

April 20, 2021

BACKGROUND

Economic Snapshot: Investing in a strong economic recovery for B.C.

Like the rest of the world, British Columbia's economy has faced an unprecedented year of challenges with the COVID-19 pandemic, but there are already strong signs of economic recovery.

Budget 2021 includes an updated forecast deficit of \$8.1 billion for 2020-21, down from the 2020 Fall Economic and Fiscal Update projection of \$13.6 billion. This decrease is because of higher-than-expected revenues, including tax revenue as a result of activities such as strong housing and retail sales, and moderately lower spending. Government is focused on continuing to support people, businesses and communities for a stronger, more resilient economic future for B.C.

Economic highlights

- It is estimated that B.C. real GDP contracted by 5.3% in 2020, and is projected to expand by 4.4% in 2021, 3.8% in 2022 and 2.2% in 2023.
- Both retail and home sales were above pre-pandemic levels by mid-2020, supported by low interest rates and a consumer pivot toward goods purchases while services were disrupted, among other factors.
- Retail sales saw their largest monthly decline on record in April 2020; however, retail sales rebounded and were 15.3% higher in January 2021 than a year ago.
- Housing market activity has been resilient despite the pandemic, and monthly home sales reached record levels in late 2020 and have continued to grow in 2021.
- The average home sale price in B.C. has increased by 11.6% in 2020 compared to 2019.
- B.C. lost an unprecedented number of jobs following the onset of the pandemic. As of March 2021, total employment in B.C. has surpassed pre-pandemic levels, the highest job recovery rate among provinces; however, some sectors are struggling and not everyone has been affected in the same way.

- Like the rest of Canada, B.C. experienced high unemployment rates at the beginning of the pandemic in March and April 2020. B.C.'s unemployment rate averaged 8.9% in 2020 and the unemployment rate for March 2021 was 6.9%.
- B.C. was tied with Manitoba for the second lowest unemployment rate in Canada when the pandemic hit, and currently has the third lowest unemployment rate in Canada.

Operating results

- The Third Quarterly Report projects an operating deficit of \$8.1 billion in 2020-21.
- Total revenue forecast is \$61 billion, and total expense forecast is \$69.1 billion.
- Budget 2021's three-year fiscal plan presents declining deficits, with a \$9.7 billion deficit in 2021-22, \$5.5 billion in 2022-23 and \$4.3 billion in 2023-24.
- \$8.7 billion in new base budget investments across the three-year fiscal plan will help people stay safe and healthy through the pandemic and create new opportunities for an economic recovery that includes everyone.
- The fiscal plan projections include significant prudence given the continuing health and economic uncertainty, which includes:
 - A Pandemic and Recovery Contingencies allocation of \$3.25 billion in 2021-22, \$1 billion in 2022-23 and \$300 million in 2023-24 to continue to fund short-term initiatives to address health or economic recovery needs related to the pandemic.
 - General Programs Contingencies allocation of \$1 billion in 2021-22, \$800 million in 2022-23 and \$700 million in 2023-24 to help manage unexpected pressures.
 - Annual forecast allowances of \$1 billion in 2021-22, \$750 million in 2022-23 and \$400 million in 2023-24 to guard against volatility, such as revenue changes.
 - Notional allocations of \$1.5 billion in 2022-23 and \$2 billion in 2023-24 for caseload pressures and priority initiatives that may require funding in future budgets.
 - A forecast for B.C.'s real GDP growth that is lower than the outlook provided by the Economic Forecast Council (0.5 percentage points lower in both 2021 and 2022, and 0.2 percentage points lower in both 2023 and 2024).

COVID-19 spending

- Budget 2021 focuses on health and safety, supports for people and business and preparing B.C. for longer term economic recovery with \$8.7 billion in budget increases and \$4.6 billion in Pandemic and Recovery Contingencies over the fiscal plan.
- The \$3.25 billion in Pandemic and Recovery Contingencies for 2021-22 supports programs and services with:
 - \$900 million for health-related COVID-19 management.
 - \$1.05 billion for supports for people and businesses.
 - \$200 million to prepare for economic recovery.
 - \$1.1 billion in reserve to support any unanticipated and urgent health or recovery measures.

- In 2020-21, the Province invested over \$10 billion in COVID-19 relief and recovery measures. This included:
 - \$6.7 billion in Pandemic Response and Economic Recovery Contingencies to support critical services, provide financial supports and support economic recovery.
 - \$810 million in provincial contributions toward federal and provincial cost-shared Restart initiatives for transit and municipalities.
 - \$3 billion for other response and temporary relief measures, including tax credits and reductions.

Capital spending

- Total taxpayer-supported capital spending is projected to be \$26.4 billion over the fiscal plan. The capital plan is well positioned to support the recovery with investments in existing projects so that people can get back to work right away and also includes investments to build the foundation of long-term recovery.
- Budget 2021 projected spending over three years is \$3.5 billion higher than the three-year plan outlined in Budget 2020 and is expected to create over 85,000 jobs over the fiscal plan period.

Debt levels

- Debt is expected to increase significantly to finance the investments needed to ensure continued support for British Columbians who need it and a strong economic recovery for B.C.
- B.C.'s taxpayer-supported debt is projected to be \$71.6 billion at the end of fiscal year 2021-22, \$82.8 billion in 2022-23, and \$92.7 billion at the end of 2023-24.
- The taxpayer-supported debt-to-GDP ratio, a key metric used by credit rating agencies, is expected to remain below 30% throughout the fiscal plan, reaching 26.9% by 2023-24.
- Despite a significant increase in borrowing and higher debt levels, B.C. has benefited from low interest rates partially due to the Province's good credit rating.
- As a result, the Province's debt remains affordable, enabling government to invest now to support people and businesses through the pandemic and encourage a strong recovery.

The path to a balanced budget and fiscal sustainability is a priority for government to be able to continue to deliver the services people rely on and build a stronger, more equitable future for everyone. While the unprecedented level of uncertainty resulting from the ongoing impacts of the pandemic makes it too early to accurately forecast a specific timeline for balance, preliminary analysis indicates a return to balanced budgets within seven to nine years. The specific timeline, approach and plan will be presented in Budget 2022 when government expects greater certainty about the path and pace of economic recovery.

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