

Economics

PROVINCIAL BUDGET BRIEFS

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British Columbia budget 2024

A slowdown in economic growth in British Columbia over the past year translated into the province estimating a wider than expected deficit in the outgoing fiscal year, following two consecutive fiscal years of surpluses. The \$5.9bn shortfall expected for the outgoing 2023/24 fiscal year is only slightly wider than the \$5.6bn estimate from late 2023 at the time of the province's mid-year fiscal update. The deficit is expected to widen further in the upcoming fiscal year, reflecting increased spending tied to cushioning the economic slowdown and higher debt servicing charges. That also includes contingencies that total in between \$3-4bn in each year through the forecast horizon. The province expects the fiscal shortfall to be on a narrowing path following the upcoming fiscal year, with faster economic growth in those years as interest rates are expected to fall coinciding with slower expenditure growth. All told, the deficit is expected to reach 1.9% of GDP in 2024/25, before falling to 1.4% of GDP by 2026/27. The return to deficits means that gross borrowing requirement is on track to jump from \$20.2bn in the current fiscal year to \$24.2bn in fiscal 2024/25.

Table 1: Summary of fiscal position: (C\$billions)

Fiscal measure	2022/23 Actual	2023/24 23 Budget	2023/24 24 Budget	2023/24 Change	2024/25 24 Budget	2025/26 24 Budget	2026/27 24 Budget
Revenue	81.536	77.690	77.320	-0.370	81.523	82.838	86.408
Own Source	69.010	64.097	63.292	-0.805	67.077	67.949	71.734
* % change	14.2	-7.1	-8.3	-1.2	6.0	1.3	5.6
Federal transfers	12.526	13.593	14.028	0.435	14.446	14.889	14.674
Expenditures	80.832	81.206	83.234	2.028	89.434	90.611	92.696
Program spending	78.113	76.971	78.934	1.963	85.329	85.796	87.020
* % change	14.2	-1.5	1.1	2.5	8.1	0.5	1.4
Public debt interest	2.719	3.235	3.300	0.065	4.105	4.815	5.676
Pandemic recovery contingencies	0.000	1.000	1.000	0.000	0.000	0.000	0.000
Forecast allowance	0.000	0.700	0.000	-0.700	0.000	0.000	0.000
Surplus /(deficit)	0.704	-4.216	-5.914	-1.698	-7.911	-7.773	-6.288

BC economy to slow further before rebounding in 2025

The BC economy started 2024 on shakier ground than other provinces, as debt-burdened households are adjusting to higher interest rates, and that will likely see GDP growth slow further over the year. Given strong population growth, the province's forecast for modest GDP growth of 0.8% in 2024 would translate into a 2.0% decline in GDP per capita. That is expected to drive the unemployment rate up to 6.1%, from 5.2% in 2023, resulting in slower income growth and a decline in corporate profits in 2024, before a turnaround in 2025. BC's economy, like other provinces, is seeing a sharp deceleration, with excess savings built up during the pandemic largely exhausted in inflation-adjusted terms. That is in line with expectations for a further retrenchment in corporate profits in 2024, and slower employment growth.

By 2025, interest rate relief is expected to facilitate a recovery in demand, with the province's forecast showing the three-month bond yield falling from 4.43% in 2024, to 3.00% in 2025, while the 10-year GoC yield is expect to fall and average 3.10% in the outer years of the projection.

Table 2: Key assumptions (Y/Y % chg)

Economic assumptions	2023	2024	2025	2026-28
Real GDP	1.0	0.8	2.3	2.3
• Private sector average	0.9	0.5	2.1	2.2
Nominal GDP	3.2	3.3	4.4	4.6
Employment	1.6	0.9	1.5	1.5
Unemployment rate (%)	5.2	6.1	5.9	5.3
Retail sales	0.8	2.3	3.4	3.7
Housing starts (K)	50.5	46.1	47.3	50.5
Personal income	6.9	4.4	4.3	4.1
Corporate profits	-14.9	-9.5	0.8	5.7
CPI	3.9	2.7	2.2	2.0
Population	3.0	2.8	1.9	1.6

Table 3: Key financial assumptions

Financial assumptions (fiscal yr)	2023	2024	2025	2026-28
3-month T-Bills (%)	4.81	4.43	3.00	2.75
10-year GoC Bonds (%)	3.36	3.25	3.07	3.10
Exchange rate (US\$/C\$)	74.1	73.6	76.8	78.8

Table 4: Commodity assumptions

Commodity assumptions	2023/24	2024/25	2025/26	2026/27
Stumpage rate (\$C/cm)	18.70	18.06	19.70	21.16

Note: 2026-28 is a three-year average

A wider deficit before improvement after 2024/25

For the outgoing 2023/24 fiscal year, the expected deficit of \$5.9bn is a deterioration relative to the 2023 budget projection and the prior two years that saw surpluses. Driving the deterioration were lower-than-expected revenues, and higher-than-expected expenditures, with the weak economic backdrop as the economy adjusted to higher interest rates and the slowdown in global growth holding back revenues. Additional spending measures aimed at cushioning the economic slowdown added to expenditures.

