

# B.C. BUDGET 2023 ANALYSIS



Business Council of  
British Columbia  
Est. 1966

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## B.C. BUDGET 2023 PLANS FOR SIZABLE OPERATING DEFICITS AND HIGHER DEBT WHILE DOING LITTLE TO STRENGTHEN THE FOUNDATIONS OF PROSPERITY

### KEY TAKEAWAYS

- The provincial Budget assumes modest topline GDP growth of just 0.4% in 2023 and 1.5% in 2024. On a per capita basis, however, GDP growth is set to decline by 2.0% and 0.4% over the next two years.
- Provincial revenues are projected to fall in 2023/24 as global growth moderates and commodity prices retreat from super-charged levels. Government expenditures, however, continue rising resulting in projected deficits over the three-year fiscal plan.
- Last fiscal year the government benefited from a \$14.1 billion upside revenue surprise, allowing the government to post a surplus instead of a large deficit while also boosting spending in fiscal 2022/23. Although the Budget anticipates a modest rise in spending, the plan follows the strongest three-year rise in provincial expenditures in three decades.
- With the economy operating beyond capacity and overheating, the B.C. government has introduced a fiscally stimulative Budget that spends near-term windfall revenues and proposes an operating deficit of \$4.2 billion (equal to 1.1% of GDP). We do not believe such stimulus is either warranted or wise in present circumstances. The Budget adds to unwanted inflationary pressures and thus pulls in the opposite direction to the Bank of Canada.
- Budget 2023 announced the government's plan to reform provincial carbon pricing. In addition to increasing the tax by \$15/tonne, the government plans to move to adopt an output-based pricing system (OBPS) for large industrial operations in the province, which will likely be like the system previously implemented by the Government of Canada. Details are forthcoming but the Business Council expects the new system will exempt large industrial emitters from the carbon tax and they will instead be subject to a made-in-B.C. output-based pricing system.
- Apart from the carbon tax, the Budget contained no measures directed at attracting investment or bolstering per capita economic growth.

### ECONOMIC CONTEXT AND OUTLOOK

The economic setting for Budget 2023 is unusual. First, the provincial economy is forecast to grow at the slowest pace in three decades, apart from the 2009 and 2020 recession years. Second, even as growth moderates, the economy

will continue to face capacity pressures. Finally, the Budget arrives at a time when the Bank of Canada is working aggressively to tame runaway inflation, the provincial unemployment rate is near record lows, job vacancy rates are elevated, and construction costs are rapidly escalating. In short, B.C. – like

Canada as a whole – is overheated and inflation is running at the highest since the late 1970s/early 1980s. Budget 2023 aggravates these problems.

The Budget is built around topline GDP growth of 0.4% in 2023, slightly below the private sector consensus. In 2024, GDP is expected

to expand at a 1.5% pace, but still trail in average growth. The Business Council anticipates a somewhat stronger 0.9% expansion in 2023 owing to B.C.'s rapidly rising population and high levels of non-residential construction activity. While B.C. is forecast to avoid an outright recession in 2023, with top-line GDP growth remaining positive, **per capita GDP is poised to decline over the next two years.** That matters, as per capita GDP is a good measure of what's happening to individual prosperity.

In our view, the fiscal stance adopted in Budget 2023 is at odds with the economic context. In fiscal 2020/21, at the height of the pandemic disruptions, B.C. fell into a deep but short-lived recession (real GDP fell 3.4%). In that setting, the government (appropriately in our view) ran a deficit of \$5.5 billion, an amount equal to 1.8% of nominal GDP. In 2023, however, the situation is very different. The economy grew strongly in 2021-22 and is likely to keep expanding (albeit tepidly) this year, inflation is raging, and businesses are struggling to find and keep employees. **With the economy operating beyond capacity and overheating, the B.C. government has introduced a fiscally stimulative Budget that spends near-term windfall revenues and proposes an operating deficit of \$4.2 billion (equal to 1.1% of GDP). We do not believe such stimulus is either warranted or wise in present circumstances. The Budget adds to unwanted inflationary pressures and thus pulls in the opposite direction to the Bank of Canada.**

