

Fiscal and Economic Update



First Quarterly Report

Ministry of Finance

September 10, 2003

Significant fiscal plan pressures



- **Forest fires**
- **US and Canadian Economic Slowdown:**
 - **SARS, BSE, Power blackout**
 - **Higher Canadian \$**
- **Increased Children and Family Development funding**

Forest fire cost estimates

(\$ millions)	Costs to Aug 28	Forecast	Budget	Change from budget
Direct fire fighting	210	410	55	355
Emergency response*	40	75	3	72
Clean up and remediation	<u>-</u>	<u>60</u>	<u>-</u>	<u>60</u>
Total	250	545	58	487

*Offset by federal disaster relief funding, estimated at \$20 million;
additional commitments by Prime Minister not yet identified

Meeting the challenges

- **Spending under control**
 - ✓ Ministries on budget except for forest fire costs
 - ✓ Lower debt interest costs
- **Prudent budgeting**
 - ✓ Economic assumptions below consensus
 - ✓ \$500M Forecast Allowance (\$50M used)
 - ✓ \$126M Unallocated Contingencies budget
- **Revenue improvements**
 - ✓ BC Hydro
 - ✓ Property transfer taxes
 - ✓ Higher natural gas prices / activity

Growing the oil & gas sector

General taxation initiatives:

- ✓ Exempted sales tax on production machinery & equipment
- ✓ Reduced general CIT rate to 13.5% (from 16.5%)
- ✓ Eliminated corporation capital tax
- ✓ Raised vehicle surtax threshold from \$32,000 to \$47,000

Royalty Structures:

- ✓ Deep gas and summer drilling credits
- ✓ Reduced royalties on marginal wells
- ✓ Competitive coal-bed methane royalty regime

Other initiatives:

- ✓ Resource road development – industry participation
- ✓ Streamlined access – OGC one-stop shopping
- ✓ Marketing BC's gas resources

Oil & Gas strategy payback

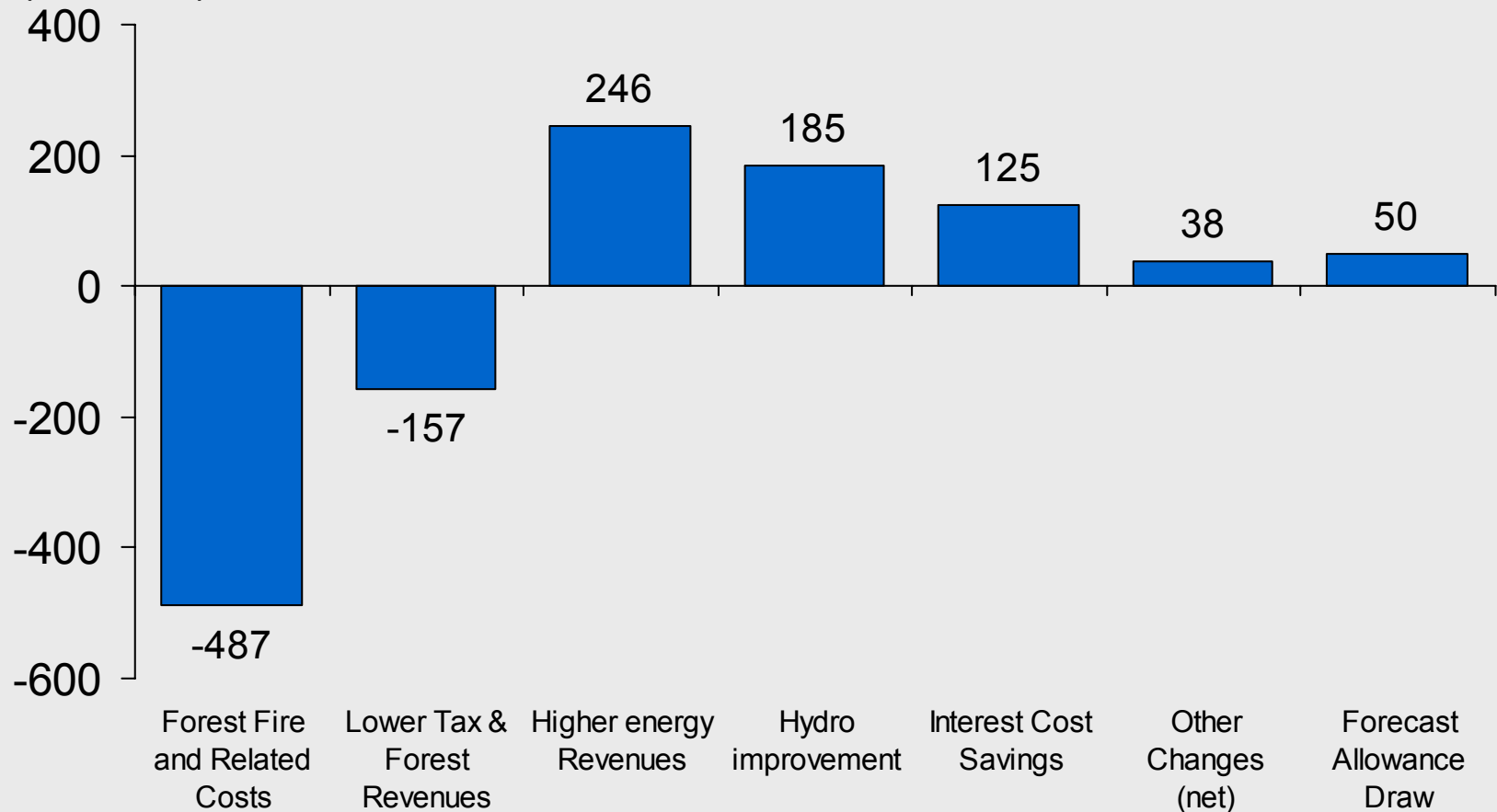
<u>Activity Indicators:</u>	2002	2003	Change
Summer drilling (# of wells)	133	300	126%
Active rigs (Sept)	27	54	100%
Planned winter drilling	408	556	41%

<u>Incremental revenues:</u> (\$ millions)	2003/04	2004/05	2005/06
Natural Gas Royalties	113	140	148
Bonus Bids	<u>77</u>	<u>84</u>	<u>79</u>
Total	190	224	227

