

## BRITISH COLUMBIA BUDGET UPDATE 2013

June 28, 2013

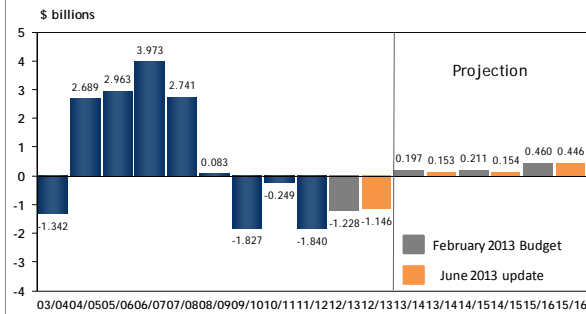
### Staying afloat, but the waters are getting a bit choppy

Despite maintaining a planned return to surplus in 2013/14, the pressures facing British Columbia's fiscal situation have intensified since the province's February budget. The updated budget presented yesterday – the February budget was not passed prior to the dissolving of the legislature leading up to the May provincial election - revealed downwardly revised budget surpluses through the projection period. Slower than expected economic growth so far this fiscal year has weighed on the near-term revenue outlook and the smaller balances projected in each year of the plan result in nearly \$120 million of cumulative surplus being revised away through to 2015/16. The BC government is now projecting a surplus of \$153 million in 2013/14 (was \$197 million) followed by surpluses of \$154 million and \$446 million thereafter (were \$211 million and \$460 million previously). Apart from the revised projections, the updated budget revealed little in addition to the February document although the fiscal plan does place greater emphasis on the need to find additional savings in order to achieve the path of surpluses going forward.

The deterioration in the fiscal outlook is largely the result of lower revenues in each year of the three-year plan. Key economic indicators are tracking softer than expected in the first three months of the fiscal year and as a result, slower overall economic growth is expected to weigh on taxation revenues in the current year. Through the projection period, tax revenues have been revised down by \$739 million with the average annual growth now expected to be 3.1% (was 3.4%). Lower federal government transfers are also expected to restrain revenue growth in light of lower health and social transfer entitlements, however, a boost to the natural gas price outlook and subsequent lift to natural resources revenues is expected to provide a partial offset.

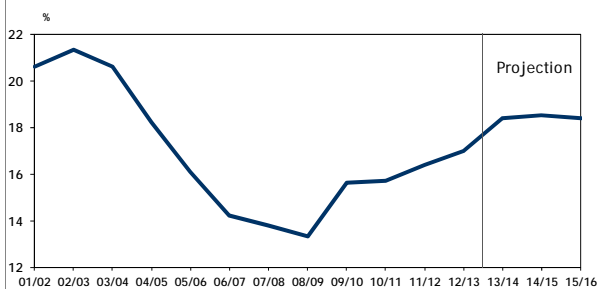
To dampen the negative impact of lower revenues, a greater degree of expenditure restraint is incorporated into the updated fiscal plan. For 2013/14, \$30 million in “further expenditure management” is planned and will be followed by \$50 million in efficiency savings each year thereafter, to be found through a core mandate review. Despite the savings having yet to be identified, the budget presented a revised path of forecast allowances to reflect “a reduced risk of not achieving the fiscal plan targets”. In the February budget, a degree of caution was incorporated through a cumulative ‘cushion’ of \$800 million built into the fiscal plan.

British Columbia budget balance



Source: British Columbia Ministry of Finance, RBC Economics Research

Taxpayer-supported debt-to-GDP ratio



Source: British Columbia Ministry of Finance, RBC Economics Research

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This figure - to account for unforeseen events that could deter the path to consecutive surpluses - was revised down to \$650 million in yesterday's budget with the amount allocated for 2013/14 reduced by \$50 million. In the absence of these adjustments, the budget balances presented yesterday would have signalled a greater deterioration throughout the projection period.

Other aspects of the budget remained largely unchanged; however a bump in tax-payer supported capital spending is expected to lift the province's debt above its current projected level by 2015/16. For 2013/14, capital spending is expected to jump 13.5% (initially planned to fall 1.1%) solely on account of downwardly revised spending in 2012/13, the result of project schedule changes, and will now be spread out over the remainder of the fiscal period. Taxpayer-supported debt is expected to rise to \$46.5 billion by 2015/16 and a weaker economic growth profile will help to drive the taxpayer-debt-to-GDP ratio to 18.4% (previously 18.1% was projected).

With efficiency savings still to be identified and a reduction in the budget 'buffers', the updated budget did little to alleviate the fiscal pressures facing the province as it plans a return to a series of consecutive surpluses. That being said, a degree of caution has been built into the fiscal outlook as we consider the real GDP growth forecasts - 1.4% for 2013 and 2.2% for 2014 - relatively conservative. RBC's forecasts for the province in the June edition of our Provincial Outlook were 1.6% and 2.7% for 2013 and 2014, respectively. Moreover, the government appears on track with its planned property and asset sales target of \$475 million for 2013/14, completing 37% of the sales since February's budget. If stronger growth and efficiency savings materialize, the province could find itself with some additional breathing room to head back into the black over the projection horizon.

### British Columbia's fiscal plan

\$ billions	Preliminary	Estimate	Plan	Plan
	Actual			
	12/13	13/14	14/15	15/16
Revenue	42.2	44.2	44.8	46.3
Expense	43.3	43.9	44.5	45.5
Surplus (before fcst allowance)	-1.146	0.303	0.354	0.746
Forecast allowance		-0.150	-0.200	-0.300
Surplus	-1.146	0.153	0.154	0.446
Total capital spending	6.0	6.3	6.3	6.0

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