

BACKGROUND

FISCAL PLAN 2008/09 – 2010/11

Economic Outlook

British Columbia's economy continues to show domestic strength with continued growth in housing starts, retail sales, and employment. Consumer confidence should remain strong, bolstered by healthy income growth and a low unemployment rate. However, deteriorating conditions in the U.S. economy, its housing sector and related effects on B.C.'s forest sector are expected to moderate the Province's economic growth.

Following estimated real gross domestic product growth of 3.0 per cent in 2007, the Ministry of Finance forecasts economic growth at 2.4 per cent in 2008, 2.8 per cent in 2009, and 2.9 per cent in 2010

Revenue Outlook

Total government revenue is forecast at \$39.4 billion in 2007/08, \$38.5 billion in 2008/09, \$39.9 billion in 2009/10, and \$41.5 billion in 2010/11 — an average annual increase of 1.8 per cent over the next three years.

Expense Outlook

Total government expense is forecast at \$37.3 billion in 2007/08, \$37.7 billion in 2008/09, \$39.1 billion in 2009/10, and \$40.7 billion in 2010/11 — an average annual increase of 3.0 per cent over the next three years.

Significant Budget Decisions

Significant expenditure and tax reduction measures include:

- \$1 billion in operating and capital expenditures over four years to support a comprehensive approach to reducing B.C.'s greenhouse gas emissions;
- An estimated \$1.8 billion in personal and business tax reductions over three years to return revenue generated by the carbon tax;
- An additional \$2.9 billion for enhancing health care — for a total funding increase of \$4.9 billion or 19 per cent over three years. An additional \$543 million in capital spending over four years is provided for major health facilities expansions;
- \$144 million over three years for K-12 education funding and StrongStart Centres;
- \$346 million over four years for new investments in the economy and communities;
- \$787 million over four years for strengthening social services, reducing homelessness, and improving justice and public safety; and,
- Additional tax reductions of \$481 million over three years.

Budget Surplus Outlook

The budget and fiscal plan continues government's legislated commitment to balanced provincial budgets. The updated forecast for the current fiscal year (2007/08) surplus is \$2 billion. The three year fiscal plan forecasts modest surpluses of \$50 million in 2008/09 and \$150 million in both 2009/10 and 2010/11.

Investing in Infrastructure

For infrastructure spending on transit, roads, schools, hospitals, and other capital assets, the budget plan provides for investments of \$5.8 billion in 2008/09, \$5.5 billion in 2009/10, and \$5.4 billion in 2010/11. The capital plan includes a five per cent contingency for taxpayer-supported projects to cover risks from higher than expected cost inflation and provide for new projects that may be identified and approved during the year.

Debt Remains Affordable

Debt continues to represent a significant source of financing for provincial infrastructure investments. In 2007/08, provincial debt is forecast to total \$35.0 billion, \$1.8 billion below budget. Over the three-year fiscal plan, total provincial debt is forecast at \$37.7 billion in 2008/09, \$40.0 billion in 2009/10, and \$42.5 billion in 2010/11, for a total increase of \$7.5 billion from the 2007/08 forecast.

The taxpayer-supported debt to GDP ratio — a key measure of debt affordability — is forecast to decline from 14.1 per cent in 2007/08 to 14.0 per cent in 2008/09, 13.9 per cent in 2009/10, and 13.7 per cent in 2010/11. The government is committed to maintaining a downward trend in this ratio on a three-year moving average, consistent with the recommendations of the Economic Forecast Council.

Budget Remains Prudent

To help ensure surplus targets are met, the updated fiscal plan includes forecast allowances of \$750 million in 2008/09 and \$675 million in both 2009/10 and 2010/11. In addition, the budget includes contingencies of \$375 million in 2008/09, \$390 million in 2009/10, and \$400 million in 2010/11, representing roughly one per cent of total spending. The budget includes a further \$400 million in 2010/11 for the next round of compensation contract negotiations.

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For the Finance Minister's speech and more details on *Balanced Budget 2008*, 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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