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**Fiscal Update  
Eight-Month Report  
June 2001 to February 2002**

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**Finance Minister Gary Collins  
February 7, 2002**



**Ministry of Finance**



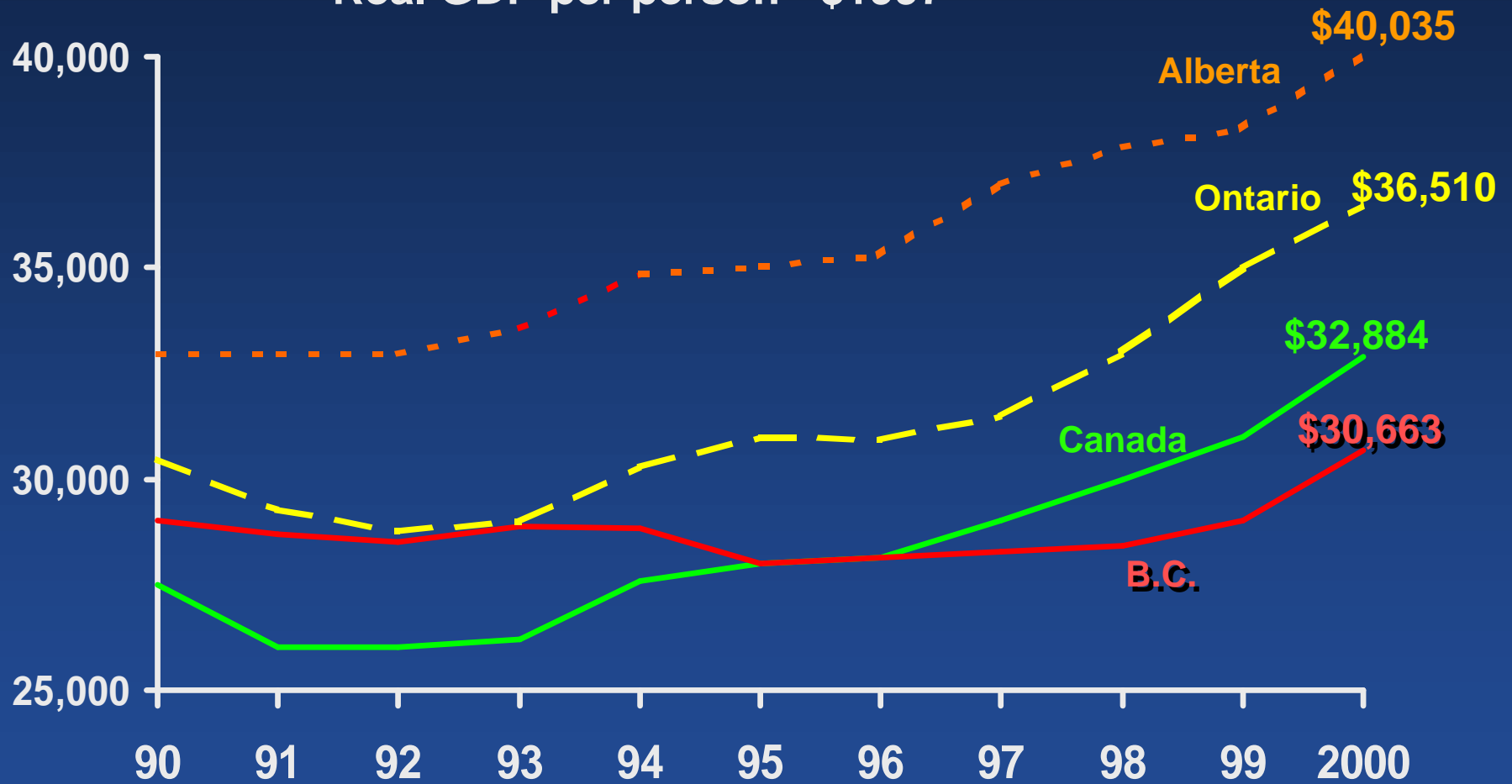
**OPEN CABINET  
MEETING**

# WHAT WE INHERITED

...A Mess!

