

SEPTEMBER UPDATE BALANCED BUDGET 2005 BACKGROUND

Economic Outlook

After leading the provinces in 2004 with economic growth of 3.9 per cent, British Columbia's economy continues to perform impressively in 2005, with positive momentum in employment, consumer spending, non-residential investment, and continued robust levels of home construction as well as consumer and business confidence.

The Ministry of Finance forecasts economic growth of 3.4 per cent for 2005, 3.2 per cent in 2006, and 3.1 percent for 2007 to 2009, an improved outlook since the February 2005 budget.

Revenue Outlook

In keeping with the improved economic outlook, total government revenues, after tax reduction measures, are estimated at \$34.5 billion in 2005/06, \$34.4 billion in 2006/07 and \$35.1 billion in 2007/08. The improved revenue outlook compared to the February budget is due primarily to higher forecast energy and tax revenues. It also reflects new funding from the federal government for early learning and child care, and to help respond to the mountain pine beetle outbreak.

Expenditure Outlook

Total government expenditures are estimated at \$32.9 billion for 2005/06, \$33.2 billion in 2006/07 and \$33.8 billion in 2007/08.

Expenditure changes include:

- \$242 million over three years to improve support for senior citizens;
- \$100 million for the First Nations New Relationship Fund;
- \$329 million over three years from the federal government to improve early learning and child care programs;
- \$100 million over three years from the federal government to support B.C.'s Pine Beetle Action Plan; and
- \$150 million over three years to increase the contingency budget.

Budget Surplus Outlook

In keeping with the improved economic outlook, the updated fiscal plan forecasts surpluses of \$1.3 billion in 2005/06, \$600 million in 2006/07 and \$400 million in 2007/08.

Increased Investment in Infrastructure

To meet the transportation, health, and education needs of a growing province, the province's capital infrastructure plan includes a three-year increase of \$1.1 billion compared to the February budget.

The budget update provides for investments of \$4.2 billion in both 2005/06 and 2006/07, and \$3.7 billion in 2007/08, for a total of \$12.1 billion in capital spending over the three-year fiscal plan.

Larger Surpluses Improve the Debt Forecast

The province's infrastructure investments are funded through new borrowing. The larger fiscal plan surpluses will help reduce the province's borrowing requirements, resulting in an improved debt forecast.

Total provincial debt is forecast at \$35.9 billion in 2005/06, \$37.3 billion in 2006/07 and \$38.0 billion in 2007/08. The total debt forecast for 2007/08 is now \$1.6 billion lower than in the February budget.

Similarly, the taxpayer-supported debt-to-GDP ratio, a key measure of debt affordability, is also lower than previously forecast. Taxpayer-supported debt-to-GDP is forecast to decline to 17.1 per cent in 2005/06, 16.7 per cent in 2006/07 and 15.8 per cent in 2007/08.

Budget Plan Remains Prudent

To help ensure that budget surplus targets are met, the updated plan includes forecast allowances of \$300 million in 2005/06, \$600 million in 2006/07, and \$900 million in 2007/08. These allowances will help protect the fiscal plan from revenue risks such as sudden drops in commodity prices, the cost of natural disasters, and other unexpected events. The forecast allowances also cover potential wage and benefit increases arising from the next round of public sector bargaining.

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For the Finance Minister's speech and more details on the *September Budget Update*, visit www.gov.bc.ca/bcbudget online.

For information on the Legislative Assembly's budget consultations, visit www.leg.bc.ca/budgetconsultations online.

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Media Contact: Robert Pauliszyn
Communications Director
250 356-2821