TABLE 1: **BUDGET 2022 ECONOMIC ASSUMPTIONS AND FORECASTS FOR BRITISH COLUMBIA**  
(ANNUAL PER CENT CHANGE UNLESS OTHERWISE INDICATED)

Source	2021	2022	Forecast		
			2023	2024	2025
B.C. Real GDP (chained \$2012)	6.1	2.8	0.4	1.5	2.4
Real GDP <u>per capita</u> (chained \$2012)	5.2	0.5	-2.0	-0.4	0.7
B.C. Nominal GDP	14.2	11.0	2.8	3.7	4.2
Exports Goods & Serv. (chained \$2012)	3.2	6.3	2.8	3.0	5.2
Retail Sales	12.6	3.0	1.8	2.9	3.4
Housing Starts (000s of units)	47.6	46.7	39.0	37.0	38.0
Cdn 3-month T-bill (annual avg. %)	0.12	2.30	4.16	3.16	2.63
Cdn 10-year gov't bond (annual avg. %)	1.36	2.77	3.01	2.90	2.75
Canada Real GDP (chained \$2012)	5.0	3.5	0.2	1.4	1.8
U.S. Real GDP (chained \$2012)	5.9	2.1	0.1	1.0	1.8
U.S. Housing Starts (000s of units)	1,601	1,553	1,295	1,345	1,350
Real GDP Japan (chained Yen 2011)	2.1	1.3	1.0	0.8	0.6
Real GDP China (U.S\$ 2010)..	8.4	3.0	4.4	4.9	4.4

Source: 2023 B.C. Budget and Fiscal Plan.

## BUDGET PLANS FOR DEFICITS AS SPENDING RISES AND REVENUES DOWNSHIFT

Budget 2023 outlines moderate program spending increases over the three-year fiscal plan. Total provincial expenditures increase to \$81.2 billion in 2023/24, a figure that includes \$1 billion in “pandemic recovery contingencies”. There is an additional fiscal cushion in the form of a \$700 million forecast allowance. When the Supplementary estimates and contingency spending from fiscal 2022/23 are added, the spending lift in the upcoming year is a modest 2.7%. Smaller increases are pencilled in for the following two years (when inflation, hopefully, will be lower).

From a medium-term perspective, government spending has grown significantly faster, soaring from \$59 billion in 2019/20 to more than \$74 billion in the almost completed 2022/23 fiscal year, on the way to almost \$85 billion by 2025/26 according to the new Budget.

**Overall, this equates to a spending increase of 43% in six years.**

Since the start of 2022, B.C. government revenues have been boosted by supercharged income tax reflecting higher inflation, resource-related receipts, and higher federal transfers. But with the global economy slowing and commodity prices retreating, the government expects revenues to fall 6.1% to \$77.7 billion in the coming fiscal year. After

that, the outlook is for revenues to edge higher over the following two years but notably remain below 2022/23's inflated level.

With spending and revenue growth patterns diverging, Budget 2023 calls for a sizable operating deficit of \$4.2 billion in fiscal 2023/24. This figure includes funding cushions of \$1 billion in pandemic contingencies and a \$700 million forecast allowance, so the actual deficit could be smaller. However, the government's overall fiscal policy stance still proposes operating deficits over the three-year planning horizon with no discussion of returning to balance.

## RECAP OF FISCAL 2022/23

The fiscal context is important. The upside revenue surprise that materialized in 2022/23 flowed from higher inflation, a robust global economic recovery, record commodity prices, high corporate profits and a rebound in employment. These conditions lifted government revenues by a hefty 14.2%, on the heels of an even larger 16.5% increase the prior year. These revenue gains were unusual and will not recur as the economy slows and pandemic-related distortions disappear.

