



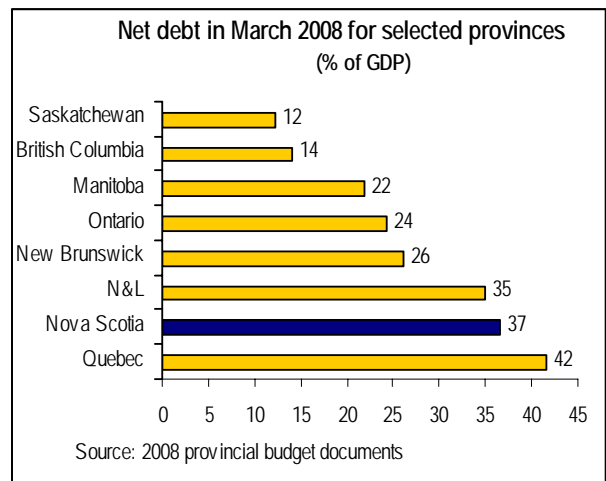
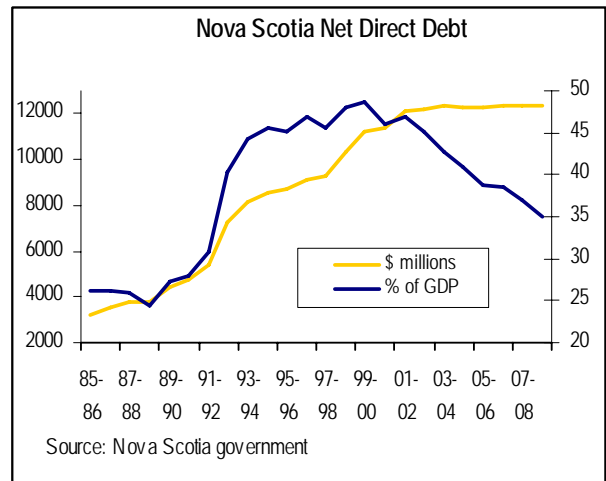
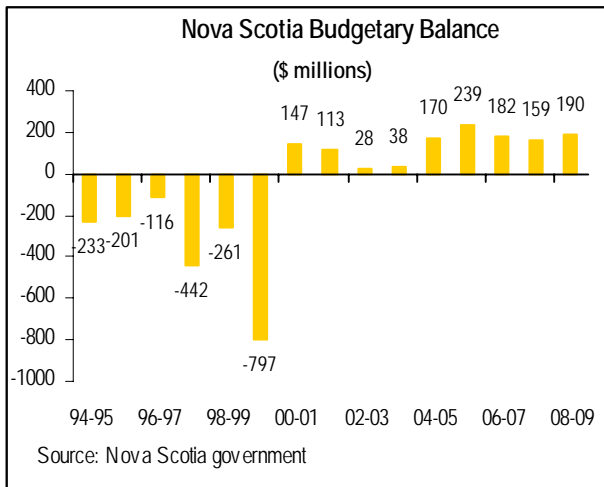
The 2008 Nova Scotia Budget: Fiscal prudence is the order of the day

The 8.5-billion budget presented by Nova Scotia's minority government is prudent, unsurprising, and plain. When economic times are difficult abroad, there is no chance to take. The NS government wisely decided then, like many others jurisdictions, to introduce a bunch of inexpensive measures in the 2008 Budget: grants for students, modifications to the energy rebates, additional health care assistance for seniors, high-speed internet connection for rural areas, etc. Even if there were no earth-shattering fiscal policies in this budget, the Conservative minority government faces defeat and must get the support of the provincial Liberal or NDP party to pass the budget.

The streak of balanced budget continues

Since FY 2000-01, Nova Scotia registers surpluses averaging \$134 million (see chart). FY 2007-08 was a not out of the ordinary. Nova Scotia registered a \$158-million surplus, a tad above the 2007 budget estimate of \$118 million. Both revenues and expenditures were slightly higher-than-anticipated. In FY 2008-09, Nova Scotia projects a \$190-million surplus based on reasonable economic assumptions, notably a 1.7% real GDP growth forecast for 2008. Revenue and spending are set to increase by a small 2 ½ %, just a tad above inflation. As mentioned earlier, tax and spending measures announced in the budget were tiny, and therefore will not alter the fiscal outlook meaningfully. The government will soon examine with scrutiny the overall tax structure of the province, which could lead to a major overhaul and affect the revenue outlook in the medium-term.

In late March, Premier Rodney MacDonald said that 70% of Crown Share payment for FY 2007-08 and previous years would go towards the debt. The remaining will go in trust funds. The decision expected this spring should mean in theory that Nova Scotia's debt will plummet shortly. Thus, the debt outlook tabled in the 2008 Budget should be taken with a grain of salt. Nova Scotia's net direct debt – the province's favourite measure of debt – stood at \$12.3 billion at the end of FY 2007-08, \$300 million less than in FY 2006-07. Borrowing program for FY 2008-09, which does not include any proceeds from the crown share adjustment, is estimated at \$915 million. The borrowing program could shrink depending on the amount of Crown Share money the government gets. As of April 2008, DBRS, S&P, and Moody's credit ratings were A, A+, and Aa2, the same as a year ago.



It's pay back time: NS will use 70% of "Crown Share" money to pay down the debt

What is most likely to make waves in Nova Scotia in the near future is not the tame 2008 Budget, but the highly-anticipated decision of a panel about Crown Share, which will end once and for all a long-standing dispute between the province and Ottawa. As *LBS Economic Research* mentioned in the *2008 Provincial Monitor* of January (available on www.vmb.ca), Crown Share Adjustment Payments (CSAP) were part of a old offshore resource agreement ratified in 1986. Despite its obligation, the federal government has never paid CSAP to Nova Scotia. Now, it is pay-back time for Nova Scotia.

Sébastien Lavoie, Economist



Budget Summary					
	2004-05	2005-06	2006-07	2007-08**	2008-09*
	\$ millions				
Own-Source Revenue	3,875	4,261	4,558	5,486	5,550
Federal Transfers	2,330	2,428	2,576	2,779	2,917
Total Revenue	6,204	6,689	7,134	8,265	8,467
% change	7.6	7.8	6.7	15.9	2.4
Operating Expenditure	5,598	5,993	6,484	7,198	7,429
Debt Servicing	1,034	988	964	930	905
Total Expenditure	6,574	7,000	7,470	8,128	8,333
% change	5.4	6.5	6.7	8.8	2.5
Consolidation Adjustments				21	57
Budgetary Surplus/Deficit	170	239	182	158	190
Net Direct Debt	12,305	12,239	12,357	12,348	12,336
As a % of GDP	41.0%	38.8%	38.6%	36.6%	34.9%

* Forecast; ** Estimate ; Source: Nova Scotia Budget 2008