

A temporary deficit

Highlights

- **Deficit of \$592 million (7.4% of revenues) in 2009-2010.**
- **A return to a balanced budget is expected in 2010-2011.**
- **The capital budget will increase to \$796 million, from \$422 million in 2008-2009.**
- **The equity tax credit goes from 30 to 35%.**
- **Introduction of a Manufacturing and Processing Investment Credit.**
- **Enhanced incentives for new graduates to live and work in Nova Scotia.**
- **Economic growth assumption of 0.3% in 2009 and 1.8% in 2010.**
- **Borrowing requirements are expected to be \$2 billion in 2009-2010, versus \$1.5 billion in 2008-2009.**
- **The ratio of net debt to GDP is expected to increase in 2009-2010, to 38.7%.**

Opinion

Finance Minister Graham Steele admits from the outset that this budget is virtually identical to the one the previous government presented on May 4, which did not pass. However, we think the update is worthy. A \$592-million deficit for the current fiscal year has emerged in place of the surplus anticipated last May. At that time, current year's funding for universities was expensed in the previous fiscal year. The budget restates this accounting, so that commitments amounting to \$341 million are now booked in the current fiscal year. This is a major contributing factor to the emergence of the deficit. Another factor is the \$125-million downward revision in forecast revenues, including \$45 million for offshore royalties.

Provincial source revenues are now estimated to be down \$421.5 million from last year, with \$363 million coming from petroleum royalties. This was partly offset by an increase in federal source revenues, among which infrastructure cost-shared revenues, the amount accrued for the Offshore Agreement and Canada Health and Social transfers. The forecasted \$547-million increase in program expenses is concentrated in assistance to universities and health.

An independent review of the Province's financial situation, released in August, concluded that if corrective revenue/expenditure measures were not taken, the deficit would amount to \$1.3 billion in 2012-2013. Even though Nova Scotia is expecting a \$200-million reduction in equalization payments next year, the government expects to balance the budget in the near future (as early as 2010-11). This would entail a \$570-million (6.3%) reduction in spending compared to the current fiscal year. For this purpose, the government announced its intention of setting up a review of programs and a comprehensive expenditure management initiative to achieve increased efficiencies in government departments and agencies.

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Due to the deficit and increased capital spending, the ratio of net debt to GDP will rise for the first time in eight years, to 38.7%. Borrowing requirements will reach almost \$2 billion, from \$1.5 billion last year.

The economic growth assumption of 0.3% in 2009 and 1.8% in 2010 is very similar to our forecast published in June. However, the assumption of 1.3% growth in employment in 2009 is surprising, since after eight months, 2009 employment has not made any progress over the same period last year.

Marc Pinsonneault

Nova Scotia

\$ Million	Actual	Actual	Forecast	Forecast	Forecast	Forecast
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Revenues	8,179.2	8,134.8	8,055.0	8,094.4	8,266.6	8,513.3
Provincial Taxation Revenues	3,637.5	3,736.9	3,701.5			
Other Revenues Provincial Sources	1,518.7	1,451.1	1,068.2			
Federal Sources	3,023.1	2,946.8	3,285.3			
Net Expenses	8,133.0	8,521.1	9,094.1	8,524.3	8,665.1	8,923.1
Program Spending	7,100.6	7,568.7	8,116.0	-	-	-
Pension Valuation Adjustment	107.5	85.1	89.0	-	-	-
Gross Debt Servicing Costs	924.9	867.3	889.1	984.2	1,049.9	1,112.3
Sub Total	46.2	(386.3)	(1,039.1)	(429.9)	(398.5)	(409.8)
Consolidation Adjustments	28.6	46.4	90.2	68.5	31.4	31.4
Net Income from Government Enterprises	344.2	359.6	356.8	361.4	367.1	378.4
Provincial Surplus	418.9	19.7	(592.1)	-	-	-
Borrowing Requirements						
Provincial Surplus		(19.7)	592.1	-	-	-
Tangible Capital Assets: Net Cash		222.9	577.1	353.4	104.6	93.1
Other Operating Requirements		(19.9)	467.1	220.8	(17.7)	(292.4)
Cash Debt Retirement		782.3	679.6	667.5	1,601.4	704.4
Change in Short-Term Borrowing		340.0	(340.0)	-	-	-
Other Requirements		400.8	569.0	545.3	298.4	285.8
Total Cash Requirements		1,483.5	1,967.8	1,433.6	1,882.1	697.8
Net Direct Debt						
Opening Balance	12,357.2	12,114.8	12,323.5	13,492.7	13,846.1	13,950.7
Provincial Balance	(418.9)	(19.7)	592.1	-	-	-
Increase in Net Book Value of Tangible Capital Assets	162.3	219.2	577.1	353.4	104.6	93.1
Other	14.1	9.2	-	-	-	-
Closing Balance	12,114.8	12,323.5	13,492.7	13,846.1	13,950.7	14,043.8
Net Direct Debt / GDP	36.7%	35.4%	38.7%			
Gross Debt Servicing / Total revenues	11.3%	10.7%	11.0%	12.2%	12.7%	13.1%

Source: Budget Documents, Nova Scotia Department of Finance