

February 20, 2018

BACKGROUND

FISCAL PLAN 2018-19 – 2020-21

A Strong B.C. Economy

B.C. experienced stronger than previously forecast economic growth in 2017. *Budget 2018* reflects an upward revision to the 2017 real GDP estimate to 3.4%, from 2.9% estimated in the *Budget 2017 Update*, due to better than expected performance of B.C.'s main domestic indicators including employment, retail sales, housing starts and exports.

Strong growth is expected to continue with the provincial economy projected to grow by 2.3% in 2018. Private sector forecasters expect B.C.'s economic growth to continue to rank near the top of provincial standings in the near-term.

The near-term global economic outlook has also improved since *Budget 2017 Update*, with upward revisions to 2018 real GDP growth for the U.S., Japan, China and the euro zone.

Downside risks remain, however, including uncertainty regarding US fiscal and trade policy and ongoing economic challenges in Asia and the euro zone. The *Budget 2018* economic forecast is prudent compared to the outlook provided by the independent Economic Forecast Council, in recognition of the downside risks to the outlook.

Budget Outlook

Budget 2018 projects surpluses of:

- \$219 million in 2018-19
- \$281 million in 2019-20
- \$284 million in 2020-21

The government has included several layers of prudence into the fiscal plan, to help account for lower than expected revenues, unforeseen expenses or emergencies. *Budget 2018* includes a forecast allowance of \$350 million in 2018-19, \$500 million in 2019-20, and \$600 million in 2020-21. *Budget 2018* also includes contingencies of \$550 million in 2018-19, \$750 million in 2019-2020, and \$750 million in 2020-21.

Revenue Outlook

Total government revenue is forecast at \$54.2 billion in 2018-19, \$57.6 billion in 2019-20, and \$58.6 billion in 2020-21.

Expense Outlook

Total expenses over the three-year fiscal plan are forecast at \$53.6 billion in 2018-19, \$56.8 billion in 2019-20, and \$57.8 billion in 2020-21.

Capital spending

Taxpayer-supported capital spending over the fiscal plan will total a record-level \$15.8 billion, and includes urgently needed investments in critical infrastructure, such as:

- **Education:** \$2 billion to maintain, replace, renovate or expand K-12 facilities.
- **Post-secondary education:** \$2.6 billion to build capacity and help meet the province's future workforce needs in areas like science, trades and technology.
- **Health:** \$3.1 billion to support major construction projects and upgrading health facilities, medical and diagnostic equipment, and information management technology systems.
- **Housing:** \$379 million to preserve existing affordable housing and to help fund the construction of supportive housing units.
- **Student Housing:** \$450 million for a student housing program for public post-secondary institutions that will help finance 5,000 new student housing beds.
- **Transportation:** \$4 billion in provincial operating and capital funding, which will leverage an additional \$1.3 billion through federal cost sharing and partnerships with private organizations, local governments and other agencies.

Debt Affordability

The operating debt is forecast to be eliminated by the end of 2018-19, one year earlier than forecast in *Budget 2017 Update*. Primarily, this is a result of stronger than predicted economic growth in 2017. This will be the first time the government has been free of operating debt in over 40 years.

The taxpayer-supported debt-to-GDP ratio, a key metric used by credit rating agencies, is expected to remain below 16% over the fiscal plan period despite record-level capital spending.

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