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# British Columbia's Coming Debt Boom in Historical Context

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## Summary

- There has been a rapid increase in government spending in British Columbia in recent years. The province is now forecasting a dramatic increase in government debt over its current three-year fiscal plan, primarily due to this spending growth.
- Many British Columbians may not understand the scale of the projected debt growth. This bulletin attempts to rectify that by providing comparative historic context for the debt growth that is forecast to occur in the years ahead.
- Specifically, we compare the government's current debt forecast to two recent historical periods of rapid debt growth. The first of these occurred in the years following the 2008/09 global financial crisis and recession, and the second occurred during the recession sparked by the COVID-19 pandemic.
- We show that the government's forecast for debt growth greatly exceeds that which occurred during the two comparative historical periods. In its three-year fiscal forecast, BC's government expects to add \$5,315 per person in net debt (all figures in 2023 dollars). During the COVID-pandemic and recession, net debt increased by \$1,680 per person cumulatively. In the years during and following the 2008/09 financial crisis, the debt increase was \$3,438 per person.
- Not only is debt growing much faster in the government's current fiscal plan, but in the two other periods of debt growth discussed here, interest rates were low and/or falling. As a result, debt service payments on those increases did not significantly rise during those episodes. This time, because interest rates are higher, the interest payments on BC's debt are expected to increase by 36.7 percent over just three years.

## Introduction

British Columbia is forecasting an operating deficit of \$6.7 billion in 2023/24, which is even larger in nominal terms than the \$5.5 billion deficit recorded during the 2020/21 fiscal year at the height of the COVID-19 pandemic and related recession. This operating deficit represents over 40 percent of the increase in net debt that the province will incur when capital expenditures are included.

Previous Fraser Institute research has documented that a fundamental shift in British Columbia's approach to government spending occurred following the change in government in 2017 (Eisen and Emes, 2023a). After over a decade and a half of spending restraint in which inflation-adjusted per person spending was held essentially flat, spending in British Columbia began to increase quickly in 2018 and has remained elevated above the restraint-era levels. This change in the government's spending approach is the reason for the large deficits and increases in provincial debt that the government currently forecasts over the next several years (Eisen and Emes, 2023b).

This bulletin provides historical context for the debt increase that is forecasted over the next three fiscal years. Specifically, we compare the government's debt forecasts in its current fiscal plan to the amount of debt incurred by the provincial government during the last two significant periods of debt accumulation in the province. The first of these occurred during the global recession of 2008/09 and in the years following. The second occurred during the COVID-19 pandemic and associated recession.

