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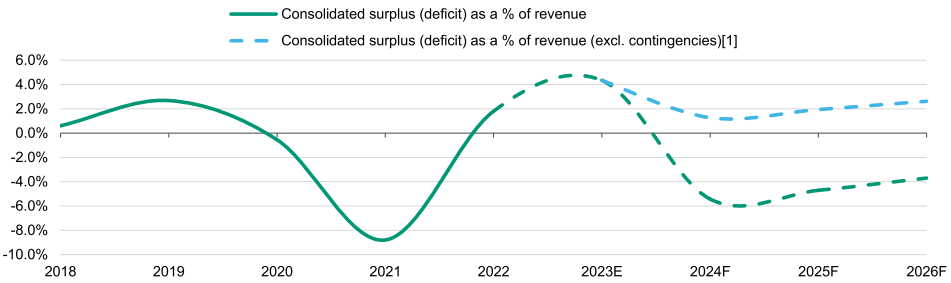
Province of British Columbia (Canada)

Despite projected deficits, large contingencies mask strength of British Columbia's budget

On 28 February, the Province of British Columbia (Aaa stable) released its 2023 budget which forecasts a series of modest deficits, averaging 4.6% of revenue, through to 2025-26. This forecast of deficits follows a projected revised surplus of CAD3.6 billion (4.3% of revenue) in 2022-23. While the forecast of a return to modest deficits is credit negative, we note that the budget contains significant contingencies to the projections in excess of the annual deficits, which is in line with British Columbia's cautious fiscal management. As such, we view the budget plan as well protected against expected fiscal and economic headwinds, and more likely to be surpassed (see Exhibit 1).

Exhibit 1
British Columbia's contingencies fully account for the projection of deficits across its three year fiscal plan



[1] Not adjusted for 2023-24 pandemic recovery contingencies
Sources: Province of British Columbia and Moody's Investors Service

The contingencies will help protect the budget targets from a slowing economy, which is a key credit challenge the province will face in 2023-24. The province forecasts that its real GDP growth will fall to 0.4% in 2023 from an expected 2.8% growth rate in 2022 and 6.1% in 2021. The province cites a combination of factors impacting its economy, including elevated price pressures, higher interest rates and economic weakness across its major trading partners. The slowing economy will lead to spending pressure, particularly across social considerations including general household affordability (given the ongoing high inflation environment) and across the long standing concern on housing affordability. Additionally, health care remains a key pressure point.

The evolution of these pressures will impact the fiscal outcome in 2023-24. We note that the province's expectation for 2022-23 was lowered, even as revenue continued to increase, from the projected CAD5.7 billion (7.1% of revenue) surplus at the time of the second quarter update due to the province providing for supplemental, nonrecurrent spending

on social issues including health care and for BC Ferries to help negate the need for steep fare increases. While the province ultimately had the fiscal room to fund these initiatives in 2022-23, the current environment of slower economic growth presents less capacity to provide for additional support.

A clear credit positive element from the budget is the improved forecast for the debt burden (net direct and indirect debt as a % of revenues). This is due to improvements on both sides of the ratio. Despite the slower growth forecasts, and notwithstanding a forecasted decline in revenue of CAD5.0 billion in 2023-24, the past economic growth continues to sustain revenues at higher than previously forecasted levels. Similarly, debt requirements are lower; our current forecast of net direct and indirect debt in 2023-24 is approximately CAD8 billion lower (roughly 10%) than our previous forecast. The province's debt burden is therefore unlikely to reach our previous forecasts, even with the province's planned path of continued deficits. We also expect that, in the case of surplus outcomes, the province will use a portion of surpluses for debt repayment.

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