BUDGET ANALYSIS

British Columbia: Fall 2024 Update

Post-Election Update Just in Time for the Holidays

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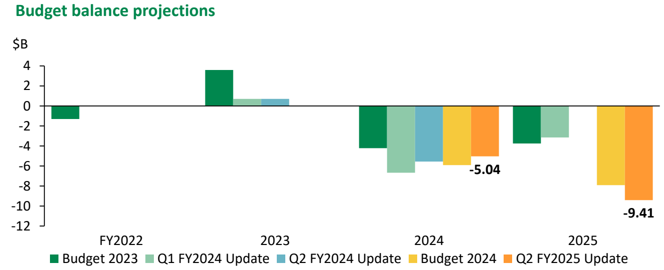
HIGHLIGHTS

- British Columbia's fiscal year 2024–25 (FY25) to-date has been challenged by expenses edging modestly higher than planned while revenues are coming in close to their Budget 2024 forecast. As a result, the province's headline deficit is modestly larger than estimated last February (graph 1).
- The slight widening in BC's in-year deficit estimate through FY25 can largely be chalked up to increased spending on health authorities and other service delivery agencies, and to a lesser extent fighting wildfires and a higher bill for interest expenses.

Graph 1
BC's FY25 Deficit is Likely to Be Slightly Larger than Previously Expected



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- Relatively stable headline revenues since Budget 2024 mask some major moves under the hood, with a meaningful reduction in expected corporate income taxes revenues broadly offset by gains in other revenue sources. Conservative natural gas price forecasts in previous projections helped to minimize the fiscal hit from lower gas prices.
- The modestly larger deficit in FY25 is expected to push the debt-to-GDP ratio higher than in Budget 2024, to 22.3% from 21.0%. About $7B of gross borrowing requirements remains for the fiscal year, which will be funded through a combination of both long-term and short-term issuance. But this doesn't change the fact that BC remains in an enviable debt position relative to its provincial peers. And if its prior medium-term projections hold, this relative advantage is likely to be maintained even if the province's debt rises gradually higher as a share of the economy.
- While the changes to BC's FY25 plan were relatively minor, the risks to the outlook are to the downside just as they are for the rest of the country. From potentially lower-than-expected population growth and the impending mortgage renewal wall to tariffs on Canadian exports destined for the US and the inevitability of climate change, cautious fiscal planning is of paramount importance. Fortunately, BC is known for its leading prudence among Canadian provinces.

BC's Fall 2024 Update provides a useful snapshot of the post-election state of play of the province's finances. Beautiful British Columbia has been challenged by expenses edging gradually higher than planned while revenues are coming in close their Budget 2024 forecast. However, the Pacific Province continues to have one of the most enviable fiscal positions in the country from a debt-to-GDP perspective.

TABLE 1
Updated BC Fiscal Forecasts

IN $B (UNLESS OTHERWISE INDICATED)	2023–2024 Budget 2024	2023–2024 Actual	2024–2025 Budget 2024	2024–2025 Q2 FY2025
Total revenues	77.3	79.6	81.5	81.4
% change	*-5.2*	*-1.9*	*5.4*	*4.1*
Own-Source Revenues	63.3	65.9	67.1	67.1
% change	*-8.3*	*-4.5*	*6.0*	*6.0*
Federal Transfers	14.0	13.7	14.4	14.3
Total expense	83.2	84.7	89.4	90.9
% change	*3.0*	*4.7*	*7.4*	*9.2*
Program spending	79.9	81.4	85.3	86.5
% change	*2.6*	*4.4*	*6.7*	*8.2*
Debt charges	3.3	3.3	4.1	4.3
% of total revenues	*4.3*	*4.1*	*5.0*	*5.3*
Forecast allowance				
Budget balance	**-5.9**	**-5.1**	**-7.9**	**-9.4**
% of GDP	*-1.5*	*-1.2*	*-1.9*	*-2.2*
Net Debt, % of GDP	*17.6*	*18.4*	*21.0*	*22.3*
Gross Borrowing Requirements	**20.2**	**—**	**24.2**	**—**
Capital Requirements	14.9	—	18.8	17.6
Refinancing Requirements	4.4	—	3.7	—
Other Financing Sources	(5.0)	—	(5.9)	—