Sources: MEM; Daily Oil Bulletin; CAPP; PSAC

2003/04 forecast on track

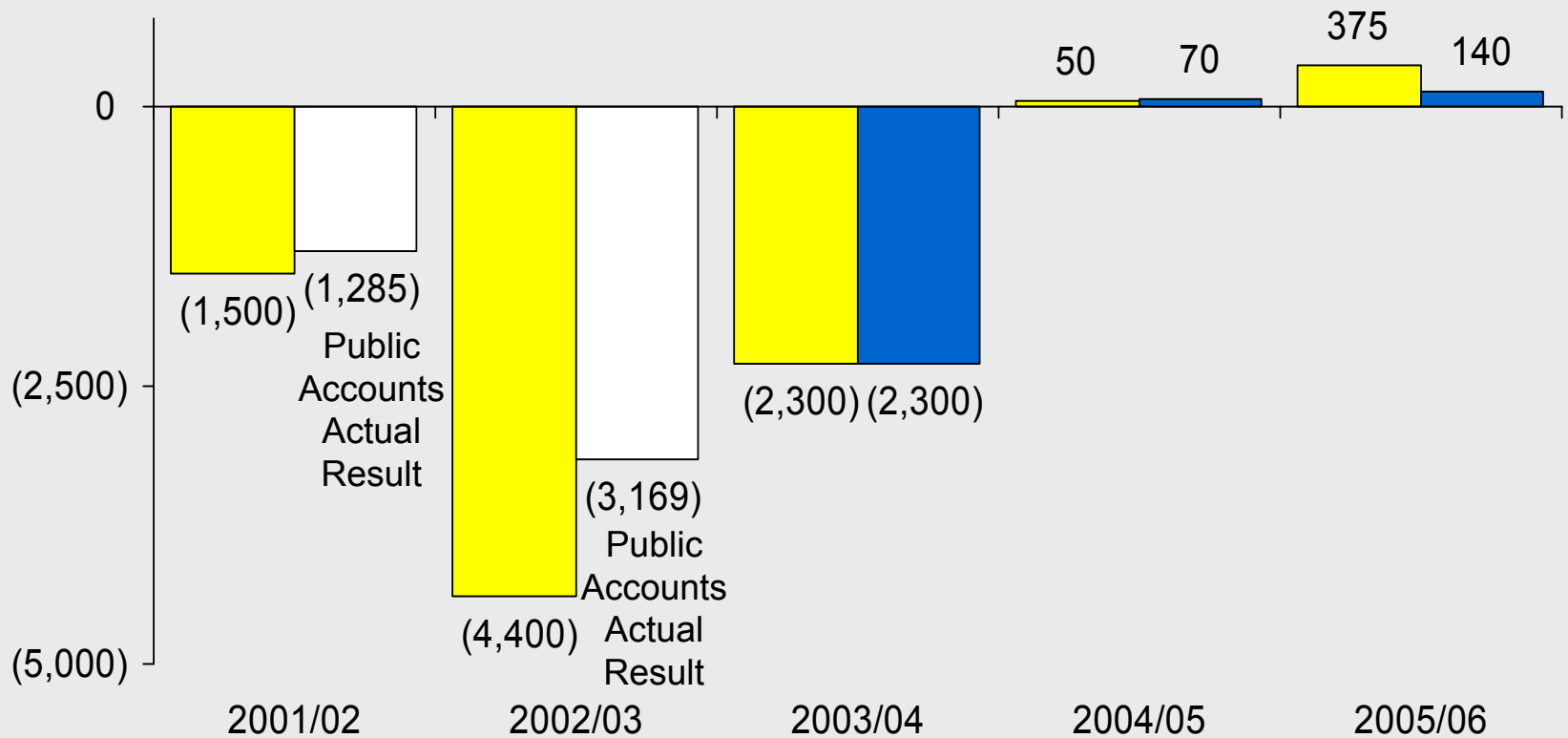
Change from budget
(\$ million)



Balanced budget plan on track

Forecast (deficit) surplus
\$ millions

■ Budget Forecast ■ First Quarterly Report

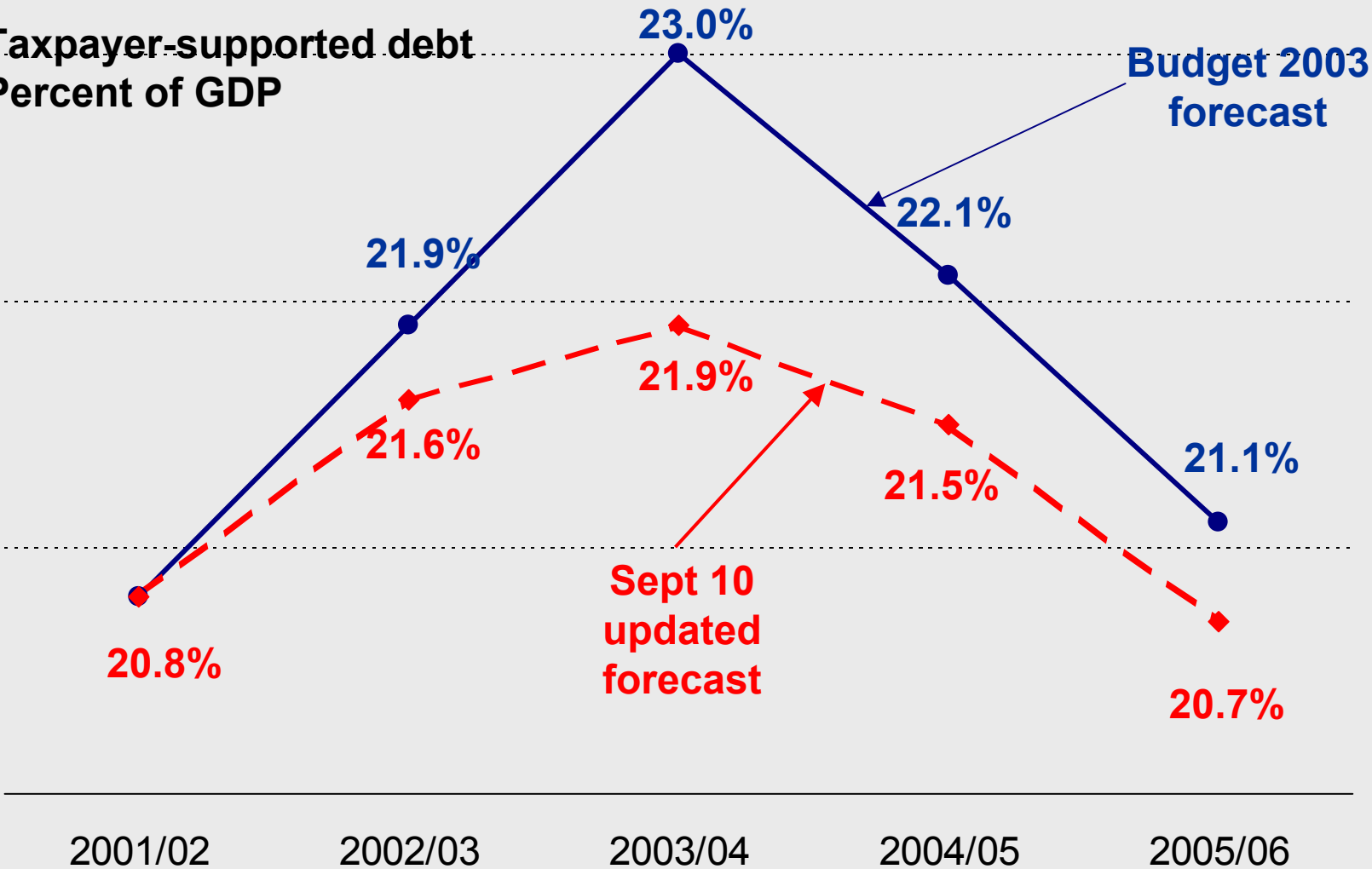


Budgets balanced in 2004/05, 2005/06

(\$ millions)	2003/04	2004/05	2005/06
February 18 Fiscal Plan	(2,300)	50	375
Main Changes:			
Forest fire fighting & related	(487)		
Lower tax & forest revenues	(157)	(287)	(333)
Children and Family Dev't		(122)	(115)
Higher energy revenues	246	175	95
BC Hydro improvement	185	100	40
Debt interest savings	125	100	75
Other changes	38	(46)	(97)
Full inclusion of SUCH sector		100	100
Forecast Allowance draw-down	50		
Sept 10 Fiscal Plan Update	(2,300)	70	140