# B.C.'s Economy Lagged

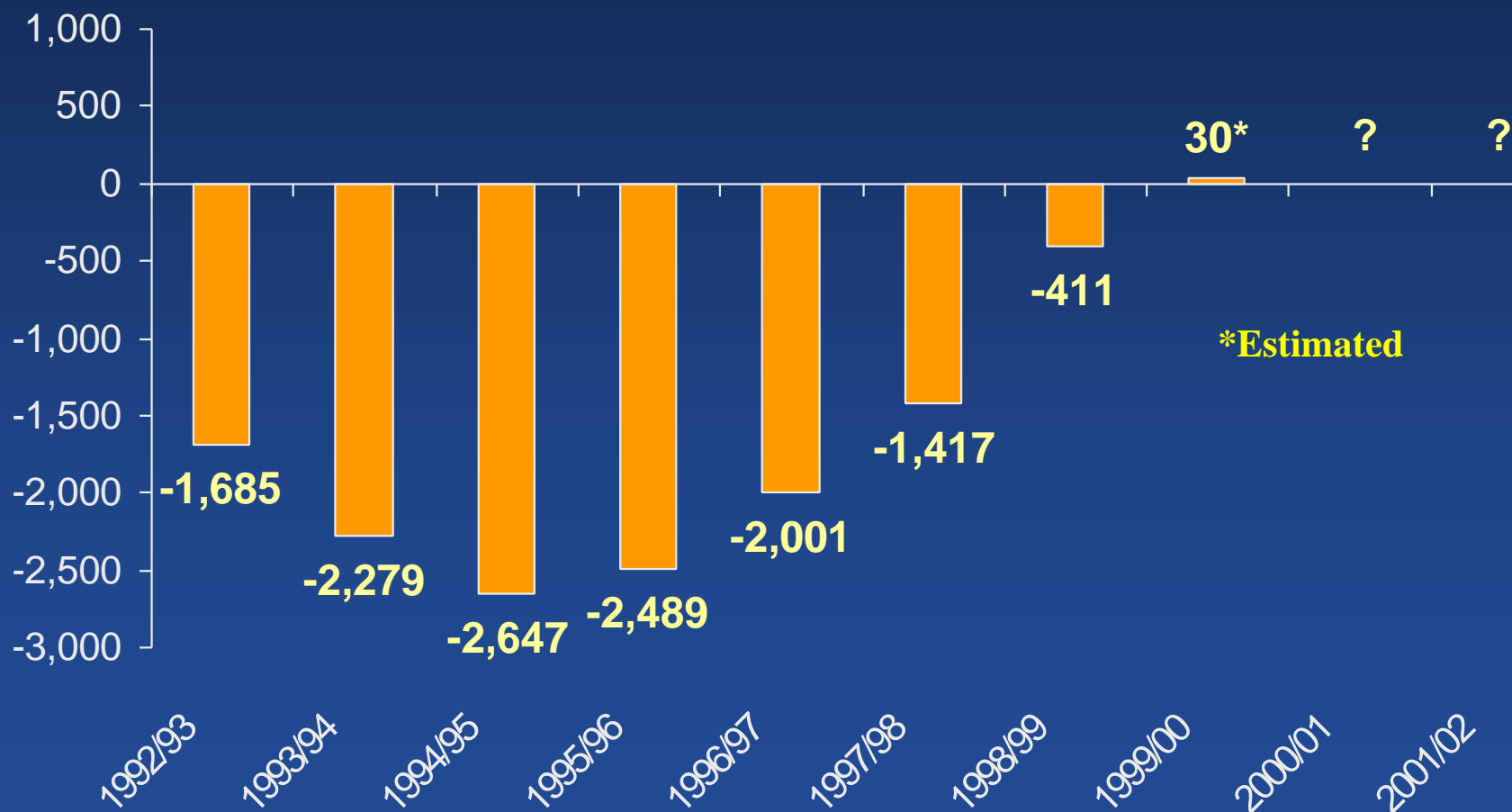
Real GDP per person - \$1997



Source: Statistics Canada

# ...from "Have" to "Have Not"

## Trends in BC Equalization Entitlements \$ millions



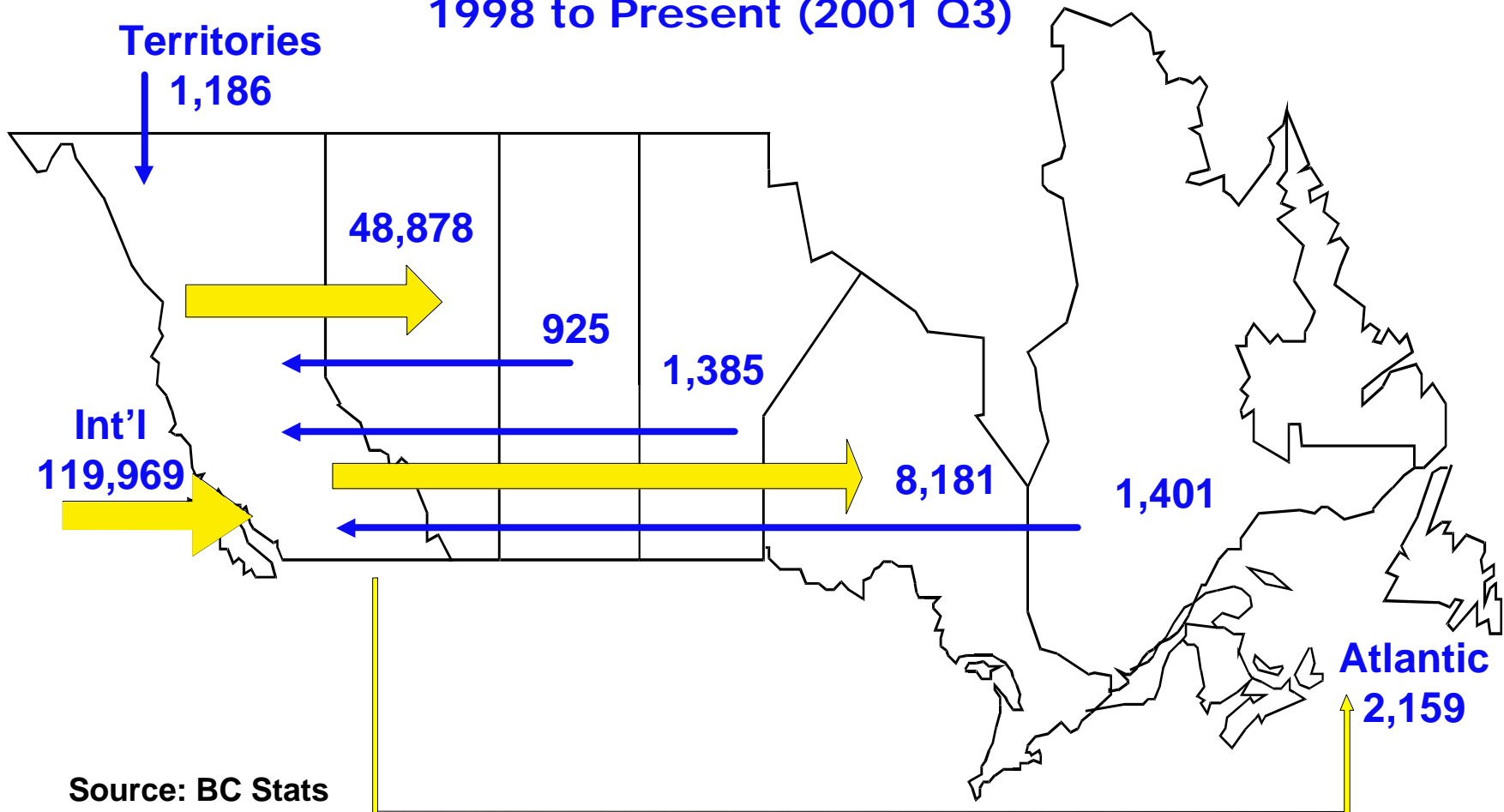
# BC's tax rates were not competitive

## Selected tax rates for BC, Alberta and Ontario - 2000

	<b>BC</b>	Alberta	Ontario
Top Marginal Income Tax	<b>51.3%</b>	43.7%	47.9%
Corporate Income Tax	<b>16.5%</b>	15.5%	14.5%
Corporation Capital Tax	<b>0.3%</b>	nil	0.3%

