

Deficit, Take Two

Fiscal Year 09/10

Robert Kavcic
 Economist

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The Province of British Columbia is forecasting a record \$2.8 bln deficit for FY2009/10, a sharp downward revision from the \$495 mln deficit projected in February's pre-election budget. The shortfall represents 1.5% of GDP, still below those seen in the early-1990s and in FY2002/03. Looking forward, the Province is banking on an economic recovery and spending control, with the deficit expected to moderate gradually in the coming years, shrinking to \$945 mln by FY2011/12 and returning to balance by FY2013/14—note that the balanced budget legislation, previously re-written to allow two years of deficit, has been amended again to allow four years of red ink.

The worsened fiscal outlook is mostly the result of weaker-than-expected revenues, which are now forecast to be \$37.6 bln in FY2009/10, a \$1.2 bln (or 3.1%) downgrade. Natural gas prices have plunged since February, rendering the Province's original C\$5.90/GJ assumption much too optimistic—natural gas prices are now expected to average C\$3.51/GJ in FY2009/10, dragging total resource revenues down \$1.1 bln below the prior forecast. Meantime, the recession has forced a \$1.0 bln reduction in projected corporate and personal income tax revenues since February.

While the province has ramped up its cost containment efforts, spending in some areas has been maintained or increased—this includes health care, education and forest fire control. Total spending is now pegged at \$40.1 bln, up 2.1% from the original budget, but will grow just 0.5% next year.

Most of the key features of this budget have already been announced, including the Province's plan to harmonize the PST with the Federal GST (for a combined 12% HST)—the change will take effect in July-2010. Among the measures to offset the increased consumer burden are point-of-sale rebates on some items like books and fuel (on the PST portion), a rebate on new home purchases up to \$400,000 to offset the larger burden of the HST, a flat \$20,000 rebate on new homes above \$400,000, and a quarterly rebate for low-income consumers. The Province is also increasing the basic personal income tax amount to \$11,000 in January-2010 from \$9,373 this year. These measures are expected to fully offset any gains from the HST, effectively making it revenue neutral. The Province will receive \$1.6 bln in support from the Federal Government to help implement the

Fiscal Outlook

(C\$ millions)

	previous	updated	forecast	
	09/10	09/10	10/11	11/12
Revenues	38,812	37,608	38,845	41,072
Expenditures	39,307	40,133	40,320	41,767
Forecast Allowance	—	(250)	(250)	(250)
Budget Balance	(495)	(2,775)	(1,725)	(945)

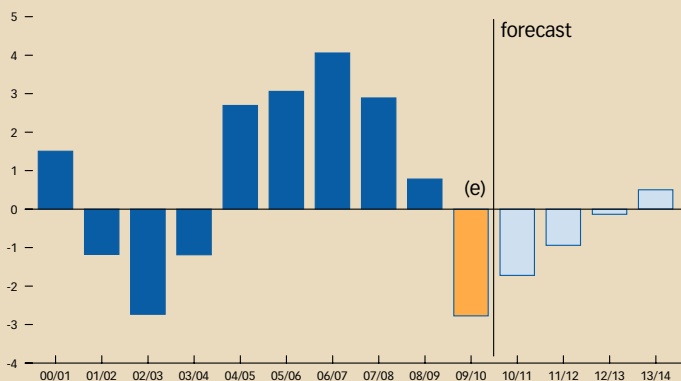
() = deficit

Note: Totals may not add due to rounding.

Source: Provincial forecasts

Budgetary Balance

(\$ billions)



Source: Provincial forecasts e = estimate



new tax structure.

The Province's total gross borrowing requirements are projected to be \$6.6 bln in FY2009/10. After accounting for maturities and sinking funds, the net increase in debt is projected to be \$4.3 bln. This, along with weak economic growth, will cause the taxpayer-supported debt-to-GDP ratio to rise steadily from 13.3% in FY2008/09 to 18.1% in FY2011/12—though that's still below the recent high of 21.3% seen in FY2002/03.

British Columbia is stuck in recession with residential construction activity, exports and consumer spending all at depressed levels. The Province is expecting real GDP to contract 2.9% this year versus our forecast of a 2.1% decline. However, with the global economy on the mend, a 1.9% recovery in 2010 is expected, somewhat more conservative than our forecast of 2.4% growth. Indeed, some early indications in the province—notably housing market activity—are hinting that recovery is upon us.

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