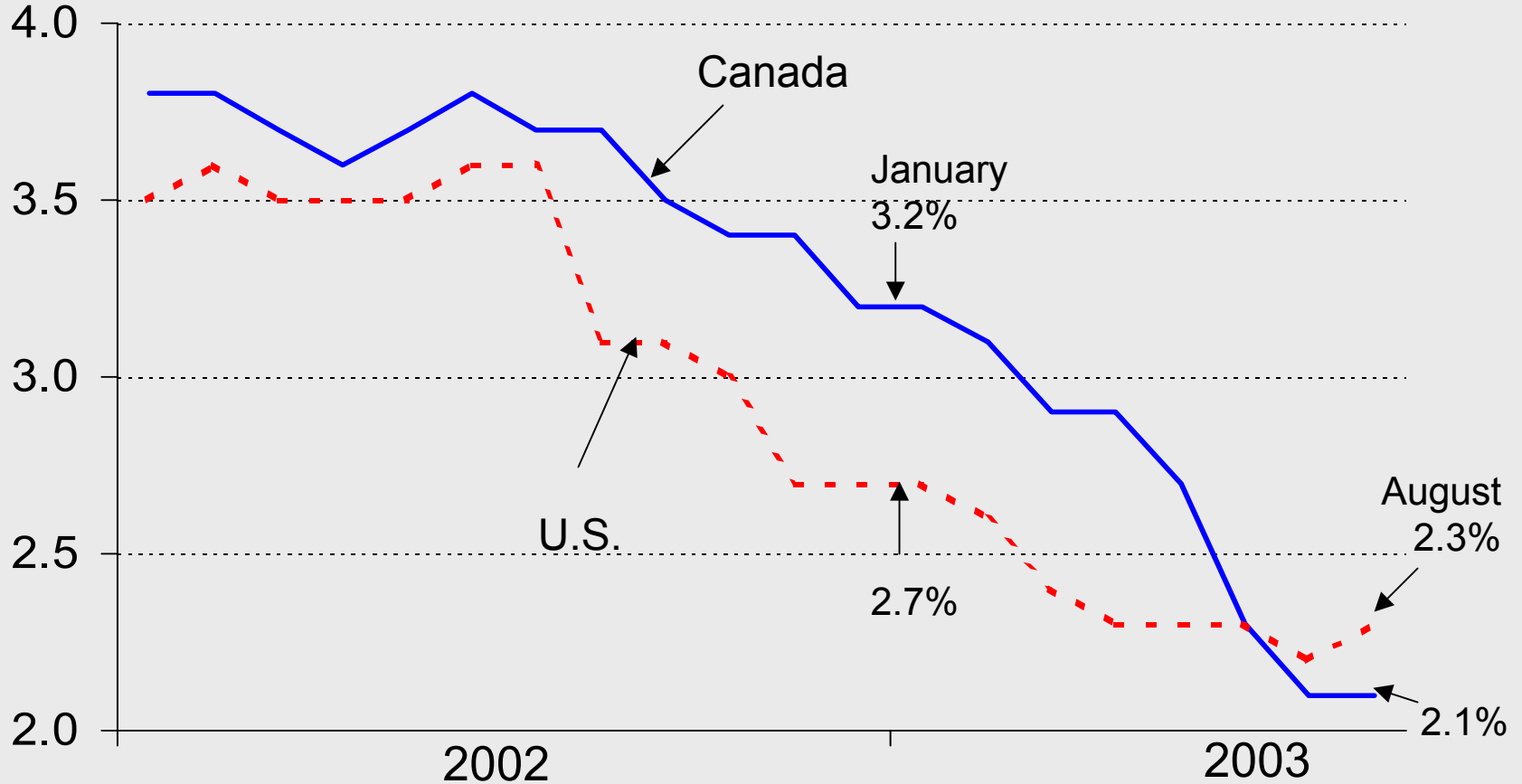
Debt to GDP ratio down

Taxpayer-supported debt
Percent of GDP



2003 US & Canada outlook downgraded

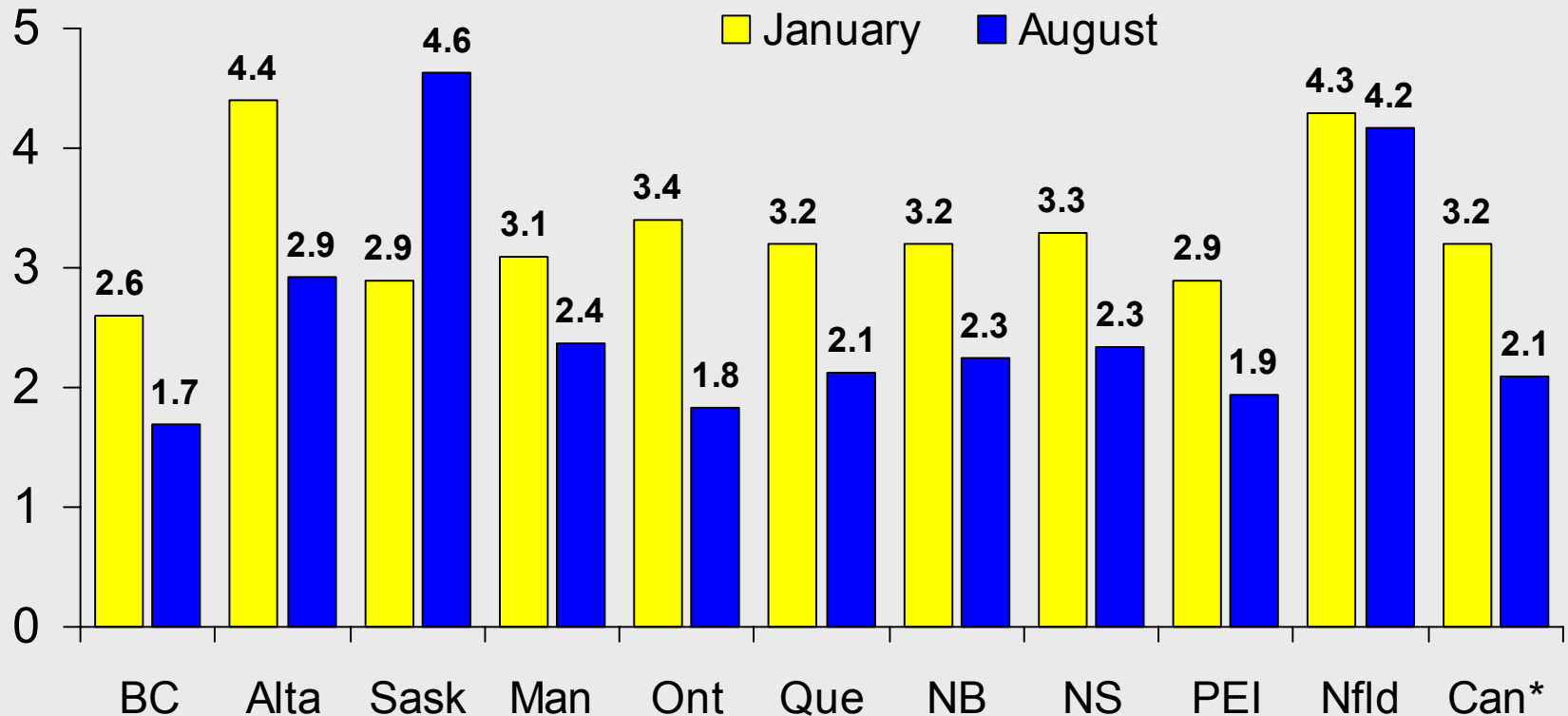
Forecast annual per cent change
2003 Real GDP