# Losing talented people to Alberta and Ontario

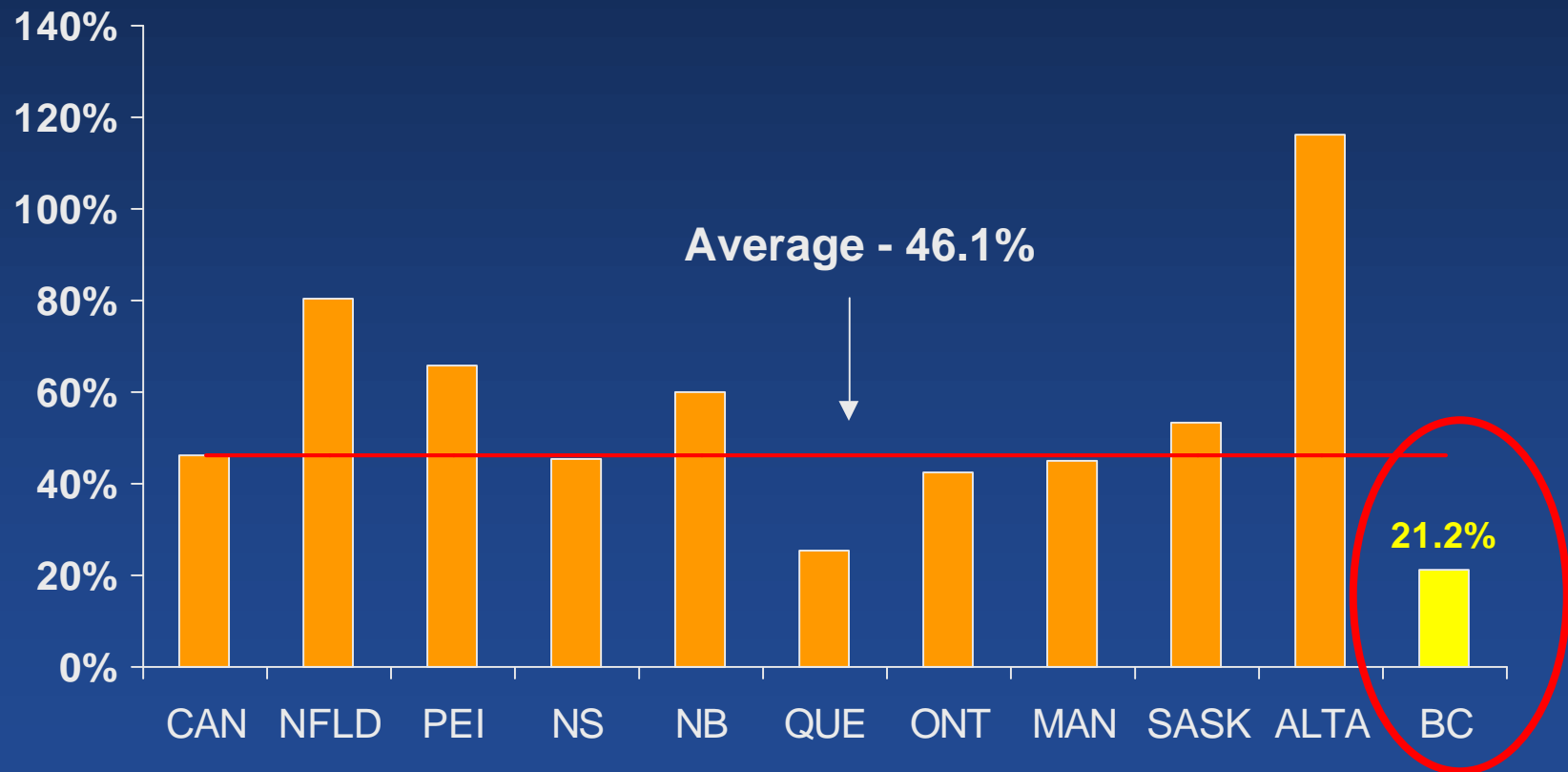
British Columbia Population Movement  
1998 to Present (2001 Q3)