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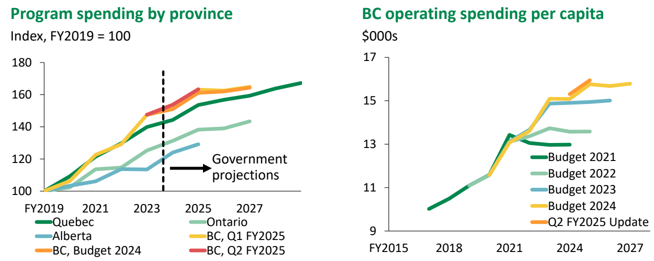
Higher Spending Across the Board

Modestly higher spending since September's Q1 Update ($107M) can largely be chalked up to increased net spending on health authorities and other service delivery agencies ($608M); universities ($86M); and other statutory spending ($53M). This was offset by lower spending for wildfires due to favourable weather conditions ($118M).

This comes after a substantive increase in planned expenses for FY25 between Budget 2024 and the Q1 Update, to the tune of $1.3B. That takes the increase in planned spending for this year to $1.4B higher than expected in Budget 2024, for a total of $90.9B in expenses this year. Much of the increase was related to health authorities and hospital societies ($1.5B); fire management costs ($535M); and other expense changes—mainly higher interest costs ($338M). This is likely to be slightly offset by lower spending on other service delivery agencies ($109M).

All told, despite consistent upward revisions to in-year spending throughout FY25 (graph 2), the Government of British Columbia hasn't strayed far from the fiscal plan that started the year. That said, BC's program spending has increased faster than in other provinces in recent years, and keeps edging higher on a per capita basis. Spending restraint baked into the outer years of prior fiscal plan will be a welcome development.

Graph 2
BC's Spending Plans Have Continued to Climb Since the Pandemic



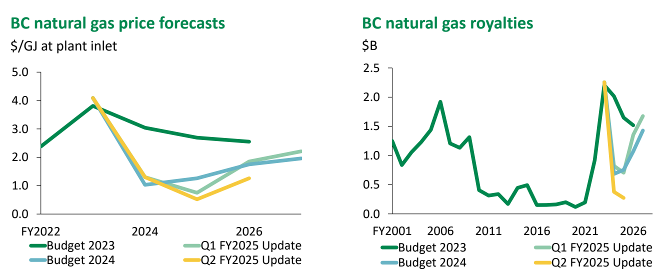
* Quebec, Ontario and Alberta figures based on mid-year FY2024 projections
Statistics Canada, provincial budget documents and Desjardins Economic Studies

Topline Revenues Close to Budget 2024

Since Budget 2024, revenues for FY25 have remained broadly unchanged, rising and falling by a few hundred million dollars through to the Fall 2024 Update. At a total of $81.4B, revenues in FY25 are now expected to be just $75M below the Budget 2024 projection published in February (albeit $322M below the Q1 Update).

The largest revision since the budget was to the corporate income tax take—down $1.029B. This despite the increase in the capital gains inclusion rate cited by Ontario and Quebec in their fall fiscal updates, suggesting there could be some upside to BC's future income tax revenues. Additional downward revisions to revenues from the provincial sales tax (-$200M); natural gas royalties (-$181M); electricity sales (-$154M); and federal government transfers (-$117M). It should be noted that the province is not removing provincial sales tax in line with the federal GST holiday, and thus avoids a loss of revenue other provinces are facing this winter. These lower revenues are expected to be largely offset by gains from personal income tax ($513M); Commercial Crown corporation net income ($360M); and fees, licences, investment earnings and miscellaneous revenue ($729M). Notably, having baked conservative natural gas price assumptions into their prior fiscal forecast helped to minimize the hit to the bottom line from lower gas royalties (graph 3).