Source: Consensus Economics

Most provincial forecasts lowered

Annual per cent change
2003 Real GDP



Source: Average of private sector forecasters; January 3 and August 29, 2003

* Consensus Economics

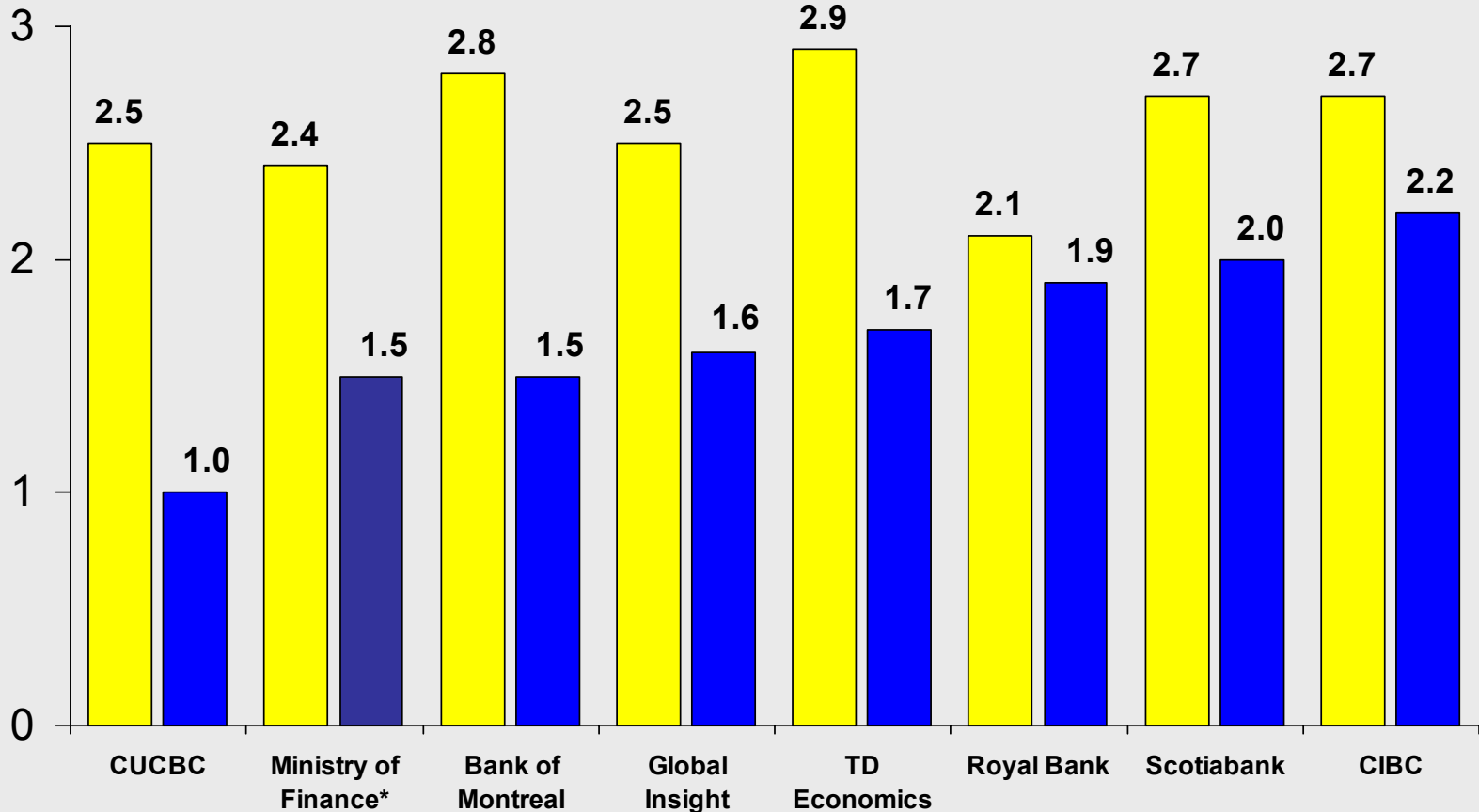
US, Cdn downturn hits BC in 2003

2003 Forecasts

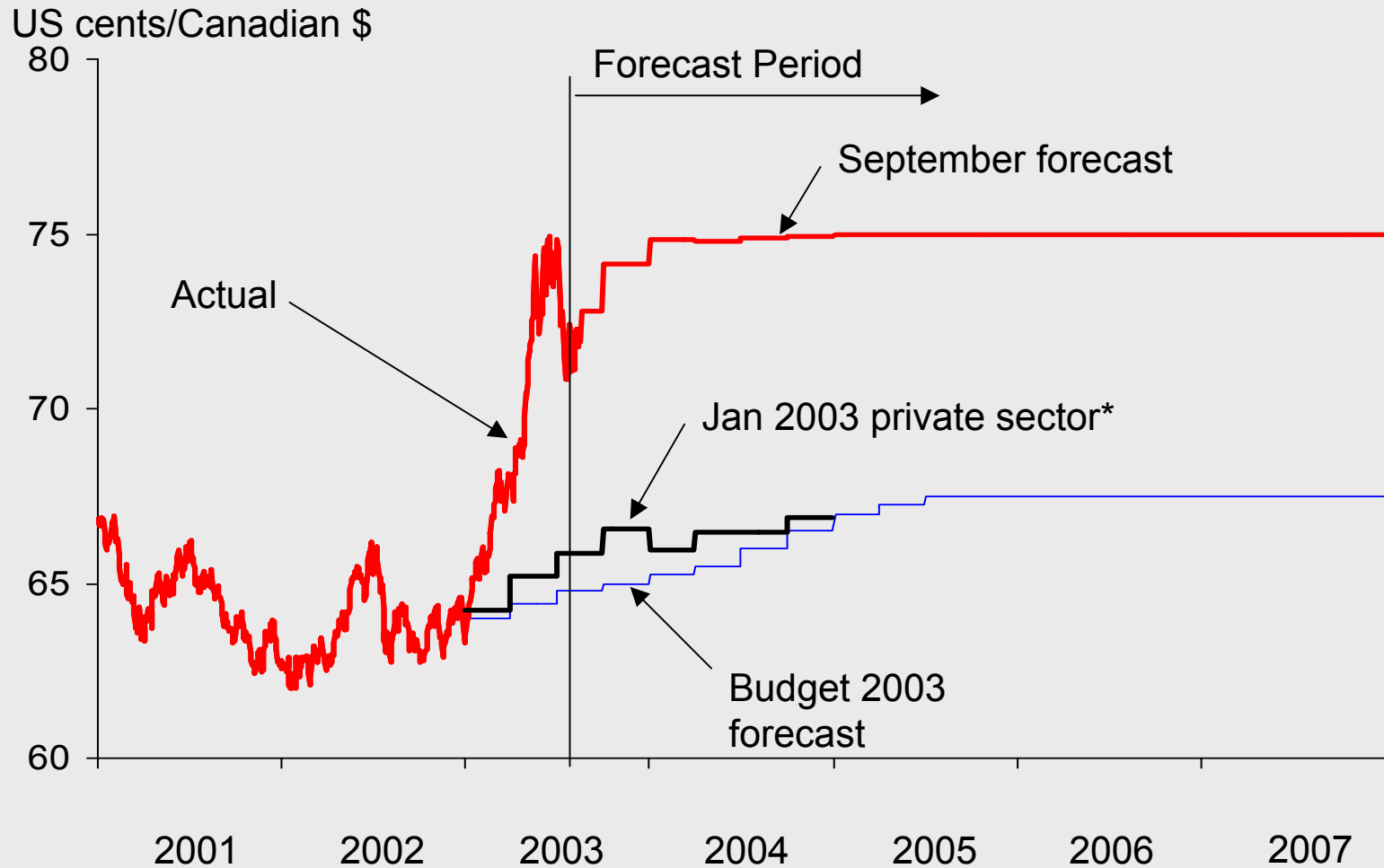
Annual per cent change
B.C. Real GDP

■ Budget (average 2.6 per cent)