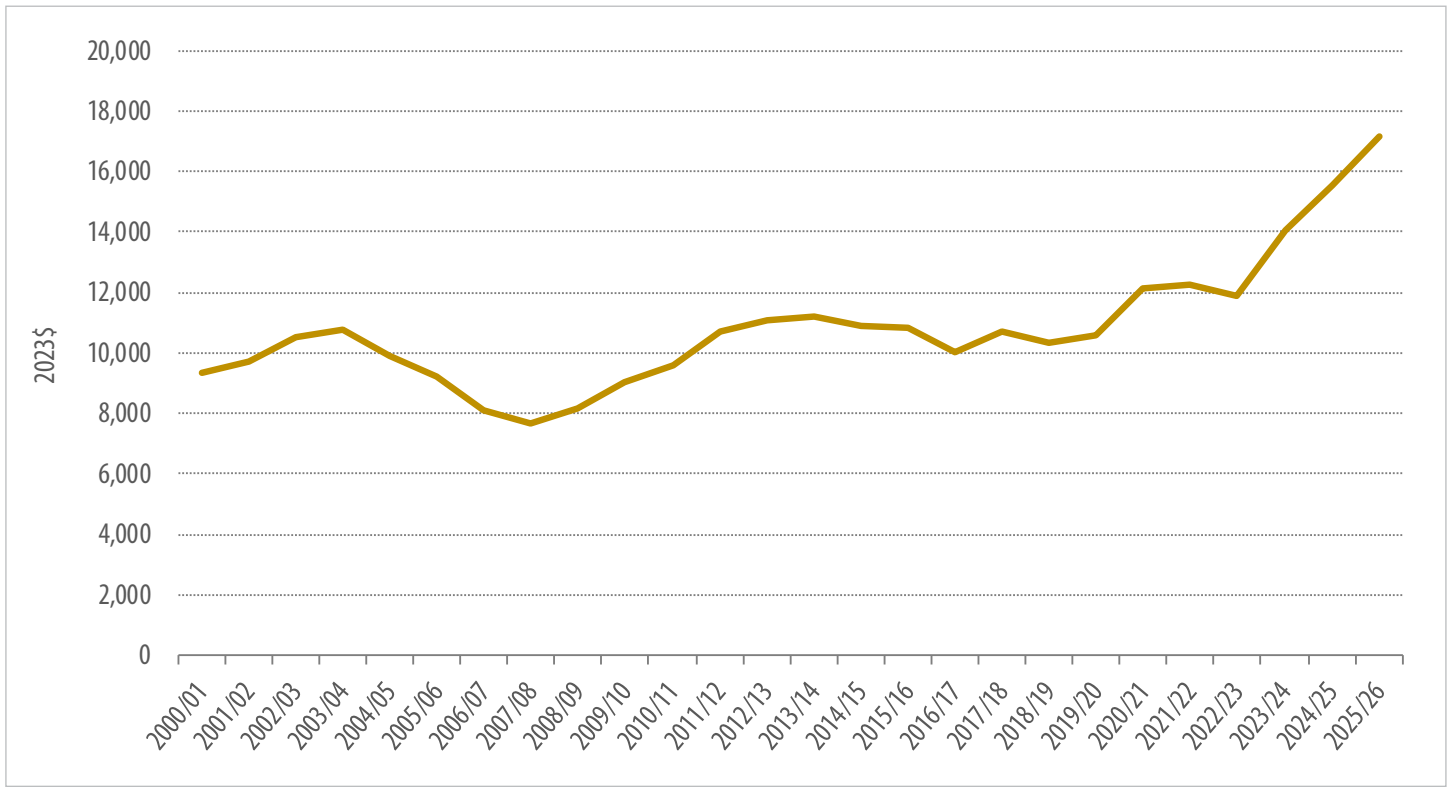
## British Columbia's recent fiscal policy changes and the province's current debt forecast

A crucial fiscal policy development in the province has been the British Columbia government's recent dramatic increase in spending, which began in 2017 and coincided with the election of John Horgan's New Democratic government. This section briefly reviews past research on this development and the effects it is having on the province's fiscal position and debt forecasts.

Prior to 2017, fiscal policy in British Columbia had been characterized by a prolonged period of spending restraint. More specifically, from fiscal year 2000/01 until 2016/17, real per-person program spending increased at a compounded annual rate of just 0.5 percent (Eisen and Emes, 2023a). However, in more recent years, spending has grown markedly and rapidly. From 2016/17 to 2021/22, the BC government's rate of annual spending growth increased to 4.7 percent.

This change in the government's approach to spending policy has altered the trajectory of the province's public debt. During the prolonged period of fiscal restraint, British Columbia gradually reduced its provincial debt-to-GDP ratio by a total of 3.5 percentage points—from 18.4 percent in 1999/00 to 14.9 percent in 2016/17 (British Columbia, Ministry of Finance, 2023a; Statistics Canada, 2023c; calculations by authors). This progress should be considered in light of the historical context that during this same period, neighbouring Alberta's debt-to-GDP ratio deteriorated by 1.2 percentage points, while Ontario's deteriorated by 7.6 percentage points (Finance Canada, 2023; Statistics Canada, 2023c; calculations by authors). In short, during its restraint era, British Columbia's debt-to-GDP position was markedly better than in other large English-speaking provinces that did not exercise similar spending restraint.