Source: BC Stats

# ...and investment lagged in the 1990s

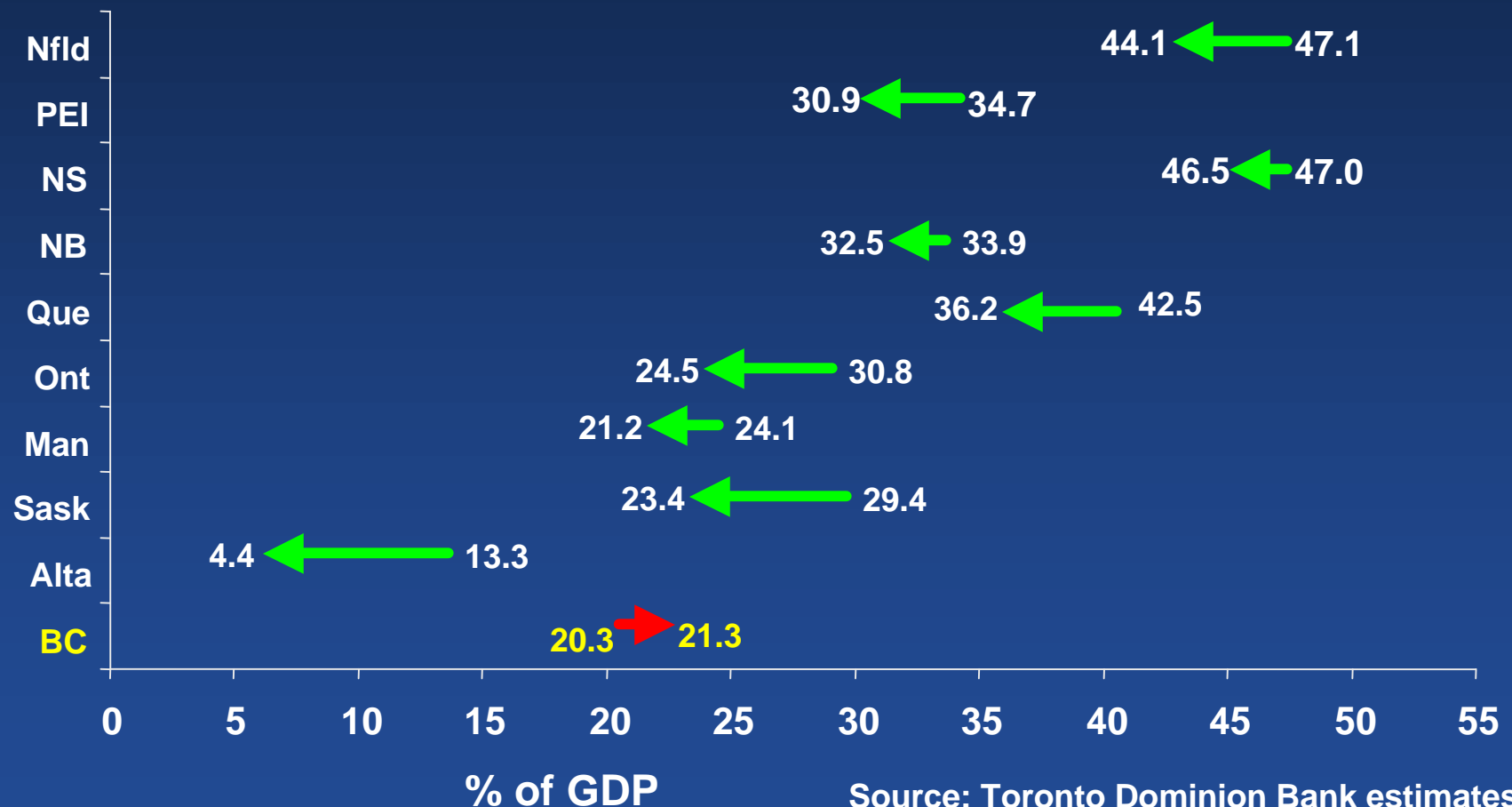
## Per cent change Real Private Capital Formation 1990 - 2000



