



# Provincial Budget Briefs

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## BRITISH COLUMBIA BUDGET 2008

**BC ran a projected \$1.97 bn surplus in 2007/08, well ahead of last year's budget plan. For 2008/09, the province will stay in surplus, with a carbon tax offset by other tax cuts, and some additional targeted tax relief also unveiled. Bond/MTN issuance was lighter than planned in 2007/08, but is expected to pick up in 2008/09 on a smaller surplus, and heavier maturities.**

Table 1		Fiscal Summary					
\$Billions	2006/07	2007/08			2008/09	2009/10	2010/11
	Actual	07 Budget	08 Budget	Change	08 Budget	08 Budget	08 Budget
<b>Revenue</b>	<b>38.504</b>	<b>37.390</b>	<b>39.400</b>	<b>2.010</b>	<b>38.490</b>	<b>39.925</b>	<b>41.525</b>
Own Source	32.118	31.847	33.334	1.487	32.681	33.884	35.255
% change	6.5	-0.8	3.8	4.6	-2.0	3.7	4.0
Federal Transfers	6.386	5.543	6.066	0.523	5.809	6.041	6.270
<b>Expenditures</b>	<b>34.448</b>	<b>36.240</b>	<b>37.280</b>	<b>1.040</b>	<b>37.690</b>	<b>39.100</b>	<b>40.700</b>
Program Spending	32.214	33.895	35.055	1.160	35.432	36.709	38.148
% change	4.9	5.2	8.8	3.6	1.1	3.6	3.9
Public Debt Charges	2.234	2.345	2.225	-0.120	2.258	2.391	2.552
Forecast Allowance	-	-0.750	-0.150	0.600	-0.750	-0.675	-0.675
<b>Surplus</b>	<b>4.056</b>	<b>0.400</b>	<b>1.970</b>	<b>1.570</b>	<b>0.050</b>	<b>0.150</b>	<b>0.150</b>

British Columbia benefited from a solid economic backdrop, with an estimated 3.0% real GDP gain in 2007. The Province has budgeted for a slowdown to 2.4% real growth in 2008, with more moderate domestic spending gains and a continued sluggish pace for real exports. An improvement in export markets is expected to see GDP growth pick up to 2.8% in 2009. These assumptions are all more conservative than the consensus outlook.

Helped by a sound economy, preliminary results have the province targeting a \$1.97 bn surplus for 2007/08, some \$1.57 bn better than last year's budget forecast. Upside surprises in own-source and federal transfer revenues, and a reduction in "forecast allowance" reserves, more than covered an additional \$1.04 bn in spending, largely devoted to climate change measures and a \$100 per person "climate action dividend" to each BC resident.

### Balanced Budget Planned for 2008/09

With the improved revenue base going into the year, the province expects to remain in fiscal balance in 2008/09, planning on a \$50 mn surplus, with a \$750 mn cushion in the "forecast allowance" and a further \$375 mn included in spending for new program contingencies. Surpluses of \$150 mn are projected for each of the subsequent two years.

Off a base elevated by end-of-year supplemental additions to 2007/08, program spending will be held to a 1.1% increase, with faster gains in health. Capital spending, which affects financial requirements, will rise from \$5.53 bn

to \$5.77 bn due to greater BC Hydro investments. On the revenue side, a carbon tax on fossil fuels will initially raise \$338 mn in 2008/09, rising to \$880 mn two years hence, but will be offset by matching cuts to personal and business income taxes. Additional tax cuts worth \$150 mn in 2008/09 were aimed at improving business competitiveness and promoting fuel efficiencies. As a result of these measures, and one-time revenues in 2007/08, total revenues will be 2.3% lower in 2008/09.

Total provincial debt grew by a projected \$1.6 bn in 2007/08, but still declined slightly as a share of GDP. Taxpayer supported debt at the end of 2007/08 is \$1 bn lighter than forecast at \$26.8 bn, and due to capital spending is projected to grow to \$27.7 bn after 2008/09, taking it down marginally as a share of GDP to 14.0%, having been at 18.2% as recently as 2004/05.

## Bond Issuance Seen Picking Up

At \$3.6 bn, the 2007/08 borrowing requirement stands \$1.7 bn below the prior budget's plan. Note that \$2.13 bn has already been issued in bonds/MTNs, essentially completing the revised funding estimate assuming the forecast allowance is not used.

A smaller surplus and higher capital outlays will see net financial requirements rise \$1.1 bn to \$2.7 bn. Adding in maturities, the resulting \$5.6 bn in gross borrowing would include a projected \$4.97 bn in bond/MTN issuance. After maturities, that would raise net outstandings by \$1.9 bn, recouping only a fraction of the reductions achieved over the prior four years. Note that borrowing could be lower than planned if the substantial forecast allowances are not needed.

\$Billions	2007/08E	2008/09F	2009/10F	2010/11F
<i>Borrowing Requirements:</i>				
Operating Deficit/(Surplus) <sup>1</sup>	(1.970)	(0.050)	(0.150)	(0.150)
Capital Investment	5.525	5.766	5.479	5.440
Other Fin'l Requirements/(Sources) <sup>2</sup>	(1.956)	(2.978)	(3.090)	(2.797)
<i>Financial Requirements/(Source)</i>	<i>1.599</i>	<i>2.738</i>	<i>2.239</i>	<i>2.493</i>
Maturities and Calls <sup>3</sup>	2.050	2.884	3.319	2.655
<b>Total</b>	<b>3.649</b>	<b>5.622</b>	<b>5.558</b>	<b>5.148</b>
<i>Sources:</i>				
Bonds and MTNs	2.280	4.965	4.330	4.712
Short-Term Borrowing	0.000	0.000	0.000	0.000
CPP	0.329	0.247	0.307	0.286
Loan Guarantees/SUCH sector	0.570	0.410	0.921	0.150
Internal financing sources	0.470	0.000	0.000	0.000
<b>Total</b>	<b>3.649</b>	<b>5.622</b>	<b>5.558</b>	<b>5.148</b>
Net New Issues				
Bonds & MTNs	(0.581)	1.902	1.154	2.052

1 Includes forecast allowances (2007/08 - \$150 m, 2008/09 - \$750 m, 2009/10 - \$675 m, and 2010/11 - \$675 m)

2 Represents other financing (sources)/requirements for the province and its Crowns from working capital, financing transactions, and non-cash budgetary items

3 Includes maturing CPP, retail product, ST paper & changes in sinking funds

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