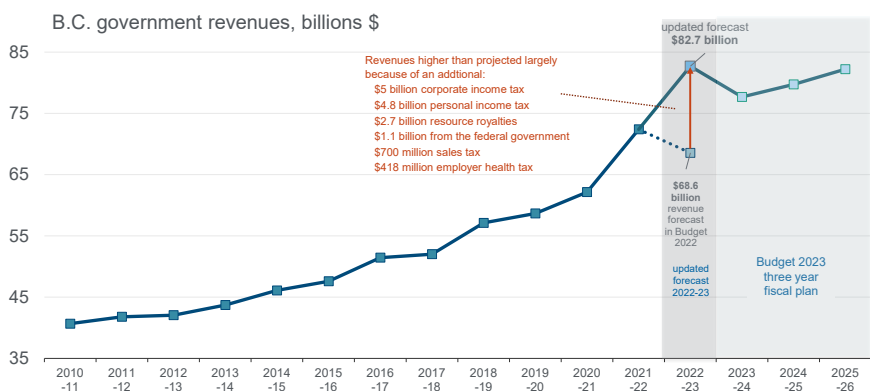
Some context is especially important for understanding the surge in spending. The relatively modest annual growth around the mid 2% range outlined in Budget 2023 comes on the heels of a big jump in spending in fiscal 2022/23, which was fuelled by contingency spending and the upside revenue surprise. Government initially planned on spending \$73 billion in fiscal 2022/23. But with provincial revenues coming

TABLE 2: **B.C. GOVERNMENT THREE-YEAR FISCAL PLAN**  
(MILLIONS OF DOLLARS UNLESS OTHERWISE INDICATED)

	2021/22	2022/23	2023/24	Forecast	
				2024/25	2025/26
<b>Revenues</b>	<b>72,392</b>	<b>82,700</b>	<b>77,690</b>	<b>79,724</b>	<b>82,223</b>
% change	16.5	14.2	-6.1	2.6	3.1
Expenditures	71,086	74,393	80,206	82,978	84,766
% change	5.1	4.7	7.8	3.2	2.2
Pandemic Recovery Contingencies	-	2,000	1,000	-	-
Supplementary Estimates	-	2,715	-	-	-
<b>Expenditures + Contingencies &amp; Supp.</b>	<b>71,086</b>	<b>79,108</b>	<b>81,206</b>	<b>82,978</b>	<b>84,766</b>
% change	5.1	11.3	2.7	2.2	2.2
Forecast Allowance	-	-	700	500	500
<b>Surplus/Deficit</b>	<b>1,306</b>	<b>3,592</b>	<b>-4,216</b>	<b>-3,754</b>	<b>-3,043</b>
Taxpayer-supported debt	62,341	63,701	75,617	88,436	99,395
% of GDP	17.9	16.4	18.9	21.3	23

Source: 2023 B.C. Budget and Fiscal Plan.

FIGURE 1: **LARGE UPSIDE REVENUE SURPRISES IN 2022/23 WILL NOT BE REPEATED IN COMING FISCAL YEARS**



Source: B.C. 2022 Financial and Economic Review (September 2022, p. 118) and 2023 B.C. Budget.

in \$14.1 billion higher than projected in February 2022, policymakers chose to juice expenditures by \$6.1 billion more than initially budgeted, while also targeting a surplus of \$3.6 billion rather than the \$5.5 billion deficit projected in Budget 2022.

The modest 2.7% expenditure growth outlined in Budget 2023 follows what now looks to be an 11% rise in the previous fiscal year. Spending also surged during the height of the COVID pandemic. So, in the three years ahead of Budget 2023,

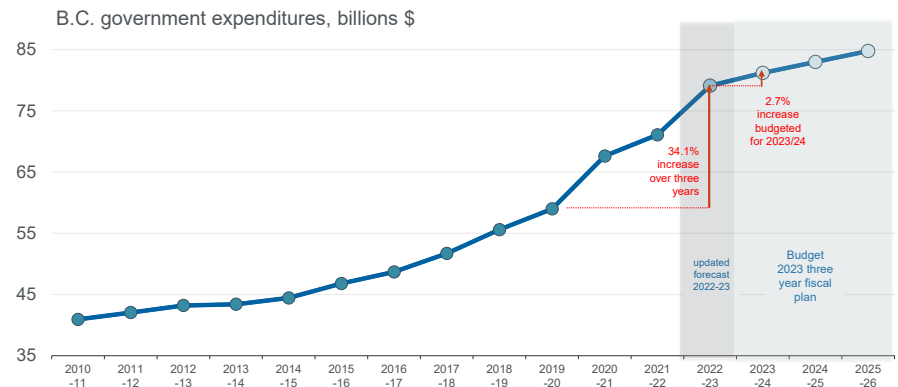
government spending had already climbed by an outsized 34%. This is more than three times the pace that is typical of a three-year period. The second largest three-year rise was in 2008/09 expenditure growth reached was 20.5%.<sup>1</sup>

