



## A Darker Shade of Red

**Fiscal Year 09/10**
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**The newly-elected NDP government is projecting a \$592 mln budget deficit for Nova Scotia in FY2009/10, its first foray into the red in ten years.** Recall that the original budget, tabled in May, was defeated as the Conservative government attempted to sidestep balanced budget legislation by applying Offshore Offset Agreement revenues to the bottom line (typically put toward debt reduction). The new government will now have to take similar action. Aside from a few minor measures, this budget is largely an updated fiscal outlook, and the Province's finances have deteriorated further since May, when a \$4 mln surplus was projected. A return to balance is expected in FY2010/11 (after spending cuts) and through FY2012/13.

**Revenue is expected to fall 1% to \$8.1 bln in FY2009/10**, as income tax receipts and petroleum royalties are down sharply. Petroleum royalties are projected to dive 67%, draining more than \$301 mln from the Province's coffers, but Federal transfers will act as an offset. The revenue projection is \$122 mln below the original budget estimate, with a \$45 mln downgrade to the royalty revenue forecast doing most of the damage. A few minor tax measures are being taken in this budget, including the removal of the provincial portion of the HST from electricity bills (beginning October 1<sup>st</sup>) and a New Home Construction Rebate that refunds half the provincial portion of the HST, up to \$7,000.

**Total spending is now expected to rise a hefty 6.7% to \$9.1 bln in FY2009/10.** Health and community services will see solid growth, but education spending will fall modestly versus last year. Spending has been ramped up a hefty \$448 mln (5.2%) relative to the original budget, with a \$341 mln chunk going to universities (supposedly a commitment of the previous government). The Province is still carrying out a healthy \$796 mln in infrastructure investment this fiscal year, or more than 2% of GDP (the Federal government is kicking in \$122 mln of that amount).

**Total borrowing requirements** are expected to be \$2 bln in FY2009/10. Net direct debt as a share of GDP is projected to rise to 38.7% at the end of FY2009/10, up from 35.4% in the prior year.

**Economic activity in Nova Scotia remains weak in the wake of the global downturn.** Depressed export demand and the decline in commodity prices have hit particularly hard. Real GDP is set to contract 0.6% this year (the Province is expecting 0.3%

### Fiscal Outlook

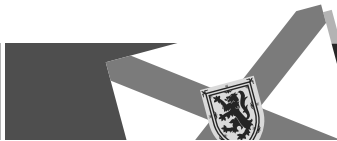
(C\$ millions)

	— actual —		previous	latest
	07/08	08/09		
Revenues	8,179	8,135	8,177	8,055
Expenditures	8,133	8,521	8,646	9,094
Program Spending	7,101	7,569	7,661	8,116
Pension Valuation Adjustment	108	85	82	89
Net Debt Service	925	867	903	889
Consolidated Fund Balance	46	(386)	(469)	(1,039)
Gov't Org. Balances & Adjustments	344	406	473	447
Budget Balance	390	20	4	(592)

() = deficit

Note: Totals may not add due to rounding.

Source: Provincial forecasts



growth). However, sights are now set on recovery, and Nova Scotia should return to growth in 2010, albeit at a slower-than-average 1.9% pace (the Province expects a 1.8% rebound).

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