Source: Statistics Canada

# B.C.'s debt continues to rise

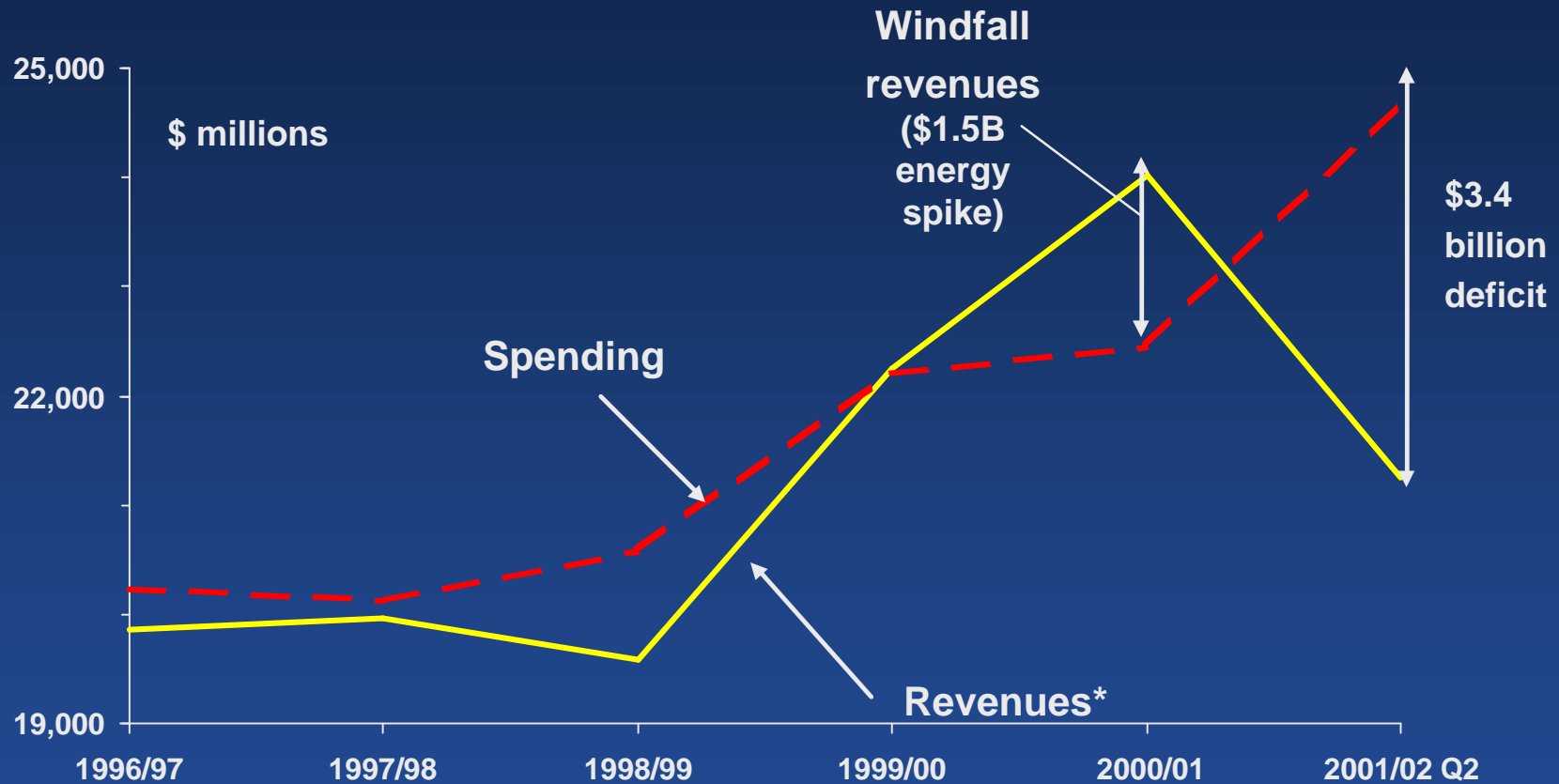
Taxpayer-supported Debt/GDP 1998/99 - 2001/02



Source: Toronto Dominion Bank estimates, October 2001.



# BC's \$2.3B spending lift in 2001/02 is not sustainable



\*Revenues Include Crown corporations and forecast allowance;  
one-time pension benefit excluded

# NDP March 15 Three Year Plan Unachievable

\$ millions

	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>
<b>Deficit</b> (Mar. 15 budget)	<b>(<sup>1</sup>\$300)</b>	<b><sup>2</sup>0</b>	<b><sup>2</sup>0</b>	<b>n/a</b>

1. Excludes a \$1.4B one-time pension benefit.

2. Fiscal Review Panel (July 23, 2001):

- Includes \$474M unfunded cost pressures in 2002-03
- Includes \$907M unfunded cost pressures in 2003-04
- Energy price forecasts “considerably optimistic.”

**What Has Changed Since  
June 5th**

# TD Bank (October 01)

“...status quo forecasts shows that sizeable planning deficits will ensue in each of the next five years without the implementation of spending cutbacks.”