Moreover, it is unclear whether fiscal 2022/23 will in fact end with a surplus. Signals from the government suggest it may well spend these additional funds before March 31, 2023, rather than having any excess funds automatically applied to paying down the provincial debt.

## SUPPLEMENTARY SPENDING ESTIMATES 2022/23

The government will introduce Supplementary Estimates to obtain the necessary legislative appropriation to fund initiatives worth \$2.7 billion, which includes \$1 billion for the Growing Communities Fund to help local governments defray costs of upgrading and building core infrastructure and community amenities and more housing. All local governments, municipalities, and regional districts will receive funding, with amounts reflecting current populations and population growth. Communities dealing with rapid population growth and infrastructure and other cost pressures will welcome this funding. However, one-time unanticipated funding does not provide a foundation for sustainable municipal finances. We are also concerned the new funds will be delivered irrespective of fiscal discipline or municipal tax burdens on businesses or residents. BCBC has previously expressed its concerns that municipal spending across B.C. exceeded both

FIGURE 2: LARGE SPENDING INCREASES OCCURRED AHEAD OF BUDGET 2023



Source: B.C. 2022 Financial and Economic Review (September 2022, p. 118) and 2023 B.C. Budget.

population growth and inflation over the past decade (see [Peacock & Williams, 2022](#)).

## NEW SPENDING MEASURES

Budget 2023 provides \$3 billion in new funding for health care in 2023/24. The 10% increase exceeds inflation and population growth, meaning a real increase health care resources. The Budget also directs an additional \$744 million towards affordable housing programs.

There is also new funding to help offset rising living costs for families, with \$368 million to expand K-12 food programs, provide free contraception, enrich student aid allowances and increase financial supports for foster families in the coming fiscal year.

There are few measures aimed at encouraging business investment and strengthening the “supply side” of the province’s economy. A few proposed measures will benefit businesses at the margin.

The government plans to spend an additional \$235 million under the banner of Sustainable and Clean economy. The largest element is funding for the Future Ready: Skills for the Jobs of Tomorrow. The Budget earmarks \$126 million in 2023/24 (and \$171 million and \$183 million the next two years) to “help close the immediate and long-term skills and labour supply gaps.” A key part of the Plan is a new short-term skills training grant, with details to be made available later this year. Some of the program funding will also go to assist small and medium-sized businesses with “practical solutions” to current labour market challenges. There is also additional funding for training more early childhood educators, healthcare workers and tech workers and to enable skills upgrading for workers in areas that “support innovative and clean growth.” The Budget also earmarks new funding for settlement services and foreign credential recognition with the intent of helping to improve

<sup>1</sup> The only other period when government expenditures grew at similar pace was the early 1990s with the three-year growth rate peaked at more than 40% in fiscal 1991/92.

## The new Budget expands and builds on several years of substantial spending increases and delivers additional fiscal stimulus when the economy is already running hot.

processing timelines for new and future immigrants.

The Business Council is pleased to see the Budget pledge to expedite natural resource permitting. The government plans to direct an additional \$18 million to “natural resource permitting” and a further \$30 million in the following two years. The Business Council has strongly advocated for more capacity to process development permits and reduce inordinately long delays that have hampered and raised the cost of new investment projects.

The total contingencies across three years in Budget 2023 are a whopping \$5.5 billion. Remarkably, this means that 6.8% of the provincial budget is only notionally allocated and can be redirected for almost any purpose without debate in the Legislature.

## TAX MEASURES

The section in the Budget detailing new tax measures is the thinnest in recent memory. The fiscal impact of all of the listed tax changes amounts to a \$249 million reduction in taxes for 2023/24 (and \$284 million the next year). These are tiny sums in the context of the \$14.1 revenue billion windfall in 2022/23 and the deficits projected over the Budget horizon.

