



A Lighter Shade of Black

Fiscal Year 09/10
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The Province of Nova Scotia is expecting its eighth consecutive year in the black with a projected surplus of \$4 mln in FY2009/10. The budget provides a modest mix of corporate tax relief and infrastructure spending to help stimulate a struggling economy. For FY2008/09, the province is now expecting a \$22 mln surplus, revised down from the prior estimate of \$213 mln amid a drop in energy royalties and corporate income tax receipts. The Province is also seeking to amend its balanced budget legislation to include Offshore Offset Agreement revenues (a Federal source) in its surplus calculation—this amount was previously pegged for debt reduction, and the Province would be facing deficits of \$83.6 mln and \$176 mln in FY2008/09 and FY2009/10 respectively, if not amended. This amendment will have to survive a confidence vote before the budget can get passed.

Revenue is expected to rise 0.3% to \$8.2 bln in FY2009/10, as higher federal transfer revenues (+10.9%) offset lower own-source revenues (-5.8%). Energy royalties are projected to dive 57%, draining more than \$260 mln from the Province's coffers. In addition to the already planned increase in the basic personal amount, tax measures include a reduction in the small business tax rate from 5% to 4% in 2011, and ultimately to 2.5% by 2013—this is expected to

cost \$25-\$30 mln per year. Meantime, to combat falling revenues, the tobacco tax will increase by \$10/carton, some previously-announced credits (ie: public transit) will be deferred, and user fees for government services will rise by 3%.

Program spending is expected to rise a modest 1.3% to \$7.7 bln in FY2009/10. Health and community services will see solid growth, but education spending will fall sharply. The Province is also carrying out a three-year, \$1.9 bln infrastructure program with about \$200 mln provided by the federal government this year.

Total borrowing requirements are expected to be \$1.5 bln in FY2009/10. Net direct debt as a share of GDP is projected to rise to 37.4% at the end of FY2009/10, up from 35.9% in the prior year.

Fiscal Outlook

(C\$ millions)

	actual		estimate	forecast
	06/07	07/08	08/09	09/10
Revenues	7,294	8,908	8,152	8,177
Expenditures	7,508	8,834	8,536	8,646
Program Spending	6,496	7,773	7,560	7,661
Pension Valuation Adjustment	83	108	98	82
Net Debt Service	929	954	878	903
Consolidated Fund Balance	(214)	75	(384)	(469)
Gov't Org. Balances & Adjustments	397	344	406	473
Budget Balance	182	419	22	4

() = deficit

Note: Totals may not add due to rounding.

Source: Provincial forecasts

The Nova Scotia economy continues to face stiff headwinds amid weak export demand and last year's collapse in commodity prices. The Province is expecting 0.2% real GDP growth in 2009 before accelerating to 1.8% in 2010—that's more optimistic than our call of a 1.4% contraction this year followed by a 1.5% recovery.



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