

SUMMARY

2007/08 Second Quarterly Report

November 30, 2007

2007/08 Updated Financial Forecast

(\$ millions)	2006/07 Actual	2007/08		
		Budget	Updated Forecast	Variance
Revenue	38,504	37,390	39,165	1,775
Expense	(34,184)	(36,240)	(36,540)	(300)
Negotiating Framework incentive payments	(264)	-	-	-
Surplus before forecast allowance	4,056	1,150	2,625	1,475
Forecast allowance	-	(750)	(500)	250
Surplus	4,056	400	2,125	1,725
Capital spending:				
Taxpayer-supported capital spending	3,366	3,864	4,206	342
Total capital spending	4,349	5,156	5,533	377
Provincial Debt:				
Taxpayer-supported debt	25,874	27,803	26,367	(1,436)
Total debt	33,347	36,837	34,908	(1,929)
Taxpayer-supported debt-to-GDP ratio	14.4%	14.8%	13.9%	-0.9%
Total debt-to GDP ratio	18.6%	19.6%	18.4%	-1.2%
<i>Debt-to-GDP trends (3-year moving average)</i>				
Taxpayer-supported debt-to-GDP ratio	16.2%	15.2%	14.8%	-0.4%
Total debt-to GDP ratio	20.6%	19.7%	19.1%	-0.6%

Stronger financial results in 2007/08

- The 2007/08 forecast surplus has improved to \$2.1 billion, \$525 million higher than the surplus forecast in the first *Quarterly Report*.
- Revenue is up \$635 million mainly due to prior year income tax adjustments and a resulting higher estimate of the 2007 tax base. Other revenue increases reflect improvements in property transfer tax, federal transfers and commercial Crown corporation net income. These improvements are partially offset by a reduction in natural resource revenue due to declining lumber and natural gas prices, and the higher Canadian dollar. Forecast natural resource revenues are now down \$754 million from budget.
- The spending forecast is up \$110 million from the first *Quarterly Report*, reflecting higher forest management program expenses, additional spending related to one-time federal funding and higher net spending by service delivery agencies, partially offset by lower projections for Crown land grants, Vancouver Island Gas Pipeline Assistance Agreement charges and interest costs.
- The impact of the Musqueam Agreement is not currently reflected in the fiscal plan pending resolution of several factors, including land transfers and valuations. Government plans to conclude these arrangements by the end of 2007/08.
- At \$4.2 billion, taxpayer-supported capital spending for 2007/08 is largely unchanged from the first

Quarterly Report, with any differences primarily due to the timing of spending on projects.

- Government plans to retain approximately \$1 billion out of the 2007/08 surplus to address additional priority items and help finance updates to the capital plan over the next few years.
- Taxpayer-supported debt is expected to increase \$493 million by year-end. Despite the net increase in debt, the key taxpayer-supported debt-to-GDP ratio is projected to decline to 13.9 per cent.

Economic outlook

- Recent economic indicators demonstrate that, while BC's domestic economy continues to show robust growth, exports and manufacturing shipments have declined throughout 2007, a result of the high Canadian dollar combined with falling lumber and natural gas prices.
- Risks to BC's economic outlook include further deterioration in the US economy, volatile commodity prices, the high Canadian dollar and continued instability in global financial markets.

Budget 2008

- In preparation for *Budget 2008*, the Minister of Finance will be consulting with the independent Economic Forecast Council on December 7, 2007 to obtain their views on the North American and BC economic outlook. An updated government economic forecast, incorporating their advice, will subsequently be developed for the February 19, 2008 budget.