■ First Quarterly Report (average 1.7 per cent)



Canadian dollar rose faster than expected

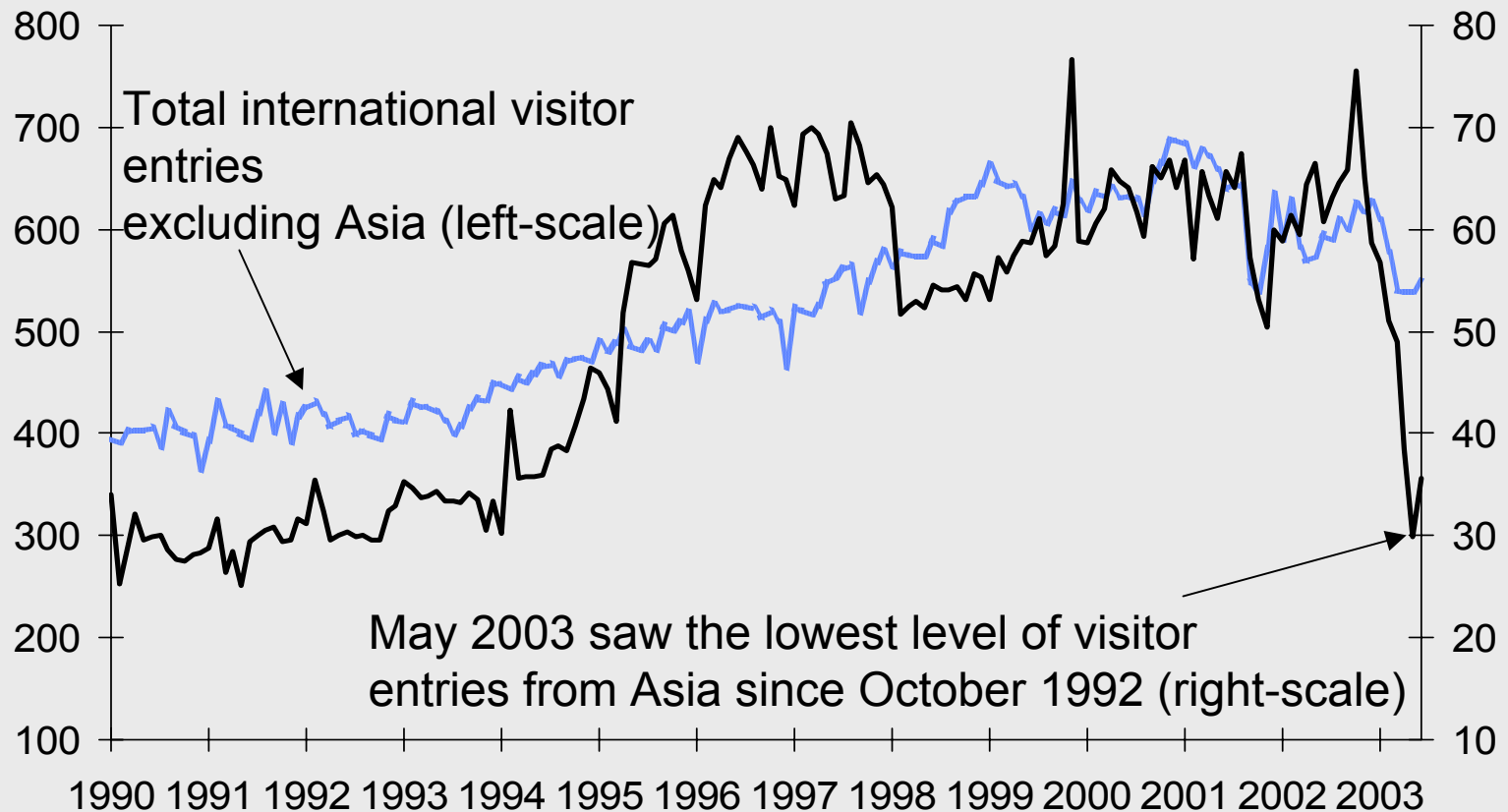


Sources: Bank of Canada and B.C. Ministry of Finance forecasts. Private sector average as of January 9, 2003.

Tourism dropped, especially from Asia

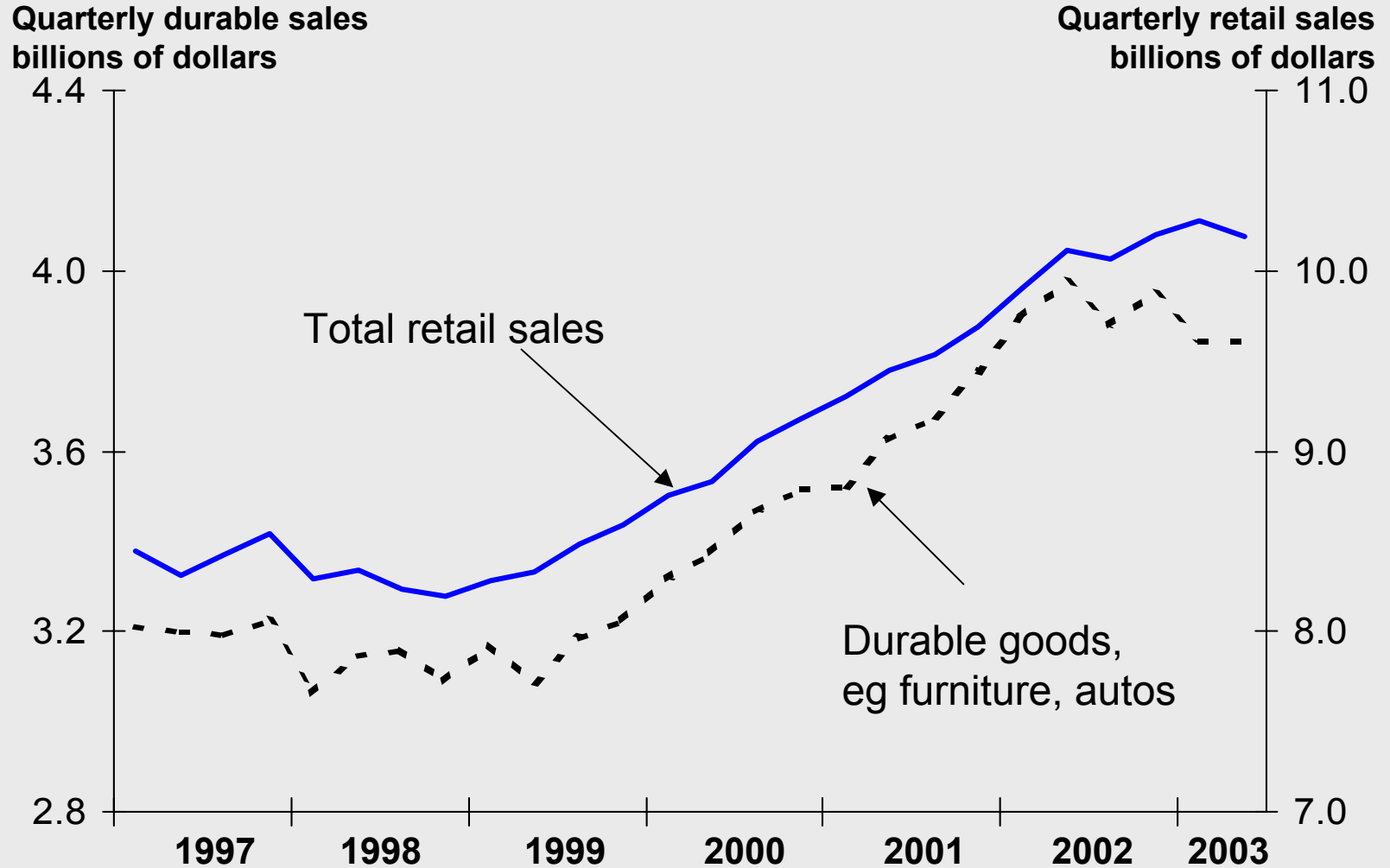
Total visitors to BC excl. Asia
000's, seasonally adjusted

