

BRITISH COLUMBIA BUDGET 2020

February 19, 2020

Still focused on affordability, amid economic headwinds

- Small surpluses will continue through the three year fiscal plan: \$227 million in FY 20/21, \$179 million in FY 21/22 and \$374 million in FY 22/23
- Health ministry will see the biggest spending increase: 4.6% growth over the three years
- Marginal tax rate is rising for highest income earners
- Although Budget 2020 makes few new investment commitments, capital spending is set to rise a whopping 10.3% from 2019

Stay-the-course budget with limited new initiatives

The B.C.'s NDP government tabled a third straight budget showing a small surplus, as the province grapples with challenging economic times. The Minister of Finance Carole James referred to it as a "moderate economic growth budget" prior to release. Indeed, the projections for revenue and expenditure growth embody that message, growing by 2.7% and 2.6%, respectively, compared to an average 4.6% rise in revenues and 4% increase in expenditures over the last 10 years. As was expected from the Throne Speech, the majority of measures in the budget focus on affordability across a range of services – housing, education and healthcare. The government is forecasting a surplus of \$227 in FY 20/21, rising to \$374 in FY 22/23. That said, the provincial debt is also projected to increase through the fiscal plan as the government increases spending on infrastructure.

The government hasn't veered from their 2017 election campaign promises, outlining a stay-the-course budget. While B.C.'s economy is still poised to top our provincial rankings for GDP growth in 2020, trade irritants have put a damper on previous growth expectations. A strong fiscal position aids the province in weathering any economic headwinds, while continuing to support essential services.

Plenty of prudence has been built into the budget with forecast allowances (\$300 million per year) and contingency reserves (\$1.4 billion) mitigating risks to the economic outlook. Additionally the economic growth assumptions by the province (2.0% in 2020 and 1.9% in 2021) are significantly lower than private sector economists including RBC's own outlook for the province (2.4% in 2020 and 2.7% in 2021).

British Columbia Budget Balance



Source: British Columbia Ministry of Finance, RBC Economics

Tax on wealthy to help pay for modest spending initiatives

The biggest ticket item on the revenue side is a tax on high income earners – those making more than \$220,000 will see their marginal income tax rate rising from 16.8% to 20.5%. This (*second consecutive*) increase is expected to bring in \$216 million in revenues for FY 20/21 and \$713 million over the three year plan. Additionally, starting July 1, 2020, the provincial sales tax will apply to sweetened carbonated beverages (7%) – a deterrence measure aimed at improving the wellbeing of teenagers. This will also bring in \$30 million in additional revenue.

Economic growth assumptions						
	2019	2020	2021	2022	2023	2024
Real GDP growth (%)						
Budget 2020	1.8	2.0	1.9	1.9	1.9	2.2
RBC	2.1	2.4	2.7			
Nominal GDP growth (%)						
Budget 2020	3.7	3.9	3.9	3.9	3.9	4.3
RBC	4.5	4.8	4.8			

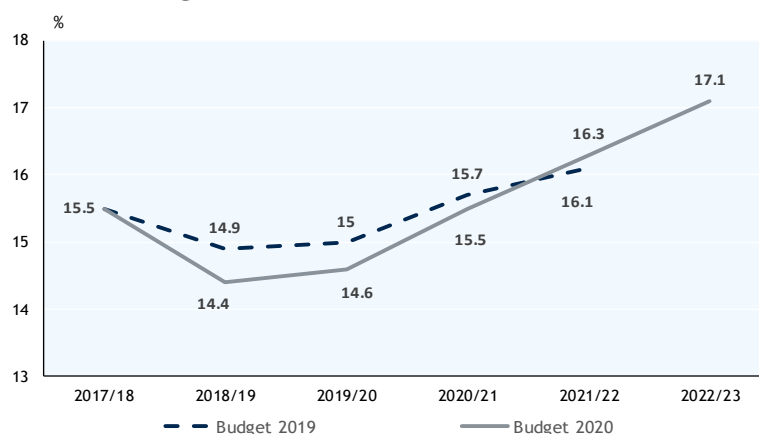
Source: British Columbia Ministry of Finance, RBC Economics

Tightened purse strings across more than half the ministries

The budget continues to make investments across three pillars: making life more affordable, enhancing services and building a strong and sustainable economy. There are limited new expenses weaved into this budget with most of the measures introduced in previous budgets. Some however kick in this year including the BC Child Opportunity Benefit and the elimination of the Medical Services Plan premium. Other measures like building additional affordable housing units as well as expanding childcare spaces will advance the affordability of both housing and childcare for communities. The health sector will see the largest increases in spending averaging 4.6% over the three year fiscal plan. However, 13 out of 22 ministries will see either a freeze or decline in spending.

Some new initiatives include the needs-based BC Access Grant meant to aid low and middle income students by providing up to \$4000 for post-secondary training. Clean energy initiatives will receive an additional \$419 million over three years as part of the CleanBC program including incentives to purchase electric vehicles and build EV charging stations. Support for the ailing forestry sector will come in the form of \$13 million in investments towards revitalization efforts as well as worker programs. A big focus of this budget has also been on reconciliation efforts with indigenous communities across a range of services from education and health to housing and justice.

Debt to GDP



Source: British Columbia Ministry of Finance, RBC Economics

Higher debt to fund infrastructure projects

Total provincial debt is set to increase by \$17 billion over the fiscal plan from \$70.6 billion in FY 19/20 to \$87.6 billion by FY 22/23, mainly due to borrowing requirements for capital infrastructure. Gross borrowing requirements are forecast to increase from \$7.1 billion in FY 19/20 to \$10 billion in FY 22/23 both from financing infrastructure spending as well as refinancing requirements. This also means debt to GDP will see an increase from 14.6% to 17.1% in FY 22/23 although this will still allow BC to maintain its position as the lowest debt burdened province in the country after Alberta and Saskatchewan.

Strong increase in capital spending

Capital investment will total \$32.6 billion over the three year fiscal plan, with a mix of existing projects and new spending on priority items like schools, hospitals and public transportation. Taxpayer supported capital spending will reach its highest level ever at \$22.9 billion over three years— an increase of \$2.8 billion (14%) from Budget 2019.

BC's consolidated fiscal plan				
(\$ billions)	Actual	Forecast		
	2019/20	2020/21	2021/22	2022/23
Total revenues	59.3	60.6	62.4	64.2
Total expenditures	58.8	60.1	61.9	63.5
Program spending	56.1	57.3	59.1	60.7
Interest on public debt	2.7	2.7	2.8	2.9
Revenue forecast allowance	0.3	0.3	0.3	0.3
Surplus/(Deficit)	0.203	0.227	0.179	0.374

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