Almost all of the reduced tax burden flows to lower- and moderate-income households in the form of a new income-tested renter’s tax credit and an increase in the climate action tax credit to help offset the impact of B.C.’s steadily rising carbon tax. There are no new measures offering tax relief for businesses. Apart from the scheduled increase in the B.C. carbon tax, the government did at least refrain from imposing *additional* taxes on business.

One minor tax change is positive. The Budget reduces the tax on natural gas and propane for greenhouses, saving qualifying greenhouse growers \$16 million and \$20 million over the next two years. We support policies and programs that encourage the growth of the province’s vibrant agriculture sector, which is essential to local food supply and also represents a growing part of the province’s export base.

The Budget did feature a significant announcement relating to the carbon tax. In addition to increasing the tax by \$15/tonne (which generates another \$584 million in revenue in the coming fiscal year), the government plans to move to adopt an output-based pricing system (OBPS) for large industrial operations in the province -- which we assume will be similar in design to the “backstop” system implemented by the Government of Canada. Although details are still lacking, the Business Council expects that under the province’s OBPS, large industrial emitters will be exempt from the carbon tax and instead be subject to a made-in-B.C. output-based pricing system (OBPS), under which they pay for emissions that exceed (still-to-be-defined) performance-based emissions limits. The new carbon

pricing regime for large emitters is to be in place by April 1, 2024.

The Business Council has advocated for carbon tax reform because of the punitive impact of B.C.’s existing carbon pricing system on industrial exporters. The latter have been economically disadvantaged by the province’s escalating carbon tax (with no offsetting tax cuts) given that competitors in other North American jurisdictions face lower or no effective carbon levies. In our view, it is essential that the province’s forthcoming OBPS system be structured to put B.C. exporters on a even footing with the same industries in other provinces.

## RECORD INCREASES IN CAPITAL SPENDING

Budget 2023 plans for taxpayer-supported capital spending to rise to \$11.8 billion in 2023/24, a sharp increase from already elevated levels. Taxpayer-supported capital outlays grow to \$12.6 billion and then \$13.1 billion in the next two fiscal years.

Overall, Budget 2023 pencils in a 45% jump in taxpayer-supported capital spending. This outsized increase is based on the updated capital spending projections for fiscal 2022/23 which show taxpayer capital spending will come in almost \$1.2 billion lower than originally budgeted, or fully 40% below what was planned. The shortfall between plans and execution reflects protracted approval timelines, permitting delays, labour resource challenges, and other capacity constraints -- a recurring theme. In addition to last year’s shortfall, capital spending ended up being more than 30% lower than planned in both prior fiscal years as well. Thus, a good portion of

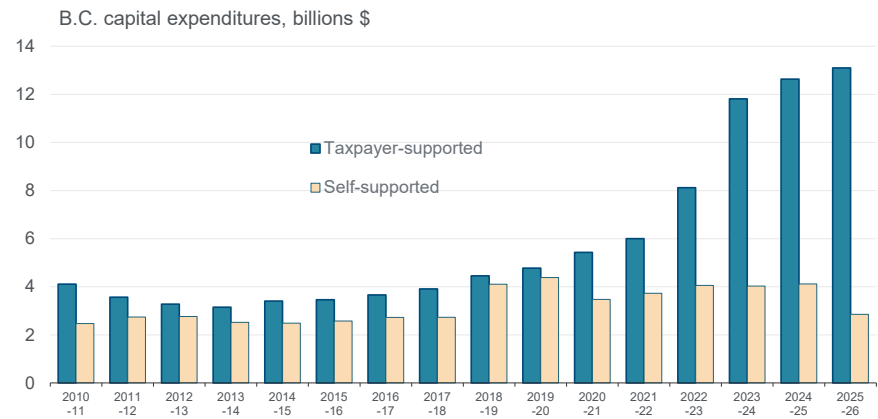
the planned increase in provincial government capital spending in the next 2-3 years represents the carry-forward of projects and associated investments that have been delayed.