Figure 1: British Columbia's Net Debt per Capita, 2023\$, 2000/01 to 2025/26



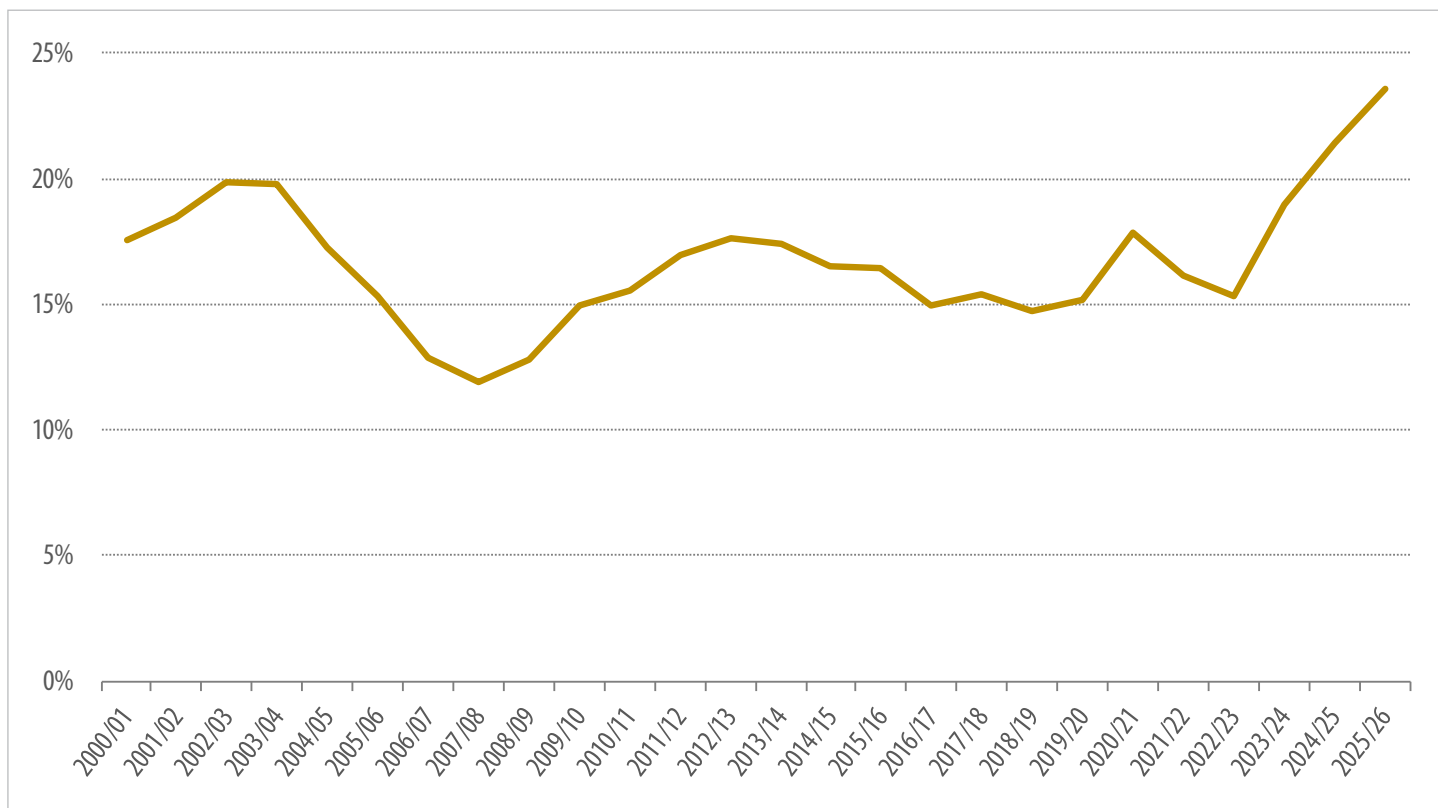
Sources: British Columbia, Ministry of Finance, 2023a; 2023b; Finance Canada, 2023; Statistics Canada, 2023a, 2023b.

In recent years, however, government spending has grown and the decline in the province's debt-to-GDP ratio has stopped. In 2022/23, the provincial debt-to-GDP ratio was 15.4 percent, slightly higher than at the end of the restraint era. A recent analysis shows that the cessation of progress on the debt-to-GDP ratio is primarily attributable to the government's change in expenditure management rather than external factors such as the COVID-19 pandemic. Further, it shows that if the government had maintained the level of spending growth that prevailed during the restraint era, the province would have continued to reduce its debt burden relative to the size of the economy in recent years (Eisen and Emes, 2023b).

