



Revised on May 3, 2011

HIGHLIGHTS

- The British Columbia (BC) government tabled its first budget in February. At the time, few announcements were made due to Premier Campbell's pending exit from politics.
- With Premier Christy Clark now firmly in place, the government tabled revised fiscal and economic documents on May 3, 2011.
- This budget is virtually identical to that presented earlier in the year. All economic assumptions and the fiscal outlook are unchanged.
- In the economic outlook section, new global economic risks were cited with most tilted to the downside. To reflect the looming uncertainty, lower than consensus real GDP forecasts have been incorporated into the budget plan.
- A referendum regarding the fate of the Harmonized Sales Tax (HST) is set to take place in the coming weeks. No provisions have been put in place in the event the HST is repealed. As such, we view this policy outcome as a key risk to the fiscal plan as outlined.
- The Province plans to return to surplus in FY 13-14. With contingencies and forecast allowances already imbedded into the budget plan, surplus can be arguably recorded sooner than scheduled.

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2011 BRITISH COLUMBIA BUDGET: ROUND TWO

A new budget, but very little new information in it

In our last British Columbia budget commentary and in light of pending political changes at the time, we asked the question whether there would be a round two budget. We received the answer to that question in the form of revised documents. While they were presented to the Legislative Assembly and voted upon in Parliament, there are no changes in economic assumptions or the fiscal plan to really highlight or reflect upon. On the economic front, the Province has kept more prudent economic assumptions than the private sector forecast consensus. Still, more global risks were cited, many of which are tilted to the downside. Due to this level of uncertainty, the government has imbedded forecast allowances and contingency reserves into its planning assumptions. Prudence of this sort could allow the Province to return to surplus sooner than the planned timetable of FY 13-14.

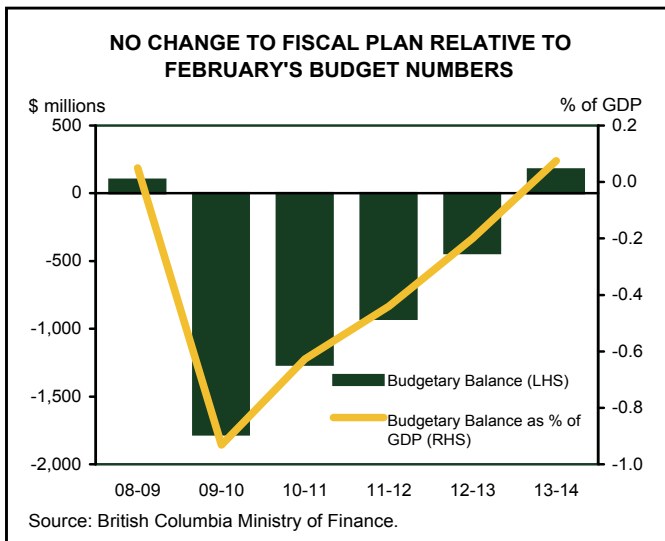
Fate of the HST hangs thick in the air

With little changed on the economic and fiscal front, the fate of the Harmonized Sales Tax (HST) continues to hang thick in the air. For the most part, the budget remained silent on this issue and the uncertainty attached to the tax's shelf-life. As was the case in February, the budget documents continue to assume that current laws and agreements remain in force. Put simply, this means that the HST will continue to be in place in all years of the fiscal plan. No accommodations have been made to either revenue or costs if the HST is ultimately rejected by voters.

Referendum paperwork and ballots will be mailed out to British Columbians in the coming weeks. More specifically, Elections BC will begin mailing their ballots to registered voters on June 13th. Final results of the vote are expected in August of this year. If voters accept the HST, the government has announced that it will drop the rate from 12 per cent to 10 per cent. The tax cut would take place in two stages: a cut to 11 per cent on July 1, 2012 and to 10 per cent on July 1, 2014. If this occurs and once the tax decrease is fully implemented, the average family would save approximately \$120 per year.