The Business Council is concerned that the stepped-up public sector construction activity is coming at a time when inflation is high, the unemployment rate is near a record low, and job vacancy rates are unusually high in construction sector. While we generally support an ambitious provincial capital spending plan, in the present economic and financial environment there is a real risk that a significant ramping up of government capital outlays will end up driving prices and construction costs higher and aggravating labour shortages in parts of the private sector. In other words, the taxpayer will "overpay" for public sector construction projects.

## DEBT LOAD RISES TO A NEW HIGH

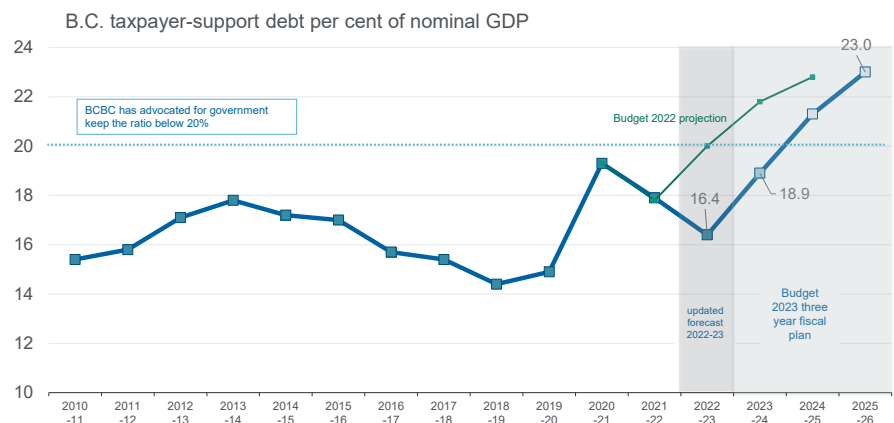
Taxpayer-supported debt rises by nearly \$12 billion in 2023/24 and by similar amounts in the following two years due to the combination of planned operating deficits and higher capital spending. Last year's massive upside revenue surprises, which pushed the Budget from deficit to surplus, coupled with delays in advancing many capital projects, means the provincial debt for fiscal 2022/23 is nearly \$10 billion lower than projected, thus pulling the taxpayer-supported debt-to-GDP ratio well below what was initially assumed. **However, the deficits and expansive capital program outlined in Budget 2023 promise to drive taxpayer-supported debt much higher in the next few years, hitting**

FIGURE 3: B.C. GOVERNMENT CAPITAL SPENDING SOARS



Source: B.C. 2022 Financial and Economic Review (September 2022) and B.C. Budget 2023.

FIGURE 4: DEBT LOAD RISES TO RECORD HIGH



Source: B.C. 2022 Financial and Economic Review (September 2022) and B.C. Budget 2023.

### 23% by the middle of the decade compared to 15% in 2019/20.

Based on the plans outlined in Budget 2023, the net debt/GDP ratio will rise 2.5 percentage points in 2023/25 and by a further 2.4 and 1.7 percentage points in the following two years. **This will mark the first time the provincial taxpayer supported debt-to-GDP ratio has moved sharply higher outside of recessions.**

## CONCLUDING THOUGHTS

The new Budget expands and builds on several years of exuberant spending increases and delivers additional fiscal stimulus when the economy is already running hot. The B.C. government has chosen to pull in the opposite direction to the Bank of Canada. Awash with unexpected revenue and grappling with spending pressures, the government has opened the

spending taps, while doing little to make B.C.'s business climate more attractive for productivity-enhancing investment. The Budget fails to embrace a balanced economic and fiscal policy agenda that recognizes the critical importance of growing exports and increasing productivity and real incomes.

The government also missed the opportunity to outline a path back to balanced budgets. Instead, it bakes in higher spending levels enabled by large temporary revenue windfalls, thereby weakening the province's fiscal position over the medium-term.

The government's intention to restructure carbon pricing is welcome. Apart from this announcement with details still to be determined, Budget 2023 reinforces our concerns over the lack of attention being given by B.C. policymakers to fostering the conditions for investment, innovation, and scaling up of businesses to strengthen per capita economic growth and lift real wages.

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