Visitors to BC from Asia
000's, seasonally adjusted



Source: BCStats

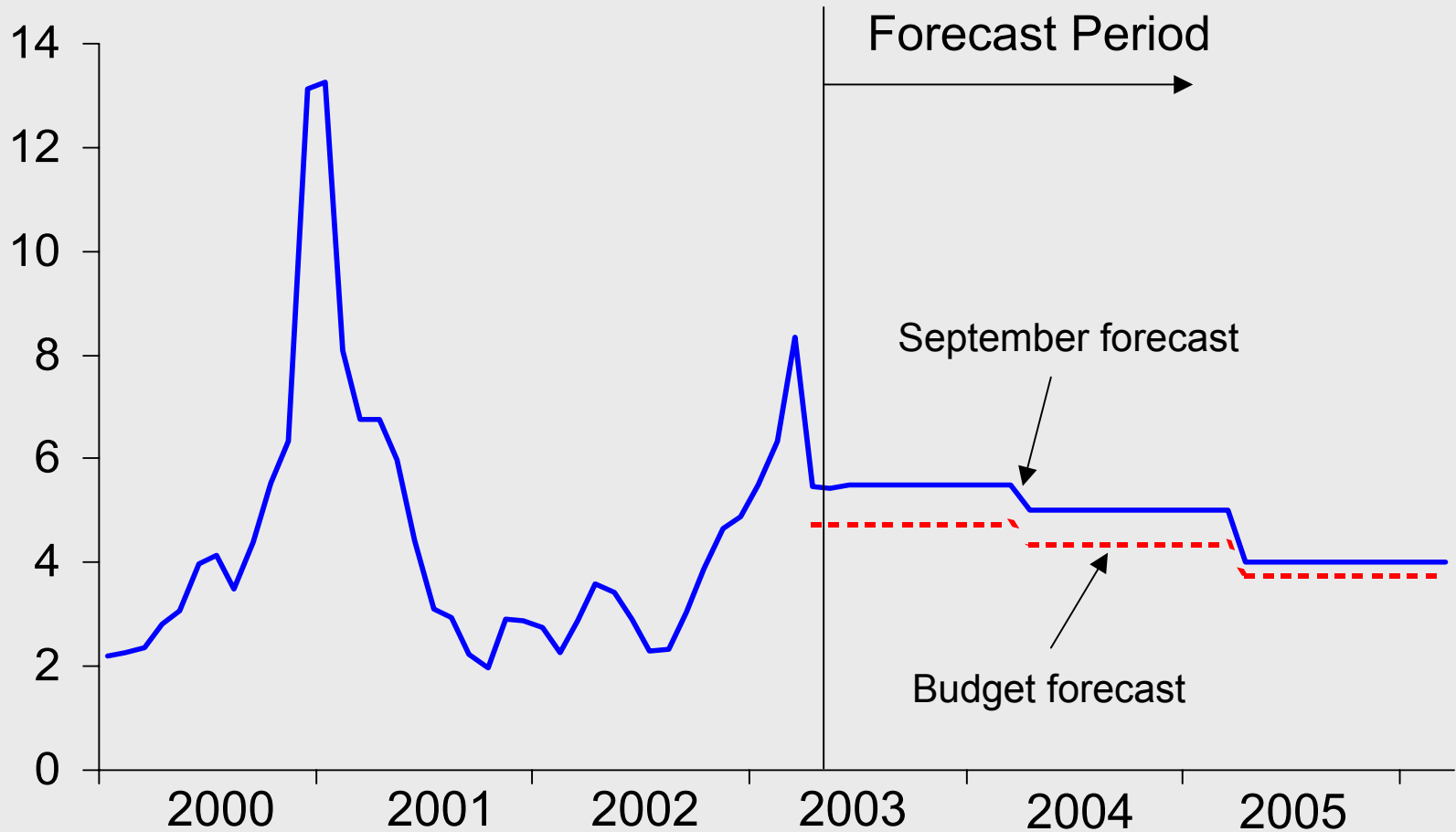
...and BC consumers took a pause



Sources: Statistics Canada and Ministry of Finance; seasonally adjusted

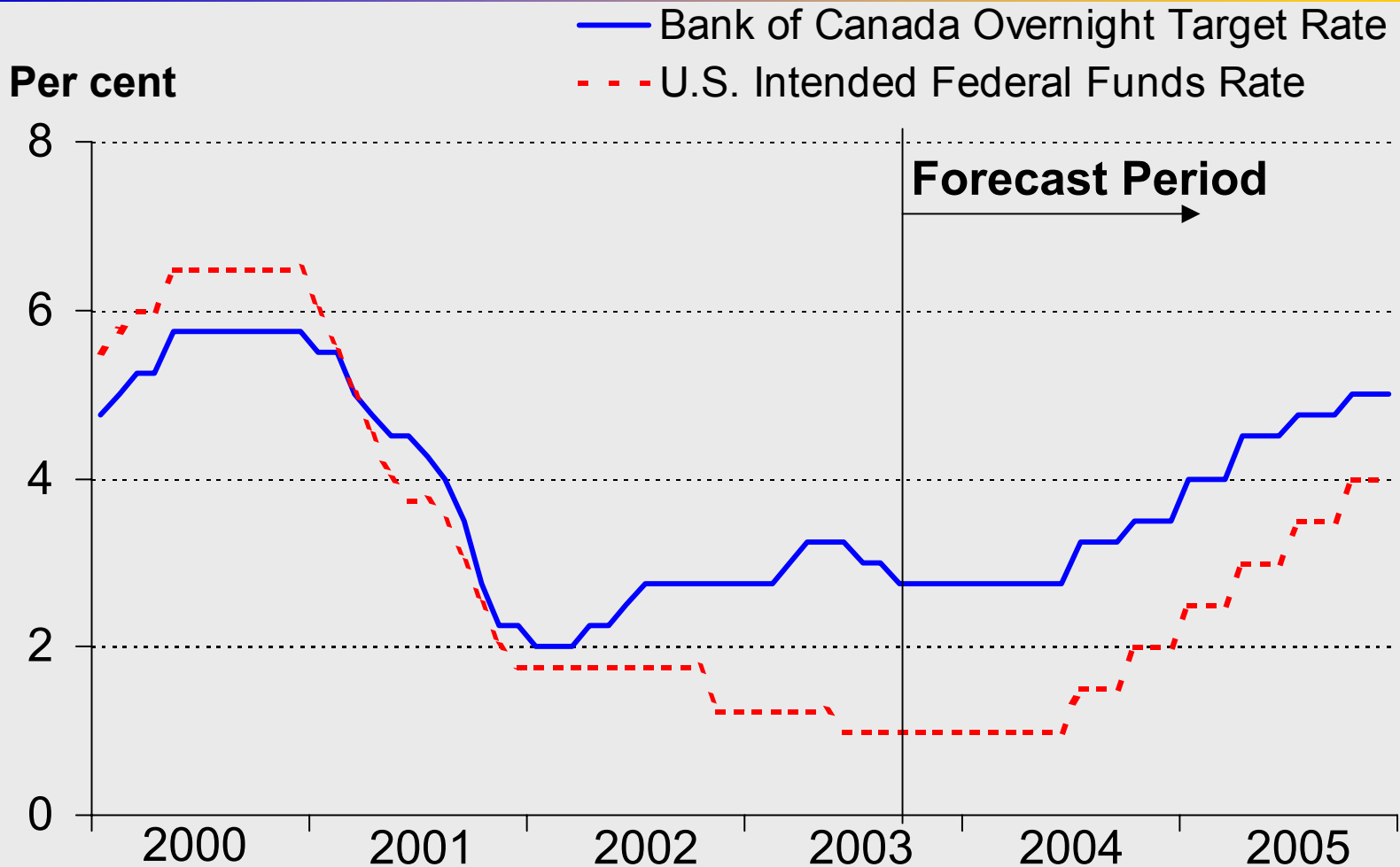
