

BACKGROUND

Economic Outlook

British Columbia's economy remains strong, supported by a low unemployment rate, robust domestic demand and strong business investment.

Following estimated real gross domestic product growth of 3.6 per cent in 2005, the Ministry of Finance forecasts economic growth of 3.3 per cent for 2006. Economic growth is expected to moderate to an average 3.1 per cent over the medium term.

Revenue Outlook

Following an increase of 6.8 per cent in 2005/06, total government revenues are expected to decline slightly in 2006/07 and experience modest growth in the subsequent two years. Total revenues are forecast at \$35.4 billion in 2006/07, a decline of 0.3 per cent. This is followed by \$36.1 billion in 2007/08, an increase of 2.1 per cent, and \$36.6 billion in 2008/09, an increase of 1.4 per cent.

Expenditure Outlook

Total government expenditures are forecast to increase 6.9 per cent over the next three years; expenditures are estimated at \$33.9 billion in 2006/07, \$35.1 billion in 2007/08 and \$36.0 billion in 2008/09.

Significant Budget Decisions

Significant expenditure and tax reduction measures incorporated in the three-year fiscal plan include:

- \$421 million to enhance programs and services for children;
- \$400 million to expand skills and training opportunities;
- \$733 million in tax reductions over four years, approximately two-thirds of which will benefit individuals and the remainder to keep business taxes competitive;
- \$191 million to strengthen communities through new investments in housing, safety and supports to vulnerable individuals;
- \$134 million for research and innovation;
- \$312 million for natural resources and sustainable development;
- \$50 million for tourism and international opportunities; and
- Up to \$6 billion to support the province's Negotiating Framework for public sector compensation; this includes \$1 billion in 2005/06 as an incentive to reach agreements.

Budget Surplus Outlook

In keeping with government's legislated commitment to balanced provincial budgets, the fiscal plan forecasts surpluses of \$600 million in 2006/07, \$400 million in 2007/08 and \$150 million in 2008/09.

Investing in Infrastructure

To meet the transportation, health, and education needs of a growing province, the province's taxpayer-supported capital infrastructure plan provides for investments of \$3.5 billion in 2006/07, \$3.2 billion in 2007/08, and \$2.8 billion in 2008/09.

In addition, self-supported commercial Crown corporations forecast capital spending of \$1.3 billion, \$1.5 billion, and \$1.7 billion over the same period. The majority of commercial Crown capital investments are for electrical generation, transmission and distribution projects.

This results in total capital investments of \$4.8 billion in both 2006/07 and 2007/08, and \$4.5 billion in 2008/09, totalling \$14.0 billion over the three-year fiscal plan.

Recognizing that rising construction costs are a current concern, the government has introduced a capital contingency of 5 per cent in its three-year capital plan as a prudent planning measure. This contingency is in addition to the contingencies included in individual project budgets.

Debt Remains Affordable

Debt continues to represent a significant source of financing for provincial infrastructure investments.

The three-year plan forecasts taxpayer-supported debt at \$27.9 billion in 2006/07, \$29.1 billion in 2007/08, and \$29.9 billion in 2008/09, an average annual increase of 2.9 per cent.

In addition, self-supported commercial Crown corporation debt is forecast at \$7.9 billion, \$8.6 billion, and \$9.5 billion over the same time period.

After including the forecast allowance, total provincial debt is forecast at \$36.6 billion in 2006/07, \$38.2 billion in 2007/08, and \$39.8 billion in 2008/09, for a total increase of \$4.9 billion.

British Columbia's continued economic and fiscal strength ensures that new debt remains affordable. Continuing the favourable trend of recent years, the taxpayer-supported debt to GDP ratio — a key measure of debt affordability — is forecast to decline from 15.8 per cent in 2006/07 to 15.7 per cent in 2007/08, and to 15.4 per cent in 2008/09.

The government is committed to maintaining a downward trend in this ratio. Consistent with the recommendations of the Economic Forecast Council, a three-year moving average is used to track the debt to GDP ratio.

Budget Remains Prudent

To help ensure surplus targets are met, the updated fiscal plan includes forecast allowances of \$850 million in 2006/07, \$550 million in 2007/08, and \$400 million in 2008/09. These allowances will help protect the fiscal plan from revenue risks such as sudden drops in natural gas and commodity prices, the cost of natural disasters, and other unexpected events. The higher forecast allowance in 2006/07 reflects increased risks to the surplus arising from natural gas price volatility.

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For the Finance Minister's speech and more details on *Balanced Budget 2006*, visit www.gov.bc.ca/bcbudget online. Visit the Province's website at www.gov.bc.ca for online information and services.

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