<b>Year</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Real GDP (% change)	1.7	2.1	3.5	3.1

<b>Fiscal Year</b>	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>
Deficit (\$ billions)	(3.3)*	(3.9)	(3.8)	(3.8)
Debt/GDP (taxpayer supported)	21.3%	23.9%	25.7%	27.4%

\* excludes one-time pension adjustment

# Economy and Budget Hit Hard

- ◆ \$1B in windfall energy revenues lost since March
- ◆ Global economic downturn
- ◆ Softwood lumber dispute
- ◆ September 11
- ◆ Tourism slowdown
- ◆ \$300M reduction in Crown corporations' contributions to government
- ◆ \$1.4B one-time pension benefit not available after 2001/02

# Budget Challenges

- ◆ \$222M in unfunded spending (Pharmacare, environmental cleanup, Air India)
- ◆ Skeena Cellulose
- ◆ Surrey City Centre Mall (\$100M)
- ◆ Archaic computer and management systems
- ◆ Unsustainable regulatory systems in forestry, land tenure and water rentals
- ◆ Rigid and costly labour contracts (\$900M)

# High Paid Public Sector

HIGH PUBLIC SECTOR COMPENSATION  
\$443M IN 2002-03

<b>Fiscal Year</b>	<b>2002-03</b>
Health	\$325 million
Educ.	\$79 million
Adv. Ed.	\$39 million
<b>Total</b>	<b>\$443 million</b>

# Reversing the Tide

- ◆ Consumer spending
- ◆ Housing sales
- ◆ Cruise ship and port traffic
- ◆ Ministry spending under control
- ◆ Low interest rates
- ◆ Energy development - gas discoveries, coal-bed methane



# Government Response

- ◆ Phased and planned \$1.9B reduction in ministry spending by 2004/05 (except health and education)
- ◆ Rolled back NDP sweetheart wage deals
- ◆ Increased flexibility for Health Authorities, School Boards and Post-Secondary Institutions
- ◆ Forestry reform
- ◆ Resource development
- ◆ High-tech opportunities

# Government Response - con't

- ◆ Subsidies eliminated; level playing field put in place
- ◆ Real balanced budget and accountability legislation
- ◆ Fiscal plan based on sustainable economic growth
- ◆ Political leadership and accountability:
  - ➔ 20% minister salary hold back
  - ➔ 5% MLA salary rollback

# **Preliminary Economic and Budget Forecast**

2001-02 to 2004-05

# Economic Forecasts

## Percentage Change in B.C. Real GDP

	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Dec. 2001	<b>0.9</b>	<b>0.9</b>	<b>3.2</b>	<b>3.4</b>	<b>3.4</b>
Jan. 2002	<b>0.7</b>	<b>0.7</b>	<b>3.0</b>	<b>3.3</b>	<b>3.3</b>

Finance Forecast	<b>0.7</b>	<b>0.6</b>	<b>2.8</b>	<b>3.1</b>	<b>3.0</b>
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# Preliminary Fiscal Forecast (2001-02 to 2004-05)

## Fiscal Forecast

<b>Fiscal Yr.</b>	<b>2001-02</b> (Q3 forecast)	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>
<b>Deficit</b> (\$ billions)	<b>(3.4)*</b>	<b>(4.4)</b>	<b>(1.8)</b>	<b>0</b>

\* excludes one-time pension benefit.

# Economic Risks and Opportunities

## ◆ Global:

- North American recovery/consumer confidence/capacity utilization
- Security/trade
- Financial market stability

## ◆ Domestic:

- Forest sector
- Tourism
- Fiscal stimulus/investment climate
- Energy and other growth sectors

# More To Do...

- ◆ Develop economic opportunities/revenue potential
- ◆ Brand and market B.C.
- ◆ Continue restructuring to meet fiscal and service targets
- ◆ Asset restructuring/sales under review
- ◆ Leverage P3s and alternative service delivery opportunities
- ◆ Core Services Review of Crown corporations

# Conclusion

## ◆ Economy:

- ➔ B.C.'s economy will begin to turn the corner by mid-2002
- ➔ Stronger economic growth beginning in 2003 through to 2006
- ➔ As tax cuts contribute to improved business confidence, they will lead to increased investment in the Province



# Conclusion - con't

- ◆ Fiscal Position:
  - ➔ Slower growth in 2002, low commodity prices and tax-cut investment result in deficit of \$4.4 billion for 2002-03
  - ➔ Spending cuts and economic growth result in balanced budget by 2004-05
  - ➔ On-going focus on spending control and competitiveness