The provincial government forecasts that in the years ahead, the province's debt trajectory is set to change again as the rate of debt accumulation will increase drastically. The provincial government is currently forecasting that in the 2023/24 fiscal year, it will run an operating deficit of \$6.7 billion, which will be a large proportion of the anticipated overall debt increase of \$16.4 billion once capital expenditures are included (British Columbia, Ministry of Finance, 2023b). Additional debt increases of \$13.1 and \$13.2 billion are projected for the two following fiscal years.

The most recent fiscal update forecasts that the result will be a level of debt increase that will transform the state of provincial finances over the next three years. This reality is illustrated by looking at the province's debt

Figure 2: British Columbia's Net Debt-to-GDP Ratio, 2000/01 to 2025/26



Sources: British Columbia, Ministry of Finance, 2023a; 2023b; Finance Canada, 2023; Statistics Canada, 2023c.

growth in inflation-adjusted per-capita terms. Figure 1 shows how BC's inflation-adjusted per-person provincial debt has evolved since 2000, and includes the government's forecasts until 2025/26.

Figure 1 shows that over the course of the current government's fiscal forecast, net debt is forecasted to increase from \$11,854 per person (all figures in \$2023) in 2022/23 to \$17,169 per person in 2025/26. This is a 44.8 percent increase over three fiscal years.

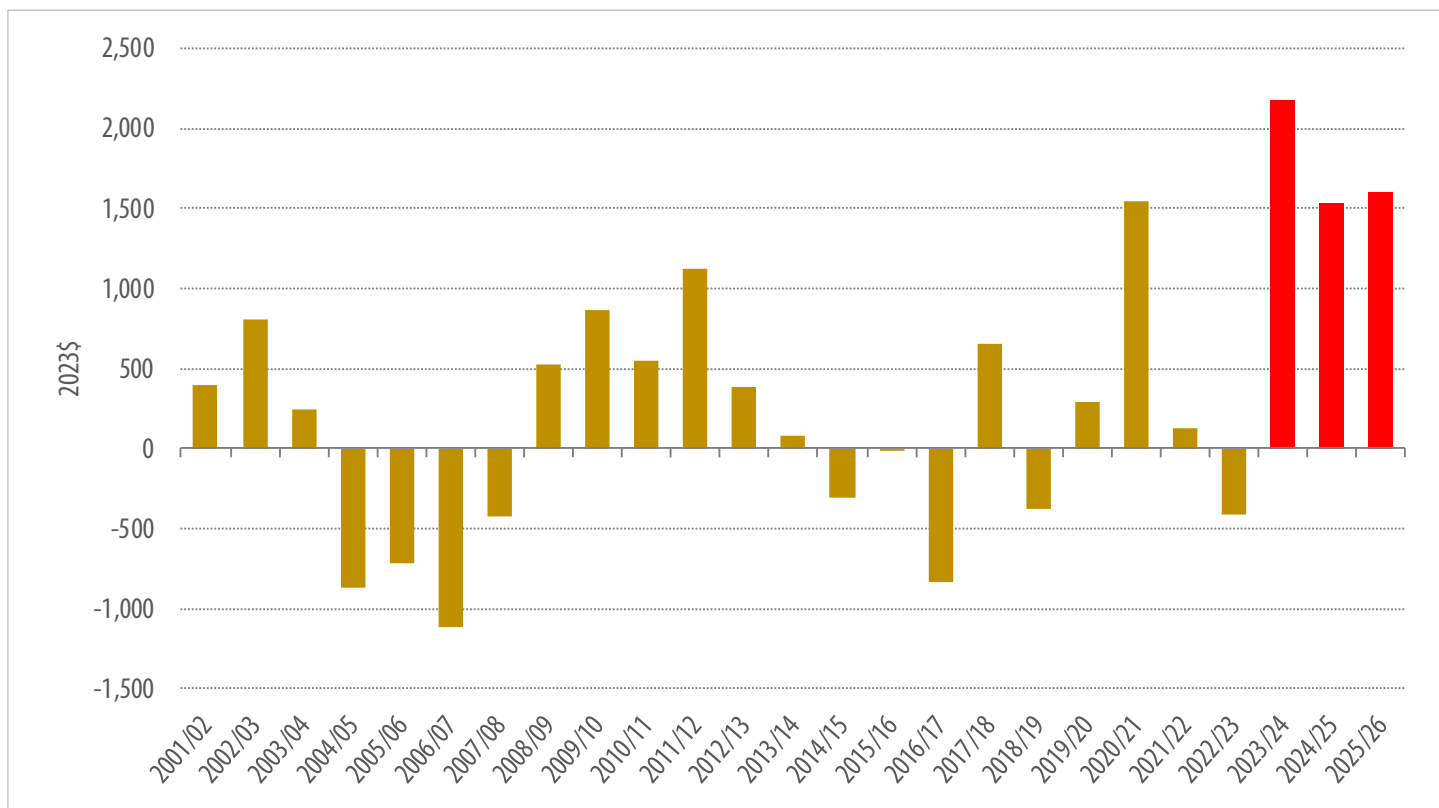
Figure 2 illustrates the extent of the expected increase in provincial debt over the next three fiscal years by examining the debt-to-GDP ratio.