BRITISH COLUMBIA GOVERNMENT FISCAL POSITION					
(C\$ millions)					
	Actual	Est.	Budget		
Fiscal Year	09-10	10-11	11-12	12-13	13-14
REVENUES	37,521	39,893	41,337	42,446	44,091
% change	-2.1	6.3	3.6	2.7	3.9
Own-Source	30,604	31,990	33,757	35,231	36,532
Federal Transfers	6,917	7,903	7,580	7,215	7,559
EXPENDITURES	39,300	41,008	41,912	42,536	43,566
% change	2.8	4.3	2.2	1.5	2.4
Program Spending	37,202	38,860	39,482	39,903	40,655
% change	3.0	4.5	1.6	1.1	1.9
Debt Charges	2,098	2,148	2,430	2,633	2,911
Forecast Allowance	0	150	350	350	350
Surplus/Deficit (-)	-1,779	-1,265	-925	-440	175
% of GDP	-0.9	-0.6	-0.4	-0.2	0.1
Taxpayer-Supp. Debt	31,169	33,388	36,816	39,162	40,500
% of GDP	16.3	16.5	17.5	17.8	17.5

Source: British Columbia Ministry of Finance.



BRITISH COLUMBIA ECONOMIC PLANNING ASSUMPTIONS						
(Annual Per Cent Change)						
	2010	2011	2012	2013	2014	2015
Real GDP	3.1	2.0	2.6	2.7	2.8	2.8
Nominal GDP	5.6	4.1	4.9	4.8	4.8	4.8
Employment	1.7	1.4	1.8	1.7	1.7	1.7
Personal Income	3.0	3.5	4.5	4.4	4.4	4.4
Retail Sales	4.3	4.1	4.5	4.4	4.4	4.5

Source: British Columbia Ministry of Finance.

No cost estimates were attached to the HST rate cut announcements. However, the initiative is set to be revenue neutral. In order to feel no hit to the fiscal plan, the Province has said that it will raise the general corporate income tax rate to 12 per cent as of January 1, 2012, increase tobacco taxes, and postpone the previously scheduled small business tax reduction that was to become effective on April 1, 2012.

Even with these details and tax reduction plans in place, the first task will be the HST referendum. The tax package as outlined is contingent on the HST being approved. Also at stake is the \$1.6 billion transition payment given to the province by the federal government, which would need to be returned if the HST is voted down.

Economic assumptions highlight looming risks

The economic assumptions presented in the revised budget are identical to that included in the February iteration. Overall, the projections are more prudent than the average of the forecasts provided by the Economic Forecast Council. More precisely, the government's outlook for real GDP is 0.7 percentage points (ppts) lower in 2011 and 0.4 ppts lower in 2012 than the private sector consensus.

Additional prudence has been built into the Province's budget plan due to lingering uncertainty surrounding global economic activity. In particular, continued weakness in the U.S. economy and concerns stemming from unresolved sovereign debt crisis concerns in Europe were just two of the international risk presented. The potential for lower

global demand could hurt the province's exporters. This sector will also be challenged by a Canadian currency that is expected to remain above parity through 2013.

Another key economic risk summarized was a greater-than-anticipated decline in Canadian housing activity. TD Economics agrees that resale housing activity is set to moderate over the near-term across the country, both in terms of sales and prices. In our view and in light of recent trends, the British Columbia and the Greater Vancouver Area housing market will likely see more of a correction than other regions. While such an adjustment is likely to be in gradual nature, a sharper decline represents a downside risk to the provincial economic outlook.

Return to surplus on schedule

In addition to the prudence built into the plan through the lower GDP forecast, the government has included both forecast allowances and contingency reserves into its planning assumptions. Allowances of \$350 million in each year from FY 11-12 to FY 13-14 have been incorporated to help achieve operating and debt level targets. Contingencies of \$603 million in FY 11-12 and \$453 million in FY 12-13 and FY 13-14 are also included to help manage unexpected pressures and fund priority initiatives.

Measures of this sort should help the government return to balance by FY 13-14. This is the timeline already set in provincial legislation. Spending restraint of an annual average of 2.0% over three years will be required to accomplish this task. The government has reduced spending, while largely protecting key areas like health care, education and social services. Given the prudence measures already built into the fiscal plan, the government has a bit of wiggle room in place in the event spending growth cannot be restrained to such a magnitude.



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