

# ECONOMIC RESEARCH AND STRATEGY



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**Sébastien Lavoie,**  
Chief Economist  
LavoieS@vmbi.ca  
514 350-2931

**Luc Lapointe,**  
Senior Economist  
LapointeL@vmbi.ca  
514 350-2924

## **BC Budget 2023 – A Big Spending Budget to Support British Columbians**

On February 28th, Finance Minister Katrine Conroy presented her first budget under newly sworn Premier Eby. Let us start with the Third Quarterly Report update for FY 2022-23. The \$5.5B deficit projected a year ago in the 2022 budget has converted into a moderate surplus of \$3.6B, or 0.9% of NGDP. This marks however a \$2.2B deterioration from the Second Quarterly Report estimated surplus of \$5.8B, mostly due to funding for multiple initiatives announced by Premier Eby since his arrival last November. These include various cost-of-living measures, proposals to financially protect vulnerable groups, and \$1B to support municipalities with infrastructure projects. Total expenses soared by 11% in FY 2022-23, the largest annual jump observed since the 1990s excluding the pandemic year.

The three-year perspective stated in the 2023 budget is drastically different, flipping from a surplus last year to back-to-back deficits. In a nutshell, weaker economic growth coupled with additional spending will result in moderate deficits of \$4.2B in FY 2023-24 (1% of NGDP), \$3.8B in FY 2024-25, and \$3B in FY 2025-26.

After an increase of 11% in 2022, nominal GDP growth, a major factor underlying revenue, is expected to slow. The Province's estimates range from +2.8% in 2023 to +4.2% in 2026. China's reopening is a significant boon for British Columbia. The Province foresees a revenue reduction of 6% in FY 2023-24, followed by increases of 2.6% and 3.1% in the subsequent two fiscal years. The \$2B cumulative decline in natural resources revenues, led by drops of \$0.7B in natural gas royalties and \$0.9B in forestry revenues, is the primary contributor to virtually three years of flat growth in total revenue. Revenues from taxes are likewise anticipated to come in flat over the timeframe. As for Crown corporations, only the Insurance Corporation of British Columbia is expected to achieve significant growth in revenues during the 3-year period (\$0.7B). Lastly, it is predicted that federal transfers will increase by \$1B through 2026. Notably, a bilateral agreement with the federal government on health care transfers has not yet been reached and is therefore not included in this budget.

Over the next three years, the BC government will shoot up total spending from \$79B to \$85B, or 7% above FY 2022-23, mostly attributable to a \$5B rise in health care spending. In addition, to combat homelessness and improve housing affordability, the Province will invest \$4B over the period, \$1B of which will go this year towards building new rental units and homes near public transit services. Fiscal buffers are substantial in the budget: money put aside for the pandemic recovery, forecast allowances, contingencies to address climate change and supporting potential public sector wage increases total over \$6B in FY 2023-24 and around \$5.2B in FYs 2024-25 and 2025-26.

In the next three years, taxpayer-supported capital expenditures are projected to reach a record-high \$38B, a \$10B (or 37%) increase relative to the Budget 2022 capital plan. Most notably, \$13B is allocated for transportation infrastructures while \$11B will go to health care facility renovations. This will exacerbate borrowing requirements. To finance this huge capital expenditure program and operating deficits, gross long-term borrowing needs over the next



three years are larger than in the past, approaching \$60B. In FY 2023-24 alone, gross long-term issuance is projected at a record high of \$18B, a major rise over FY 2022-23 at about \$9B (or \$4.4B when including internal financing sources and changes in short-term borrowing). Taxpayer-supported debt is projected to jump from \$64B according to the third fiscal update to over \$100B in FY 2025-26, from 16.4% to 23% of NGDP. Debt will climb from 79% to 125% of revenue, a significant increase. As for debt-servicing expenses, taxpayer-supported costs as a percent of revenue continue to stay below most other provinces at 2.4 cents per dollar in FY 2022-23 but will escalate to 3.9 by FY 2025-26.

In summary, to address primary concerns of British Columbians and despite economic uncertainty, the NDP government does not hesitate to increase expenditures on health care issues, the housing affordability crisis, and climate emergencies. This public policy choice also implies a waning in financial metrics. Notably, BC could leave the small, elite group of provinces with a public debt-to-GDP ratio figure standing below 20%. However, BC has significant fiscal flexibility to withstand such a deterioration. Compared to contingencies, deficits are smaller and could thus decrease if these funds are not utilised. Yet, persistently high interest rates and the possibility of a worldwide recession could have significant negative impacts on fiscal results.

**Luc Lapointe** | Senior Economist  
514 350-2924 | [Lapointel@vmbl.ca](mailto:Lapointel@vmbl.ca)

**Sébastien Lavoie** | Chief Economist  
514 213-4571 | [LavoieS@vmbl.ca](mailto:LavoieS@vmbl.ca)

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