... natural gas prices improved

Natural Gas Price (Cdn\$/GJ WEI inlet)



Source: B.C. Ministry of Energy and Mines

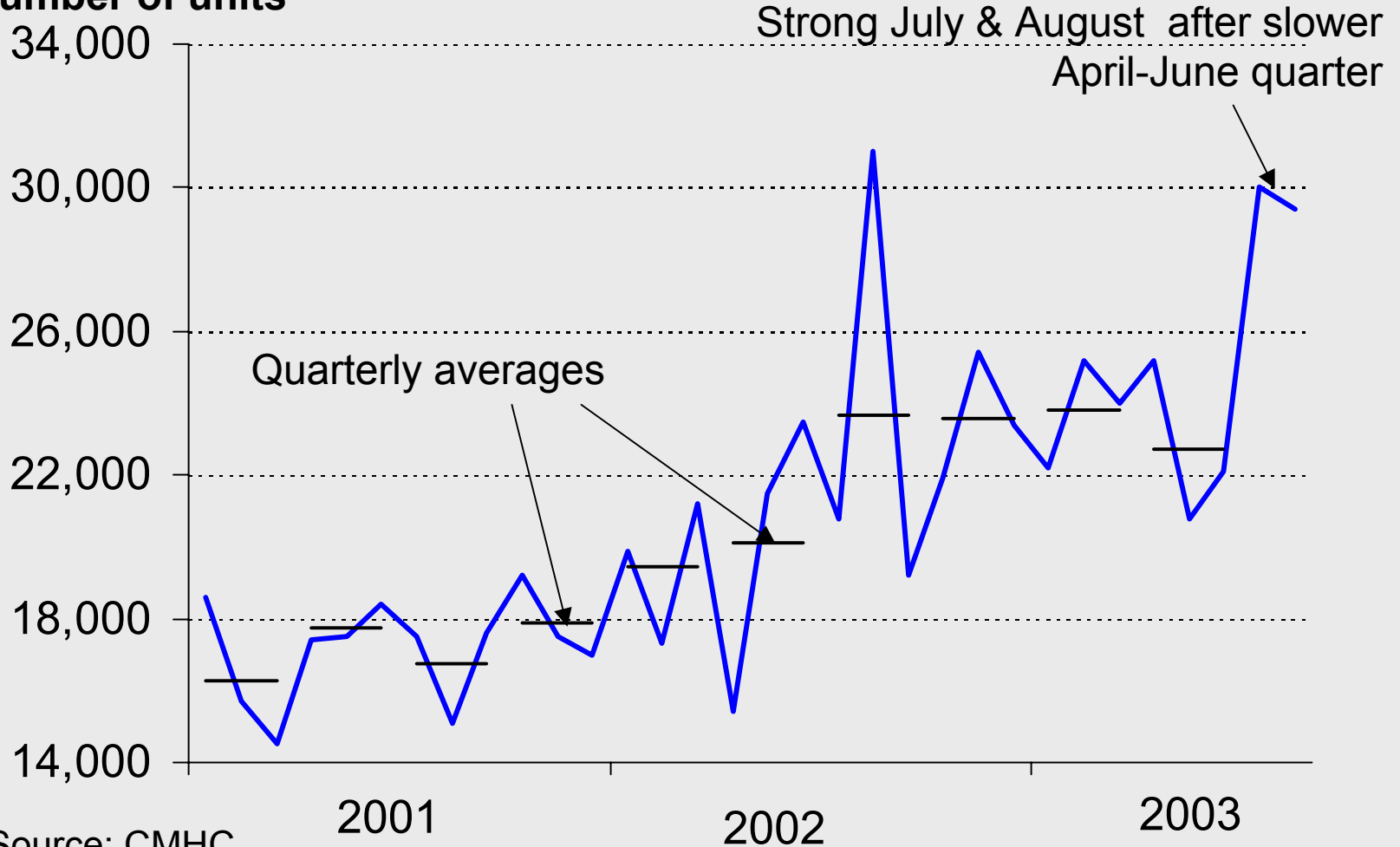
... interest rates low into 2004



Sources: Bank of Canada and U.S. Federal Reserve Bank, B.C. Ministry of Finance forecast.