Figure 2 shows that British Columbia's current fiscal plan forecasts that in 2023/24, the provincial debt-to-GDP ratio will climb by 3.5 percentage points to 18.9 percent. The fiscal plan also forecasts additional increases of 2.5 and 2.2 percentage points in the following two years, for a total increase of 8.2 percentage points in two years. This forecast would bring provincial net debt to 23.6 percent of GDP in 2025/26, which would be the highest in provincial history.<sup>1</sup>

This section has reviewed the impact of recent spending increases on British Columbia's fiscal trajectory in recent years and presented the most recent

<sup>1</sup> Historical data on government debt is less reliable in the earlier decades of Canadian history. However, we have reliable and generally comparable data dating back to 1969 (Finance Canada, 2023). Given the comparatively small size of provincial governments prior to that time and their reduced reliance on debt to finance activities compared to contemporary governments, we can confidently assert that if the government's forecasts are correct, the 2025/26 provincial debt will be the largest in provincial history.

Figure 3: Year-to-Year Change in British Columbia's Net Debt per Capita, 2023\$, 2001/02 to 2025/26



Sources: British Columbia, Ministry of Finance, 2023a; 2023b; Finance Canada, 2023; Statistics Canada, 2023a, 2023b; calculations by author.

forecasts on how net debt will evolve over the rest of the government's fiscal plan. The next section will compare the current situation with past debt growth episodes to provide historical context for the size of the forecasted fiscal developments in the years ahead.