The deficit of \$7.9bn that is expected in 2024/25 would be the widest on record, but that doesn't account for the strong population growth that the province has seen. For the upcoming 2024/25 fiscal year, jumps in spending for healthcare, education, social services, and transportation are planned. Higher expenditures, including transfers to many households in the form of the BC Family Benefit Bonus, an Electricity Affordability credit for households and businesses, and enhanced carbon tax rebates will cushion the economic slowdown. \$43bn in spending has been allocated to schools, housing, healthcare facilities, and other infrastructure over the projection horizon, with further measures aimed at tackling housing affordability issues including an expansion of the First Time Home Buyers property tax exemption program, as well as a home flipping tax that will come into effect in 2025. The new federal government caps on study permits would work to limit rent increases in 2025 in the province, and adding to the relief for renters is additional funding for BC Builds to build more rental homes, as well as a tax credit for some renters. In total, operating expenses are set to rise by 7.4%, but given expectations for strong population growth, that would represent a more moderate 1.7% growth in per-capita terms.

On the revenue side, the outgoing fiscal year saw a sharp drop in revenues, but the province expects 2024/25 total revenues to increase by 5.4%, reflecting population and economic growth, as well as an improved federal government forecast of national corporate taxable income. Revenue growth over the forecast horizon also reflects higher expected natural resources revenues tied to the commencement of LNG production and expectations for higher commodity prices.

Gross borrowing requirements to jump higher on deficit and capital spending

The outgoing fiscal year ending March 31, 2024 shows a higher deficit than anticipated at the time of the mid-year update. Coupled with a few other changes, has caused gross borrowing requirements for the remainder of the fiscal year to increase to \$20.2bn from \$17.7bn. That is also higher when compared to the budget estimate tabled a year ago which had requirements at \$19.0bn.

Of that new total, the government has borrowed \$18.2bn so far through long-term debt and internal financing sources. That leaves approximately \$2.0bn in gross borrowing requirements before the fiscal year-end. However, it was not detailed on how this balance will be fulfilled. Meanwhile, the province could end up funding more than that \$2.0bn as they said they may pre-fund for the upcoming fiscal year.

Representing a large portion of funding completed this year is long-term debt, with the government having issued \$14.6bn. Contrary to the past few years, there was a larger portion completed in international markets which accounted for 57% of all issuance. That compares to an average of 18% over the prior three years. The province mentioned that they would continue looking at both domestic and international markets to address funding needs, while continuing to expand their investor base.

As for this upcoming fiscal year, the gross borrowing requirements are expected to increase by \$4.0bn to \$24.2bn. At this time, the breakdown of funding sources was not specified. The increase is a result of the province's deficit forecast of \$7.9bn, while capital spending jumps up by \$3.9bn to \$18.8bn. Overall, the three-year fiscal plan sees gross borrowing increasing due to higher refinancing and higher capital requirements, with estimates of \$29.5bn in 2025/26 and \$28.4bn in 2026/27.

Total capital requirements are expected to be \$56.5bn over the three-year plan with focus on areas related to affordable homes, hospitals, transportation and transit, hydro-electric projects and other infrastructure around the province. Of that total, \$43.3bn is taxpayer-supported capital spending which is \$5.7bn higher than Budget 2023. The increase is mainly due to the progression of major infrastructure projects through the procurement and construction phases and additional funding for maintenance and upgrades of existing government assets.

Table 5: Borrowing requirements (C\$billions)

Borrowing requirements	2023/24 Estimate	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast
Operating deficit /(surplus) ¹	5.914	7.911	7.773	6.288
Capital investment / requirements	14.859	18.756	19.037	18.706
Other financing sources ²	-4.977	-5.931	-3.293	-2.623
Direct borrowing by crown entities	-0.006	-0.223	-0.311	-0.238
Net financial requirements	15.790	20.513	23.206	22.133
Maturities and calls	4.397	3.670	6.295	6.257
Total gross	20.187	24.183	29.501	28.390

Table 6 Sources of funding (C\$billions)

Sources of funding	2023/24 Estimate	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast
Internal sources/ST borrowing	3.545	N/A	N/A	N/A
Bonds and MTNs	14.648	N/A	N/A	N/A
Remaining	1.994	-	-	-
Total	20.187	24.183	29.501	28.390

¹ Includes forecast allowances

² Includes other financing sources for the province, the health and education sectors, Crown corporations and adjustments for non-cash budgetary items.

Debt to GDP ratio on the rise, but from an improved base

As a result of lower-than-planned spending on taxpayer-supported entities as well as on provincial capital, taxpayer-supported debt is expected to be \$3.8bn lower than forecasted in budget 2023. That translates into a debt-to-GDP of 17.6%, which is down 1.3% from last year's budget estimate of 18.9%. For this upcoming fiscal year, that ratio is expected to increase by 3.4% to 21.0%. However, that ratio is still down 0.3% from last year's estimates due to higher GDP. As gross borrowing requirements remain elevated, that ratio continues to trend upwards, reaching 27.5% by the end of the forecast horizon (i.e. 2026/27). Despite the upward trend, this ratio should still remain at the lower-end of the range amongst its provincial peers.

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