

# SUMMARY

2006/07 Second *Quarterly Report*

November 30, 2006

## 2006/07 Updated Financial Forecast

(\$ millions)	Actual 2005/06	Budget	Updated Forecast	Variance
Revenue .....	35,947	35,364	37,430	2,066
Expense .....	(32,177)	(33,914)	(34,440)	(526)
Negotiating Framework incentive payments .....	(710)	-	(290)	(290)
<b>Surplus before forecast allowance .....</b>	<b>3,060</b>	<b>1,450</b>	<b>2,700</b>	<b>1,250</b>
Forecast allowance .....	-	(850)	(550)	300
<b>Surplus .....</b>	<b>3,060</b>	<b>600</b>	<b>2,150</b>	<b>1,550</b>
<b>Capital spending:</b>				
Taxpayer-supported capital spending .....	3,092	3,488	3,770	282
Total capital spending .....	3,896	4,826	4,958	132
<b>Provincial Debt:</b>				
Taxpayer-supported debt .....	27,175	27,883	26,338	(1,545)
Total debt .....	34,356	36,590	34,500	(2,090)
Taxpayer-supported debt to GDP ratio .....	16.1%	15.8%	14.7%	-1.1%
Total debt to GDP ratio .....	20.3%	20.7%	19.3%	-1.4%

### Strong results in 2006

- The 2006/07 forecast surplus has improved to \$2.15 billion, \$950 million higher than the surplus forecast in the first *Quarterly Report*.
- Revenue is up \$725 million due to stronger 2005 tax assessments and one-time federal trust funds. Other revenue increases of \$319 million reflect other improvements in taxation revenues and improved results for commercial Crown corporations, partially offset by lower natural gas revenues due to continued weakness in natural gas prices.
- As noted in the first *Quarterly Report*, BC was eligible to receive additional federal trust funds contingent on the size of the federal surplus. Upon finalization of the federal *Public Accounts* in late September, BC received an additional \$408 million of one-time revenues from the federal government which will be spent on capital projects including post-secondary infrastructure, public transit, affordable housing and off-reserve aboriginal housing over the next two to three years.
- The spending forecast is up \$94 million from the first *Quarterly Report*, in part reflecting projected deficits by health authorities and hospital societies.
- Government continues its commitment to ensure capital spending for schools, roads and hospitals remains affordable. Capital spending for 2006/07 is little changed from the first *Quarterly Report*, with increases in schools and transportation sectors offset by reduced spending by government ministries and commercial Crown corporations.
- Taxpayer-supported government debt is forecast to be \$26.3 billion at year-end, \$1.6 billion less than

the first *Quarterly Report*, reflecting additional revenues and reduced cash requirements. The key taxpayer-supported debt-to-GDP ratio is expected to fall to 14.7 per cent ensuring that debt remains affordable.

- On October 5, 2006, Moody's Investors Service upgraded BC's credit rating to Aaa, the highest possible rating. In making its decision Moody's cited a well structured fiscal framework, leading to a reduced debt burden.
- Recent economic data, particularly with regard to strong domestic performance in retail sales and employment and higher private sector forecasts, suggest that BC's actual economic growth in 2006 could now be stronger than the 3.6 per cent forecast in the first *Quarterly Report*.

### Risks remain

- Risks to the economic outlook include the current slowing of the US economy, particularly in the US housing sector, as well as declining and volatile commodity prices.
- Total reductions from budget in natural gas revenues of \$939 million are now forecast and natural gas prices remain volatile due to high inventories.

### Budget 2007

- In preparation for *Budget 2007*, the Minister of Finance will be consulting with the independent Economic Forecast Council on December 8, 2006 to obtain their views on the North American and British Columbia economic outlook. An updated five-year economic forecast, incorporating their advice, will be developed for the February 20, 2007 budget.