



Laurentian Bank Securities **ECONOMIC RESEARCH AND STRATEGY**

BC Update – Fiscal position will remain strong despite highest deficit on record

Building on the debt management update released in June, the BC government presented today a [fiscal and economic update](#) assessing the profound impact of Covid-19 on public finances.

The BC government expects a \$12.5B deficit (4.4% of GDP) in FY 2020-21, contrasting with the \$0.2B surplus projected in the February 2020 Budget (chart 1). This \$12.7B deterioration is based on an economic scenario assuming continuous restrictions in travel activity, the maintaining of social distancing measures for some time and a gradual improvement in economic activities. It assumes a 6.8% contraction in real GDP this year, a severe recession compared to the 2.4% decline of 2009 but close to the 6.4% pullback of 1982. The 3.1% GDP growth rebound forecast in 2021 is particularly conservative. In comparison, the federal, Manitoba and Quebec governments look for a 5%+ real GDP surge in 2021. During her [press conference](#), BC Finance Minister Carole James mentioned employment could bounce back by 102K in 2021 (+4.4%) after a massive net loss of 252K jobs this year (-9.8%).

Besides the \$0.2B upward revision to debt servicing costs, the deterioration in public finances is evenly divided between the \$6.3B reduction in revenues and the \$6.3B spending response to COVID-19. Corporate income tax, personal income tax, sales tax and crown corporation revenues were revised down by approximately \$1B each. The reduction in property taxes, fuel taxes and natural resource revenue is estimated in-between \$0.3B and \$0.5B each. As of note, tax and payment deferrals of \$6.3B helping individuals and companies do not affect the revenue estimate in FY 2020-21 because they are expected to be paid back over time.

On the expenditure side, BC's government response to COVID-19 has been very proactive even if the number of coronavirus cases per capita is significantly lower than in other populous Canadian provinces. Thus, in addition to the \$5B already disclosed in health and financial support during and after the pandemic (details in our [previous report released in June](#)), the BC government adds \$0.8B in business tax relief, notably in the form of a 25% reduction in school taxes for commercial properties this year. Also, the Climate Action Tax Credit helping to offset the carbon tax paid by low-income earners will be more generous beginning this month, costing the government \$0.5B.

In dollars terms, the taxpayer-supported debt for FY 2020-21 is revised up from \$49.2B in the 2020 budget to \$61.9B (chart 2). This being said, it would be inappropriate to conclude borrowing on financial markets will increase by \$12.7B. First, internal financing sources ended up lower borrowing requirements by \$1.4B in FY 2019-20 and \$3.8B in FY 2018-19. The government also holds \$7.4B in cash reserves, enough in theory to cover the \$6.2B downward revision to revenues revealed today. Also, the debt management update of last June already revised up borrowing requirements by \$5B in order to take into account the \$5B initial Covid-19 response.

Combined with the 8.2% 2020 nominal GDP decline assumed under the base case scenario, the debt-to-GDP ratio is projected to increase from 15.1% last year to 22.0% in FY 2020-21. The good news is that BC entered the pandemic recession with the most advantageous fiscal position among provinces. Prior to this year, the province registered seven consecutive surpluses totaling \$8.8B (2.9% of GDP). Public debt will remain among the lowest in the country as a share of GDP and revenues.

The pandemic appears under control in BC as the number of new confirmed cases has been generally below 20 per day since early May. This being said, the range of possible outcomes remains large. BC Finance Minister Carole

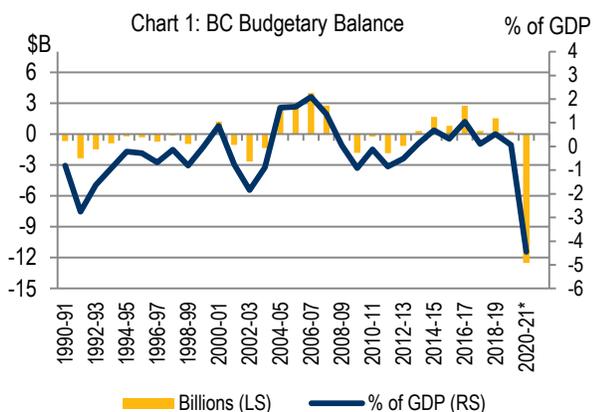


James recognized the base case scenario is subject to revisions because of a potential second COVID-19 wave, confidence effects and different recovery paths for BC's major trading partners. Thus, the Ministry of Finance proposed two alternative severe scenarios in the [technical backgrounder](#). The most severe one is based on a second wave of infections hindering consumer and business activity, ultimately leading to a 9.8% GDP contraction in 2020 and a tepid 1.4% recovery in 2021 (chart 3). In the optimistic scenario, business and consumer confidence is restored faster, translating into a milder contraction of 4.7% this year and a stronger rebound next year (4.9%).

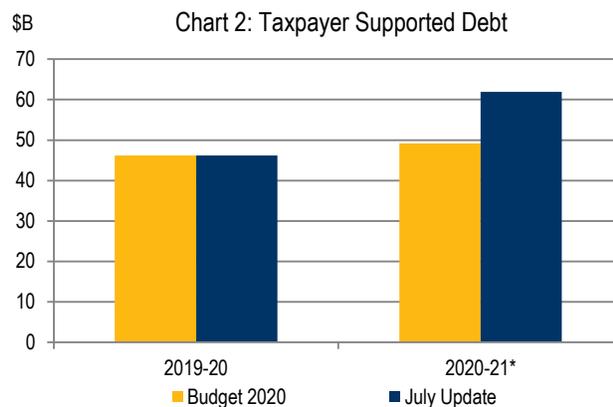
The BC government plans to release its *First Quarterly Report* during the month of September, as usual. The public accounts for FY 2019-20 will be also published by August 31st.

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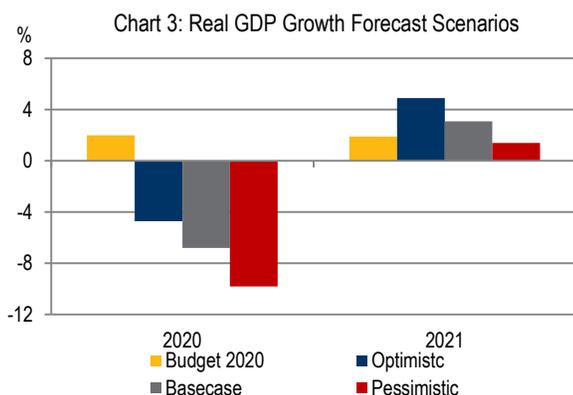
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Note: FY 2019-20 results are from the Third Quarterly Report/Budget 2020.
Source: Government of British Columbia, LBS Econ. Res. and Strategy.



Source: BC Government.



Source: BC Government.

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