, extreme weather events may become more common in the coming years and affect provinces’ finances. Spending needs linked to housing and wage negotiations are more likely to linger. The government committed \$104 mn to provide permanent housing for residents in temporary housing through the Housing Priority Initiatives. The update also sees higher grants to health organizations and education sectors due to wage mandate than what was pencilled in as a buffer in Budget 2023.

**The update nudged down taxpayer-supported debt forecasts due to lower-than-anticipated prior-year debt balances and a reduction in capital spending projections.** BC is projected to grow its debt as a share of nominal output to 17.0% in FY24—a notable improvement from the 18.9% projected in February. Despite the upward trajectory due to continued deficits and ramped-up capital spending, the province maintains a lower debt burden compared to many peer jurisdictions. The current estimates also likely represent an upper bound considering the prudence embedded over the planning horizon.

**The province manages to cover the increased budget shortfall with funding from alternative sources, allowing for a reduction of \$1.3 bn in the FY24 borrowing program.** New borrowing requirements are expected to come in at \$17.7 bn in FY24, including a combined \$1.7 bn for contingencies and forecast allowance. Out of the remaining \$8 bn to be completed this fiscal year, one-third is expected to be financed through long-term issuance.

Updated Fiscal Forecast				
\$ billions except where noted				
	FY23		FY24	
	Bud. '23	Final	Bud. '23	Nov.'23
<b>Total Revenue</b>	<b>82.7</b>	<b>81.5</b>	<b>77.7</b>	<b>77.7</b>
Own-Source	70.2	69.0	64.1	63.8
Fed. Transfers	12.5	12.5	13.6	13.9
<b>Total Expenditure</b>	<b>79.1</b>	<b>80.8</b>	<b>81.2</b>	<b>82.5</b>
Programs	76.2	78.1	78.0	79.3
Health	28.0	30.3	30.9	31.1
Education	16.6	17.0	17.6	17.9
Social Services	9.5	9.7	9.2	9.1
COVID-19	2.0	2.4	1.0	1.0
Other	20.2	18.7	19.3	20.1
Debt Service	2.9	2.7	3.2	3.3
<b>Reserve</b>	<b>-</b>	<b>-</b>	<b>0.7</b>	<b>0.7</b>
<b>Balance</b>	<b>3.6</b>	<b>0.7</b>	<b>-4.2</b>	<b>-5.6</b>
% of GDP	0.9	0.2	-1.1	-1.4
<b>Net Debt</b>	<b>63.7</b>	<b>59.9</b>	<b>75.6</b>	<b>69.3</b>
% of GDP	16.4	15.4	18.9	17.0

Sources: Scotiabank Economics, BC Finance.

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