



Two-Handed Grip on Deficit Reduction

Fiscal Year 10/11
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The Province of Nova Scotia is projecting a \$222 mln budget deficit in FY2010/11, taking a balanced approach to eliminating the deficit in four years that includes spending restraint and tax increases. The FY2009/10 deficit is now pegged at \$488 mln, a slight improvement from the latest projection thanks to both higher revenues and lower spending. At about 0.6% of GDP, the coming year's deficit is at the low end of the provincial pack, but it will rise to \$370 mln (1% of GDP) next year. The Province will aim to balance the budget in four years, a time frame that is about in-line with the norm seen this budget season.

Revenue is expected to rise 3.7% to \$8.4 bln in FY2010/11, as income tax receipts rise.

The biggest revenue-related measure in this budget is a 2 ppt increase in the HST, to 15%, taking effect on July 1st. This change will generate \$215 mln in revenue this fiscal year and more than \$300 mln in FY2011/12. There will be some offsetting tax credits aimed at low income individuals and rebates for certain necessity goods like children's clothing and footwear—these changes will cost \$21 mln this fiscal year. Other measures include a new high-income tax bracket (21% on incomes above \$150,000, offset somewhat by removal of the high income surtax) until the budget is balanced. There is also a slight reduction in the small business tax rate.

Meantime, petroleum royalties are projected to rise 57% from very depressed levels, adding \$174 mln to the Province's coffers. With royalties weighing in at less than 3% of total revenue, commodity prices are not a major source of risk. Going forward, total revenue is expected to rise 1.9% per year through FY2013/14, well below the historical norm—economic growth assumptions are conservative, and could allow for some upside to the forecast.

Total spending is projected to rise a modest 0.4% to \$9.0 bln in FY2010/11, with health care (+6.9%) and education (+2.0%) driving the growth. Note that education expenses were prefunded by \$395 mln for FY2010/11,

Fiscal Outlook

(C\$ millions)

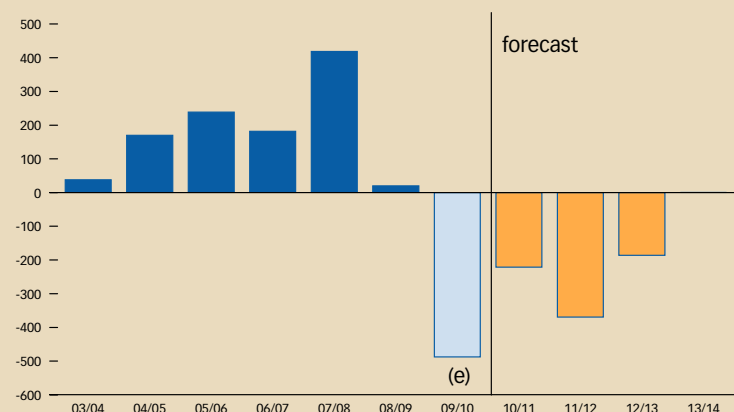
	actual	estimate	— forecast —	
	08/09	09/10	10/11	11/12
Revenues	8,135	8,088	8,391	8,406
Expenditures	8,521	9,010	9,044	9,164
Program Spending	7,569	8,045	8,077	8,159
Pension Valuation Adjustment	85	93	9	32
Net Debt Service	867	872	959	974
Consolidated Fund Balance	(386)	(922)	(653)	(758)
Gov't Org. Balances & Adjustments	406	434	431	388
Budget Balance	20	(488)	(222)	(370)

() = deficit

Note: Totals may not add due to rounding.

Budgetary Balance

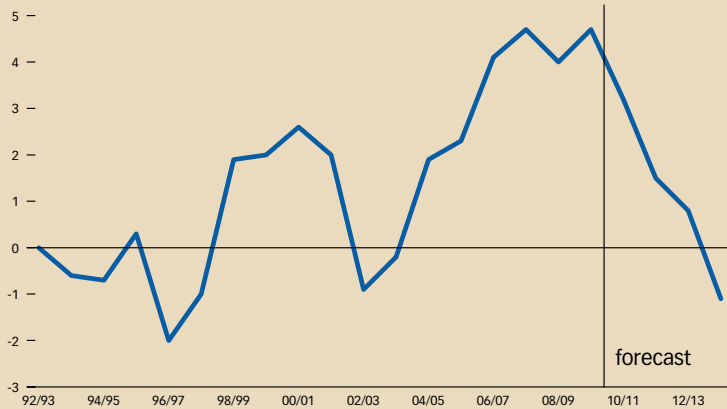
(\$ millions)



Source: Provincial forecasts e = estimate

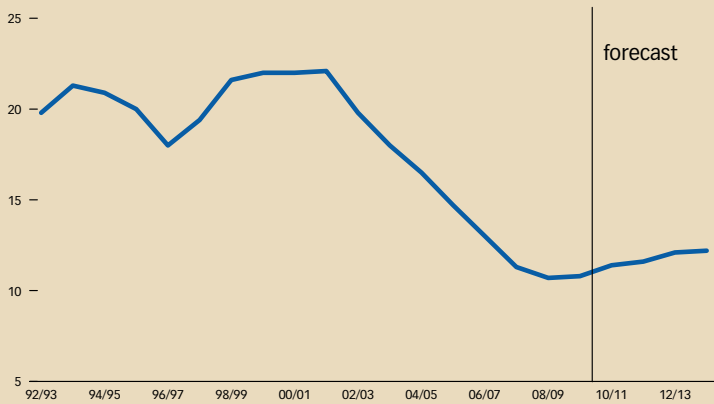


Real Total Spending per Capita
(4-yr annualized % chng)



Source: Provincial forecasts, BMO Capital Markets estimates

Debt Service Costs
(% of total revenue)



Source: Provincial forecasts

temporarily dampening the spending total. The Province will begin a four-year period of spending restraint that will include a 10% reduction in the civil service (about 1,000 jobs) by 2013, through retirements and voluntary departures. The overall expenditure management program will produce modest savings of \$54 mln in FY2010/11, rising to \$772 mln by FY2013/14.

Going forward, the Province is targeting 0.4% annualized total spending growth through FY2013/14, a significant change from growth of more than 6% seen during the past five years. That represents a contraction of about 1% per year on a real per-capita basis, about in-line with the restraint that was seen during the mid-1990s and projected by most other Provinces so far this budget season.

The Province will follow last year's hefty infrastructure spending program with a slightly lower \$711 mln investment in FY2010/11.

Total borrowing requirements are expected to be \$2 bln in FY2010/11. Net direct debt as a share of GDP is projected to rise to 39.6% at the end of FY2010/11, up from 39.4% in the prior year. Debt service costs will total 11.4% of revenue this coming year and rise to 12.2% by FY2013/14, still well below the peak of more than 20% seen at the end of the 1990s.

Economic activity in Nova Scotia has begun to recover from the worst of the global downturn. While the manufacturing environment remains cloudy, and will continue to struggle under the weight of a strong loonie and sluggish U.S. demand, the labour market has stabilized and higher commodity prices will eventually feed into incomes. Non-residential construction also continues to support the economy, thanks to robust government infrastructure investment. The Province expects real GDP growth of 1.9% and 1.2% in 2010 and 2011, comfortably below our forecast of 2.4% and 2.7%.

The Bottom Line: Nova Scotia is following in the footsteps of the other Provinces by reining in spending growth in the coming years. However, actions on the tax side are making their budget-balancing goal more urgent than most.



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