

# SUMMARY

## First Quarterly Report 2004/05

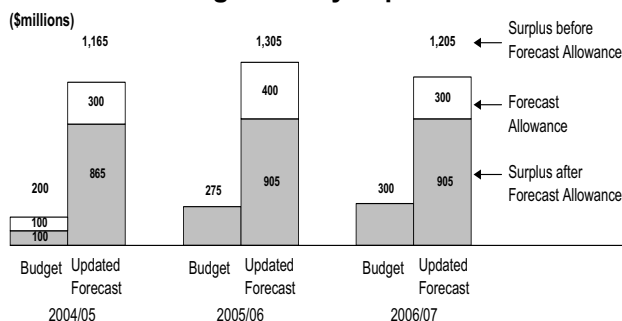
September 2004



(\$ millions)	2003/04 Actual	2004/05 Budget	2004/05 Updated Forecast	Updated Plan	
				2005/06	2006/07
Revenue .....	28,987	30,577	31,750	32,128	32,790
Expense .....	(29,976)	(30,377)	(30,585)	(30,823)	(31,585)
<b>Surplus (deficit) before forecast allowance .....</b>	<b>(989)</b>	<b>200</b>	<b>1,165</b>	<b>1,305</b>	<b>1,205</b>
Forecast allowance .....	-	(100)	(300)	(400)	(300)
<b>Surplus (deficit) .....</b>	<b>(989)</b>	<b>100</b>	<b>865</b>	<b>905</b>	<b>905</b>
<b>Provincial debt:</b>					
Taxpayer-supported debt .....	<b>30,093</b>	<b>32,172</b>	<b>29,951</b>	<b>29,905</b>	<b>29,412</b>
Taxpayer-supported debt as a per cent of GDP .....	21.1%	21.9%	19.9%	19.1%	18.0%
Total debt .....	<b>37,832</b>	<b>39,452</b>	<b>37,229</b>	<b>37,478</b>	<b>37,299</b>
Total debt as a per cent of GDP .....	26.6%	26.8%	24.7%	23.9%	22.8%

- Reflecting stronger revenues, the three-year fiscal outlook is significantly improved, with a positive overall change to the forecast surplus in each of the three years. Reflecting increased revenue volatility, the 2004/05 forecast allowance has been increased, and forecast allowances have been introduced for the following two years.

### Fiscal outlook significantly improved

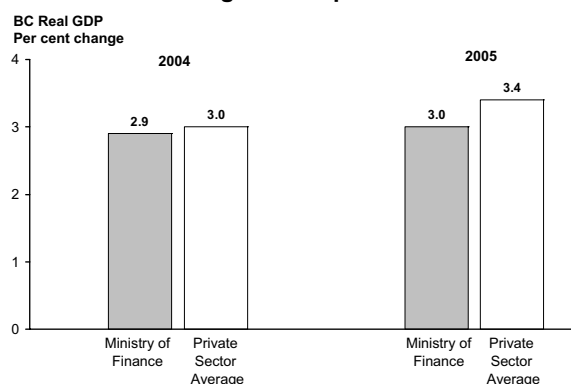


- Economic growth in British Columbia continues to be robust this year, reflecting solid employment gains, near record lumber prices, higher energy and mineral prices, sustained housing market activity and stronger retail sales.
- As a result, economic growth of 2.9 per cent is now expected for 2004. This is slightly lower than the latest private sector average of 3.0 per cent. For 2005 economic growth is forecast to be 3.0 per cent. This is lower than the private sector average of 3.4 per cent, reflecting the current balance of risks to the outlook.
- Although real economic growth is closely tracking the budget forecast, higher export prices have raised the dollar value of the economy. Nominal

GDP growth is now forecast to be 5.6 per cent in 2004, compared to 4.6 per cent at budget.

- Continued economic strength, higher-than-forecast commodity prices and an improved outlook for ICBC have translated into higher taxation and natural resource revenues and higher commercial Crown corporation net earnings. Partially offsetting these improvements are the loss of equalization revenues and reduced BC Hydro earnings due to lower than expected water levels.

