

February 22, 2022

## BACKGROUND 4

### Stronger Together: 2022 Economic and Fiscal Snapshot

Budget 2022 reflects the choices government is making to build a stronger B.C. by investing to make life better for people now and in the future.

By taking a responsible approach to budgeting and fiscal planning, government is supporting British Columbians and communities to get through COVID-19 safely together, build climate-resilient infrastructure, and prepare for future challenges – and opportunities – together.

Budget 2022 includes an updated forecast deficit of \$483 million for 2021-22, less than the \$9.7 billion projected in Budget 2021. This decrease is mainly because of higher revenues, including significant one-time revenues and federal transfers, as well as higher natural resource and tax revenues as a result of stronger economic growth.

#### Economic highlights

- Following a 3.4% decline in 2020, B.C.'s economy expanded by an estimated 5% in 2021 and is forecast to expand by 4% in 2022 and 2.5% in 2023.
- Year-to-date to November 2021, retail sales in B.C. were up 13.6% compared to the same period in 2020.
- In November 2021, sales at food services and drinking places were 2.6% above pre-pandemic levels. However, broader tourism activities in B.C. remain well below pre-pandemic levels.
- B.C. housing markets and residential construction reached record highs, in volumes of sales, housing starts and prices in 2021.
  - The number of home sales increased by 32.8% in 2021 compared to 2020.
  - The average home sale price in B.C. increased by 18.7% in 2021 over 2020, following an 11.6% increase in 2020 over 2019.
  - Housing starts increased by 25.6% in 2021 to a record 47,607 units.

- There were more than 160,000 more jobs in B.C. in 2021, compared to 2020.
- B.C.'s unemployment rate averaged 6.5% in 2021, down from 8.9% in 2020. The unemployment rate in January 2022 was 5.1%, 0.1 percentage point below pre-pandemic levels.
  - Women and youth were overrepresented in the sectors most impacted during the pandemic, but employment for these groups has recovered.
  - Since the onset of the pandemic, racialized people in B.C. experienced higher unemployment rates than non-racialized people, but this gap has significantly narrowed in recent months.

## **Operating results**

- The Third Quarterly Report projects an operating deficit of \$483 million in 2021-22, which is an improvement of \$1.2 billion from the second-quarter outlook reported November 2021.
- In the fiscal plan, the total revenue forecast rises from \$68.6 billion in 2022-23 to \$72.3 billion in 2024-25, and the total expense forecast rises from \$73 billion in 2022-23 to \$74.5 billion in 2024-25.
- Budget 2022's three-year fiscal plan presents declining deficits, with \$5.5 billion projected in 2022-23, declining to \$3.2 billion projected in 2024-25.
- \$6.6 billion in budget increases across the three-year fiscal plan will help build a stronger society, economy and environment to support B.C.'s future.

## **Being Prepared**

- The variability of COVID-19 and climate-related disasters demand significant prudence, which is included in B.C.'s fiscal plan:
  - Pandemic and Recovery contingencies of \$2 billion in 2022-23 and \$1 billion in 2023-24 for short-term health and economic recovery programs related to the pandemic. These funds will continue to help the B.C. government respond quickly if any sectors need short-term support throughout the pandemic.
  - Almost \$10 billion in contingencies funding over the next three years, including funding held for expected flood-related costs, public-sector wage negotiations, and other spending uncertainties.
  - Annual forecast allowances of \$1 billion in each year of the fiscal plan to help guard against revenue volatility.
  - A forecast for B.C.'s real GDP growth that is lower than the average outlook provided by the Economic Forecast Council over the next three years (0.2 percentage points lower in 2022, 2023 and 2024).

## **Flood and wildfire recovery**

- Budget 2022 earmarks more than \$1.5 billion over the fiscal plan to help communities build back better from recent and future climate-related disasters, including floods and wildfires. This includes:
  - \$400 million for Emergency Management BC to support ongoing disaster response and recovery costs, including debris removal and clean-up.
  - \$1.1 billion in General Programs Contingencies to cover additional costs.
  - In addition, \$100 million is provided for capital costs to repair damage to provincial public sector buildings.
- These allocations are in addition to the \$5 billion in spending allocated by the Government of Canada to help disaster response and recovery efforts in B.C.
- The Province will continue working with impacted communities and residents to assess the extent of the damage to critical infrastructure from recent floods and increase resilience against future events.

## **Capital spending**

- New investments in schools, universities, hospitals, affordable housing, highways, bridges, rapid transit and other taxpayer-supported infrastructure will help people and communities recover from the past two years, and harness the opportunities of a clean and inclusive economy.
- These investments will also support 100,000 jobs in communities around the province to contribute to a strong and sustainable economy.
- Taxpayer-supported capital spending is projected to increase to a record level, totalling \$27.4 billion over the fiscal plan, a \$1.1 billion increase over Budget 2021's three-year plan.

## **Debt levels**

- B.C.'s taxpayer-supported debt is projected to be \$61.7 billion at the end of fiscal year 2021-22, almost \$10 billion less than was forecast in Budget 2021.
- Debt is expected to increase to \$90.8 billion at the end of 2024-25, to finance the capital investments needed, as well as ensure continued support for people, businesses and communities while government builds a strong economic recovery for B.C.
- The taxpayer-supported debt-to-GDP ratio, a key metric used by credit rating agencies, is below 25% in each year of the fiscal plan, reaching 22.8% by 2024-25.
- B.C.'s debt remains affordable due to low interest rates and the Province's excellent credit rating, enabling government to invest now to support people and businesses and encourage a strong recovery.
- The interest bite, representing the taxpayer-supported interest costs as a percentage of provincial government revenue, remains historically low at three cents per dollar in 2022-23.

Responsible fiscal management is a priority for government to be able to continue to deliver the services people rely on and build a stronger, more equitable future for everyone.

As temporary funding for COVID-19 and flood response and recovery are no longer required, the Province will return to a practice of increasing expenditures within the bounds of the increase in revenues that are available for each budget cycle.

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