

# NOVA SCOTIA BUDGET

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*March 23, 2007*

## REDUCING THE DEBT-SERVICE BURDEN

- In the fiscal year ending March 31, Nova Scotia ran a surplus estimated at \$98.5 million, its seventh surplus in a row.
  - For 2007-08 the budget projects a surplus of \$118.4 million on revenues of \$7.7 billion.
  - Surpluses are projected out to at least 2010-11.
  - Personal non-refundable tax credits are increased by 3.46% for 2007 and by a cumulative 13.83% from 2007 to 2010.
  - The Large Corporations Tax rate is reduced to 0.225% from 0.250%, with elimination expected by 2012.
  - The Graduate Tax Credit is doubled to \$2,000 effective January 1, 2008.
  - Tobacco taxes rise 1 cent per cigarette (\$2 per carton).
  - User fees and government charges increase by 6.8%, effective in most cases on April 1.
  - The aviation fuel tax rate increases from 0.9 cents to 2.5 cents per litre.
  - Real GDP is forecast to grow 2.3% in 2007 and 2.4% in 2008.
  - Net direct debt is budgeted to fall to 36.6% of GDP in 2007-08 from 48.7% in 1999-2000.
  - Borrowing requirements are forecast at only \$131 million in 2007-08 as a result of pre-borrowing in 2006-07.
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## Opinion

In the fiscal year ending March 31, extra revenues and gross debt-service savings from budget were channelled mostly into a pension valuation adjustment. The other notable change from budget was not in revenues and expenditures but in capital spending, which at \$406.4 million exceeded the original appropriation by \$71.4 million. The increase went to highway, bridge and school construction.

In 2004 the province committed itself to run budget surpluses large enough to offset capital spending less amortization starting in 2007-08. The budgeted surplus of \$118.4 million meets that commitment. Total revenues are expected to rise 5.8% (\$422 million), thanks in part to a \$176-million boost in federal transfers and a \$151-million jump in petroleum royalties due to increased production at Sable Island. Program spending is budgeted to jump 6.5% (\$422 million). Health care, which accounts for 44% of program spending, will receive a proportionate share. A significant portion of the remaining spending will be allocated to community services, education and public works. A lower pension valuation adjustment and lower debt-service cost are budgeted to hold the rise in total spending to 5.1%.

Over the next four years, revenues are expected to grow an average 5.2% and total spending an average 4.7% annually. The surplus is projected to grow accordingly, somewhat reducing net direct debt and therefore debt-service cost. So Finance Minister Michael Baker is pursuing a strategy that has served the province well so far, projecting a decline in gross debt-service cost from 17.3% of revenues in 2003-04 to 10.5% in 2010-11. Increasing the competitiveness of the tax system seems to be less urgent, now that neighbouring New Brunswick has cancelled some of the business tax relief implemented at the beginning of the year and increased its personal tax rates.

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## Nova Scotia

\$ Million	Actual	Estimate	Forecast	Forecast	Forecast	Forecast	Forecast
	2005/06	2006/07	2006/07	2007/08	2008/09	2009/10	2010/11
<b>Revenues</b>	<b>6,813.3</b>	<b>7,165.0</b>	<b>7,251.5</b>	<b>7,673.6</b>	<b>8,057.3</b>	<b>8,460.1</b>	<b>8,883.2</b>
Provincial Taxation Revenues	3,399.1	3,545.2	3,547.6	3,604.2			
Other Revenues Provincial Sources	580.4	684.2	703.3	891.8			
Federal sources	2,261.1	2,359.4	2,358.0	2,533.5			
Other	572.6	576.1	642.7	644.1			
<b>Net Expenses</b>	<b>7,010.8</b>	<b>7,481.1</b>	<b>7,558.1</b>	<b>7,940.2</b>	<b>8,316.3</b>	<b>8,694.0</b>	<b>9,067.1</b>
Program Spending	5,993.0	6,483.8	6,495.3	6,917.3	-	-	-
Pension Valuation Adjustment	30.0	33.2	107.4	68.6	-	-	-
Gross Debt Servicing Costs	987.8	964.0	955.4	954.3	943.6	938.0	934.8
<b>Sub Total</b>	<b>(197.5)</b>	<b>(316.1)</b>	<b>(306.6)</b>	<b>(266.6)</b>	<b>(259.0)</b>	<b>(233.9)</b>	<b>(183.9)</b>
Consolidation Adjustments	80.2	54.5	64.5	41.0	37.0	37.0	37.0
Net Income from Government Enterprises	345.4	335.1	340.6	344.0	342.0	346.9	346.9
<b>Provincial Surplus</b>	<b>228.1</b>	<b>73.5</b>	<b>98.5</b>	<b>118.4</b>	<b>120.0</b>	<b>150.0</b>	<b>200.0</b>
<b>Borrowing Requirements</b>							
Provincial Surplus	(228.1)	(71.9)	(98.5)	(118.4)	(120.0)	(150.0)	(200.0)
Offshore Offset Agreement	(830.0)	-	-	-	-	-	-
Other Operating Requirements	499.6	200.5	222.2	43.1	109.5	45.2	95.8
Cash Debt Retirement	1,851.4	1,121.6	1,124.6	614.3	290.6	680.3	669.5
Other Requirements	(361.1)	(341.6)	282.9	(408.0)	184.2	196.0	208.5
<b>Total Cash Requirements</b>	<b>931.8</b>	<b>908.6</b>	<b>1,531.2</b>	<b>131.0</b>	<b>464.3</b>	<b>771.5</b>	<b>773.8</b>
<b>Net Direct Debt</b>							
Opening Balance	12,305.2	12,321.0	12,239.2	12,429.4			
Provincial Balance	(228.1)	(73.5)	(98.5)	(118.4)			
Increase in net book value of tangible Capital Assets	152.8	186.5	278.7	94.0			
Other	9.3	-	10.0	9.0			
<b>Closing Balance</b>	<b>12,239.2</b>	<b>12,434.0</b>	<b>12,429.4</b>	<b>12,414.0</b>			
<b>Net Direct Debt / GDP</b>	<b>39.0%</b>		<b>38.1%</b>	<b>36.6%</b>			
<b>Gross Debt Servicing / Total revenues</b>	<b>14.5%</b>	<b>13.5%</b>	<b>13.2%</b>	<b>12.4%</b>	<b>11.7%</b>	<b>11.1%</b>	<b>10.5%</b>

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