Graph 3
Prior Conservative Natural Gas Price Forecasts Minimize Fiscal Hit



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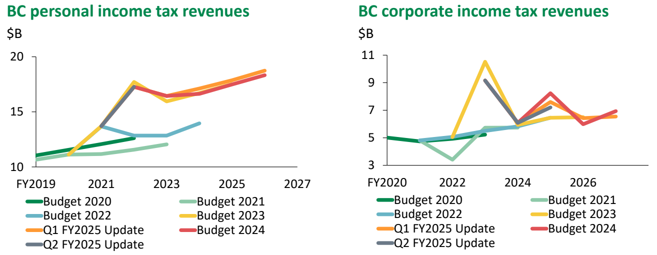
Despite the downward revision to corporate income taxes revenues since Budget 2024, they are only slightly lower than in the Q1 Update (graph 4). The same can be said for personal income tax revenues, which remained on a higher track since being revised up meaningfully in Budget 2023.

Graph 4
Personal and Corporate Income Taxes Remain on Track



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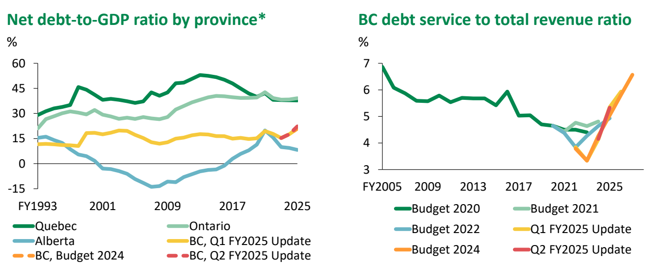
Debt-to-GDP Ratio Edges Higher

With expenses rising faster than revenues throughout FY25, it's no surprise that the deficit widened along with it. Since Budget 2024, the in-year deficit estimate increased by $1.1B in the Q1 Update and a further $0.4B in the Fall 2024 Update, for a total deterioration in the budget balance of $1.5B. As a result, the deficit estimate for FY25 stands at $9.4B, up from $7.9B projected back in February.

In part, because of the larger-than-planned deficit, the debt-to-GDP ratio forecast has edged up to 22.3%, notably higher than projected in Budget 2024 (21.0%) but not far from the in-year estimate published in the Q1 Update (22.0%). About $7B of gross borrowing requirements remains for the fiscal year, which will be funded through a com-bination of both long-term and short-term issuance. Nevertheless, BC's debt-to-GDP ratio remains lower than most other provinces (graph 5) and remains the only province with a triple-A rating from a credit-rating agency.

Graph 5
BC's Debt Indicators Are Set to Rise, But Remain Low



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Risks to the Economic and Fiscal Outlook

Domestically, BC could face an outsized impact from the federal government's planned reduction in immigration, as the province is a popular landing place for newcomers. With BC's July 1 population projected to increase by 0.6% in 2025, that's well below the 1.9% expected in Budget 2024 but roughly in line with Statistics Canada's middle-of-the-road population projection. BC has marked down its real and nominal GDP growth forecast for 2025 accordingly. While a prudent projection, it does pose risks to the economic and fiscal outlook if the federal government realizes its plan to reduced Canada's overall population in 2025 and 2026.

On the other hand, the federal government's new mortgage rules will provide a bit of helpful relief for BC homebuyers, as they grapple with high and rising home prices. Paired with lower mortgage rates, these should support homebuying over the remainder of the fiscal year, helping to fill provincial coffers with property transfer tax and provincial sales tax revenues. Nevertheless, with the mortgage renewal wall looming, households may rein in spending, thus weighing on provincial sales tax revenues.

BC continues to face risks from natural disasters, such as wildfires and earthquakes, as well as general climate change and weather conditions. Despite falling well behind affordability on Canadians' list of pressing concerns, climate change isn't going away. As such, long-term planning for adaptation will remain a budget consideration.

And from away, the threat of high tariffs from the incoming US administration would impact economic prosperity. Fortunately for BC, the province has a greater diversity of destinations for its exports than the other big provinces, although it could face additional indirect impacts if China is particularly aggressively targeted by US tariffs.

Conclusion

While BC's in-year estimate for the FY25 deficit widened slightly again in the Fall 2024 Update as a result of rising expenses for health care and other social services, the province remains in an enviable fiscal position from a debt-to-GDP perspective. If its prior medium-term projections hold, this relative advantage is likely to be maintained even if the province's debt rises gradually higher as a share of the economy.