## Putting British Columbia's current debt boom in historical context

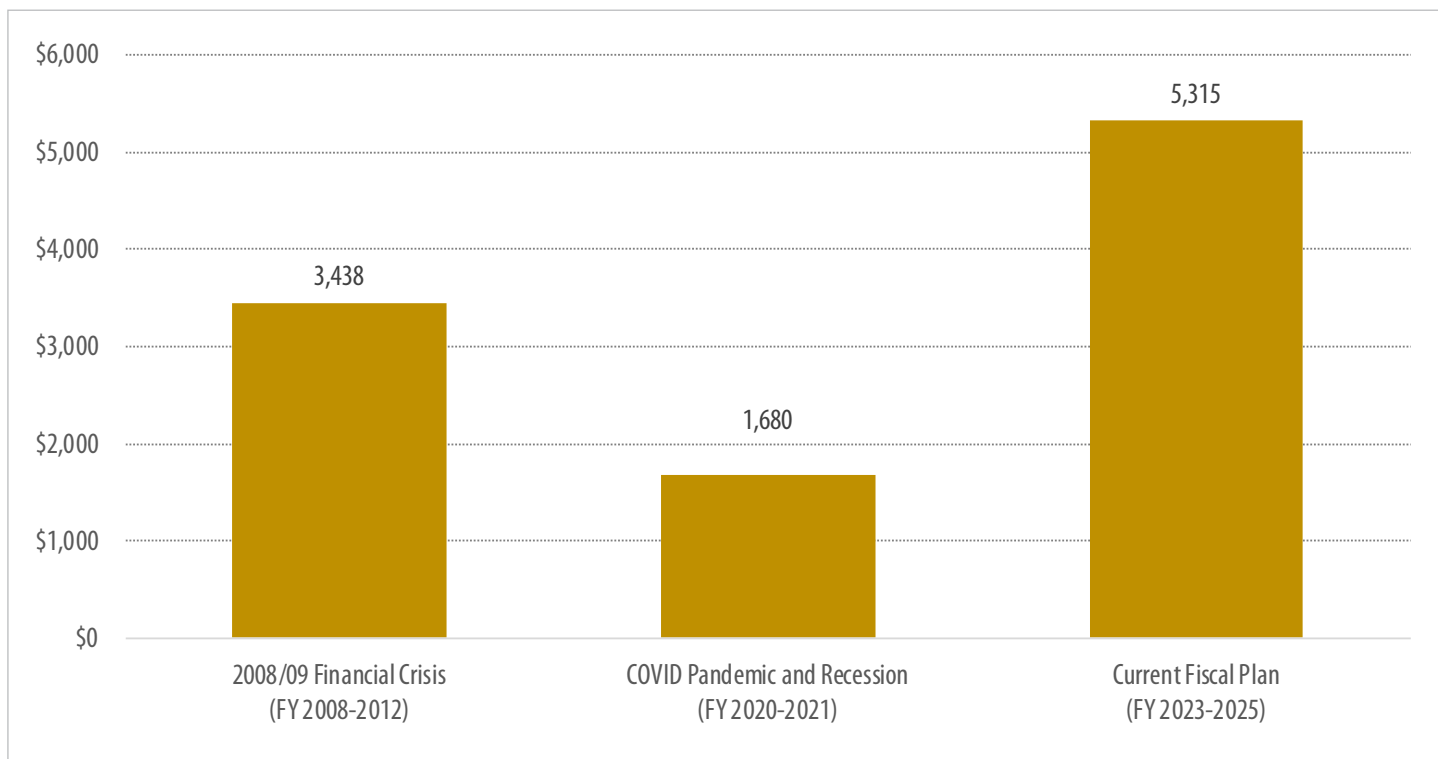
One way to grasp the scale of the anticipated increase in British Columbia's debt over the course of the government's current fiscal plan is to compare the forecasts with historic episodes of debt growth, which this section will do. We will compare the government's current fiscal

plan with the province's two most recent episodes of substantial debt growth.

Thus far over the course of the 21<sup>st</sup> century two major events have led many governments across Canada—and around the world—to add substantially to their debt loads. The first of these was the financial crisis and subsequent global recession of 2008/09; the second was the COVID-19 pandemic.

During each of these global economic crises most jurisdictions in Canada, including British Columbia, incurred substantial new debt, as did many other governments around the world (Gaspar, Medas, and Perrelli, 2021). Figure 3 compares the extent of debt accumulation in BC during these two periods by showing

Figure 4: Cumulative Change in British Columbia Per Person Net Debt (\$2023)



Sources: British Columbia, Ministry of Finance, 2023a; 2023b; Finance Canada, 2023; Statistics Canada, 2023a, 2023b; calculations by author.

the change in per capita net debt using inflation-adjusted 2023 dollars.

Figure 3 shows that there were important differences in the debt accumulated in the two periods examined.

The debt accumulation associated with the recession that followed the COVID-19 pandemic took place almost entirely in one year: 2020/21. That year British Columbia's net debt increased by \$7.9 billion, which, as figure 3 shows, is \$1,549 per person in 2023 dollars. The following year saw a much smaller debt increase of \$131 per person before per capita debt began to fall slightly in 2022/23.

By contrast, in the period of debt growth in the late 2000s and early 2010s, no individual year was as comparably severe as 2020, but the debt growth lasted for a more sustained period. In the five-year period between

fiscal years 2008 and 2012, BC's real per-person debt growth ranged from a low of \$381 in 2012/13 to a high of \$1,119 in 2011/12.