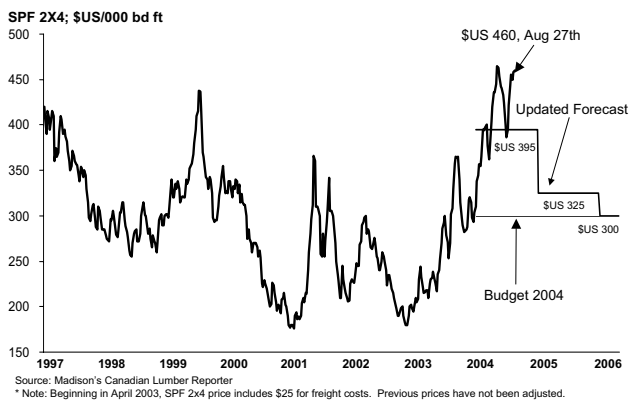
### Robust economic growth expected in 2004 and 2005



- In May 2004, the additional federal revenue contribution to health care was finalized. In keeping with government's commitment, all federal Health Accord funding will be re-invested into the provincial health care system and are added to the fiscal plan.
- Forest fire fighting costs are expected to total \$175 million in 2004/05, \$120 million higher than budget.

- Outside of forest fire fighting costs and additional Health Accord funding, the spending plan remains little changed from budget. Ministries are expected to be on or below budget for the 2004/05 year. Lower debt interest costs continue to be a source of savings.
- Commodity prices are expected to decline gradually from current high levels. However, the volatility of the commodity price cycle and the potential for a sudden slow-down in the US economy provide risks to the revenue outlook.

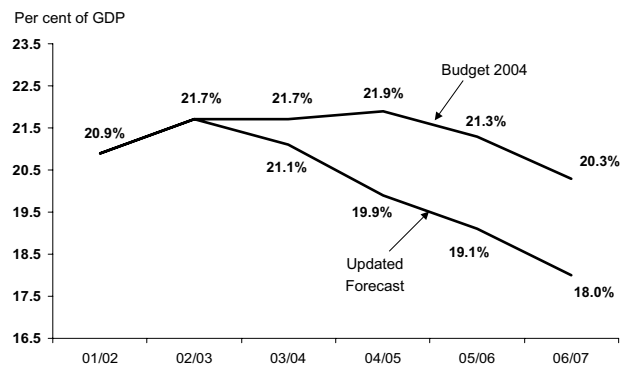
### Lumber prices near record levels



- To help manage these risks, the forecast allowance for 2004/05 has been increased to \$300 million from \$100 million at budget. As well, forecast allowances of \$400 million and \$300 million have been introduced for 2005/06 and 2006/07, respectively.
- The BC Rail Investment Partnership, which was delayed until 2004/05 pending completion of the federal Competition Bureau review, is now finalized. There is no impact on government's bottom line from this initiative, as the net income from the transaction is offset by commitments to the Northern Development Initiative, the BC Rail First Nations Benefits Trust, *Legacies Now* and other priority areas as announced by government in the February budget. Legislation to establish these commitments will be introduced this fall.

- Provincial debt at the end of the 2004/05 fiscal year is expected to be \$37.2 billion, \$2.2 billion lower than the February budget, mainly due to improvements in government's cash position and increased surpluses in the updated fiscal plan.
- The key taxpayer-supported debt-to-GDP ratio is forecast to fall to 19.9 per cent for 2004/05, lower than the 21.9 per cent *Budget 2004* forecast, and then decline over the next two years, reaching 18.0 per cent by the end of 2006/07.

### Taxpayer-supported debt-to-GDP ratio declines



- Increased surpluses provide more opportunities and choices for British Columbians. A Committee of the Legislature will be conducting consultations throughout the province over the next two months to seek advice on the government's three-year fiscal plan, as well as views on what changes should be made in terms of program priorities.
- In addition, government will be addressing existing priorities as it enters into the budget development process. Updates on these and other events, and their impacts on the surplus and debt projections, will be provided in the second *Quarterly Report* and in *Budget 2005*.