... housing starts strong

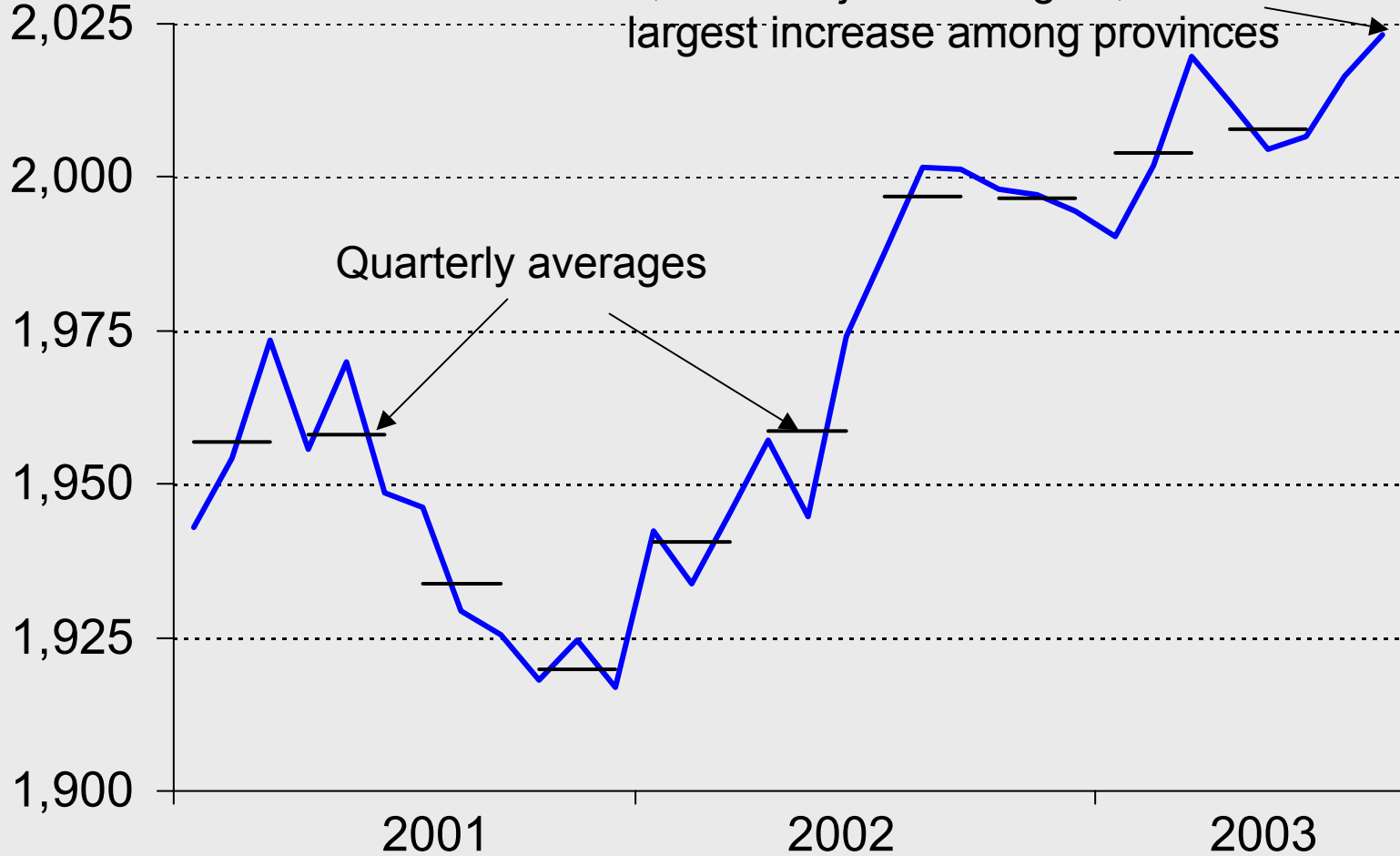
Number of units



Source: CMHC

... and job creation continues

Thousands of jobs



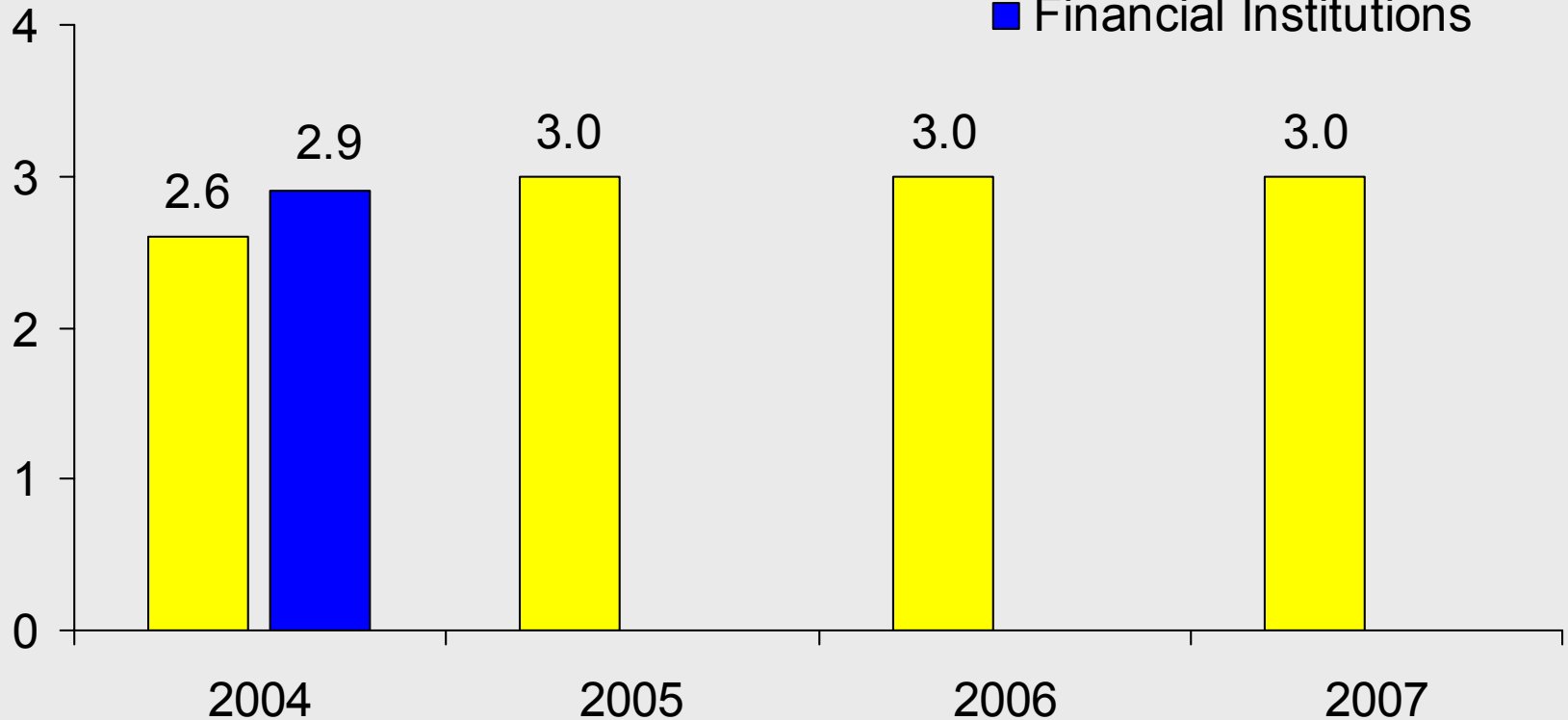
Source: Statistics Canada

Growth strengthens in 2004

Annual per cent change
B.C. Real GDP

■ Ministry of Finance

■ Financial Institutions



Budget consultation – potential surplus

(\$ millions)	2004/05	2005/06	2006/07
Forecast surplus	70	140	
Potential funds available			1,050

Budget Consultation:

- **Public hearings**
- **Questionnaire/email/letters/phone**
- **Input by October 17**

Balanced budgets offer choices



- **Health care**
- **Education**
- **Other spending priorities including Infrastructure**
- **Lower taxes**
- **Debt paydown**

- **Fiscal Plan on Track**
 - **Spending under control**
 - **Economic initiatives boost revenues**
 - **Prudent budgeting**
- **Balanced budgets offer choices**



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