Figure 3 shows that the period of debt increase that is forecasted to begin this year combines the severity of the COVID-19 era with the sustained multi-year character of the debt increase in the years following the 2008/09 recession. In fiscal year 2023/24, the net debt per person increase is forecasted at \$2,179, which is substantially higher than the amount from the worst year of the COVID pandemic and is the largest one-year debt increase in provincial history using this approach to measurement. The forecasted increase in debt in the following two years is \$1,529 per person in 2024/25 and \$1,607 in 2025/26. If its forecasted plans unfold, BC government debt growth during these three consecutive

years would be either nearly identical to or substantially higher than that which occurred in 2020 in the midst of the COVID pandemic.

Figure 4 attempts to clarify the comparison between the three eras by showing the cumulative real accumulation in net debt per person in British Columbia in each of the two historical eras compared to the government's forecast for the next three years.

The current era of debt accumulation (2023/24 to 2025/26) is defined simply by the government's current fiscal forecast. Debt accumulation during the COVID-era is defined as fiscal years 2020/21 and 2021/22. The era of rapid debt accumulation following the 2008/09 financial crisis is more difficult to define. Here we use the five-year period from fiscal year 2008/09 to 2012/13, which is the final year before the province returned to a balanced operating budget, though the key finding of a much larger increase in net debt during the forecasted period is robust, whichever end year we choose.

Figure 4 shows that over the next three fiscal years the government's fiscal plan forecasts dramatically more debt accumulation than occurred either in the period during and after the 2008/09 recession or during the COVID pandemic and recession. During the first period of debt accumulation (fiscal years 2008-2012), the province added \$3,438 per person cumulatively (all figures in \$2023). During the two-year period of debt accumulation linked to the COVID pandemic and recession, British Columbia's net debt increased by \$1,680 per person cumulatively. By comparison, over the next three years, British Columbia's government currently forecasts it will increase net debt by a total of \$5,315 per capita.

If we express the provincial debt burden as net debt relative to GDP, the same core result holds. Over the course of the first historical period, the province's debt-to-GDP ratio increased by 5.8 percentage points. During the two-year COVID-associated period of debt accumulation, debt-to-GDP increased by 0.9 percentage points.

The government forecasts that over the next three years the province's debt-to-GDP burden will increase by 8.2 percentage points.

## The effect of forecasted debt growth on interest costs

The forecast is that British Columbia will enter a historically large debt accumulation period that will be substantially more severe than other periods of rapid debt growth this century. Furthermore, the two prior periods occurred when interest rates were low or falling. As a result, debt service payments did not rise significantly in real per capita terms in either period. During the current forecasted period of debt growth, however, higher interest rates are expected to cause a significant increase in debt service payments.

Specifically, the most recent economic update forecasts that nominal debt charges will increase from \$2.7 billion in fiscal year 2022/23 to \$4.4 billion at the end of the fiscal plan in 2025/26. This is a 60.8 percent increase over a three-year period. In inflation-adjusted terms using 2023 dollars, per-person interest costs will rise from \$531 to \$726, a 36.7 percent increase over the same period.

British Columbia's debt interest costs are expected to increase from 3.3 percent of all provincial revenue in 2022/23 to 5.4 percent in 2025/26. This is still relatively low historically, but the direction and particularly the rate of change are worrying and differ from the two other periods of debt growth discussed here during which interest costs did not rise meaningfully.

## Conclusion

Over the next three fiscal years, British Columbia's government forecasts a rapid increase in provincial net debt. This bulletin provides some historical context, enabling

readers to understand current developments by comparing the expected increase in debt in the province over the next three years with two other recent episodes of significant debt growth: the years during and following the global financial crisis and recession of 2008/09, and the recession caused by the COVID-19 pandemic in 2020. The government is forecasting substantially more

debt growth in the years ahead than occurred in either of the historical reference periods. Further, unlike the two historical reference periods, the current forecasted increase will trigger a significant increase in interest payments in the years ahead.

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