TD Economics

The 2008 Nova Scotia Budget

Released on April 29th, 2008

HIGHLIGHTS

- **Higher-than-expected $158 million surplus in FY 07-08**
- **Program spending growth contained at 3.5% for FY 08-09**
- **Projected $190 million surplus in FY 08-09**
- **Debt Reduction Plan targets being met**
- **Sales and income taxes largely unchanged**

NOVA SCOTIA'S FISCAL POSITION
($ Millions unless otherwise indicated)

	Actual		Est.	Budget
	05-06	06-07	07-08	08-09
Revenues	6,813	7,294	7,922	8,108
% change	9.8	7.1	8.6	2.3
Expenditures	7,011	7,508	8,128	8,333
% change	6.6	7.1	8.3	2.5
Program Expenditures	5,993	6,496	7,105	7,360
Debt charges	988	929	954	905
Pension valuation adj.	30	83	69	68
Net Income of Govt. Business Enterprises	426	397	364	415
Surplus/Def. (-)	228	182	158	190
% of GDP	0.7	0.6	0.5	0.5
Net Direct Debt	12,239	12,357	12,348	12,336
% of GDP	38.8	38.6	36.6	34.9

Source: Nova Scotia Department of Finance

Budget 2008 did not break much new ground, but stayed the course set by the government's previous budgets. This largely status-quo approach reflects caution over the economic outlook for the province and its trading partners. The government expects real GDP to grow by 1.7%, a tad more optimistic than, but still in line with, TD Economics' forecast of 1.5%.

FY 07-08 should mark the sixth consecutive balanced budget - following the adoption of balanced budget legislation. The government now estimates the surplus for that fiscal year to come in $40 million higher than the $118 million it expected at last year's budget. Both revenues and expenditures for FY 07-08 were higher than budgeted in 2007, but revenues managed to slightly outpace outlays for a better bottom line result. The entire surplus amount will be used to pay down the provincial debt.

Steady as she goes

For the year ahead, aside from minor adjustments that essentially index personal income tax brackets and credits to inflation, personal taxes will be left unchanged for FY 08-09. A 'healthy living' and transit tax credit were introduced. The senior's property tax rebate is enhanced by doubling the maximum amount to $800. Individual energy rebates will be restructured in an attempt to exclude non-heating related electricity costs. As for corporate taxes, the digital media and film industry get enhanced refundable tax credits. These targeted tax relief measures amount to $24.4 million for FY 08-09, about two-thirds of which will flow to the digital media and film industry.

Meanwhile, previously announced tax relief (e.g. elimination of the general business capital tax by 2012, increase in the basic personal amounts, graduate tax credit) will be carried through. The government will also be examining the overall tax structure with a half-million dollar review process to begin immediately. At this initial stage very little is known on how this might impact the province's revenue outlook for future fiscal calendars. Might the government review the royalty structure or look at a carbon tax? These are interesting open questions, so stay tuned.

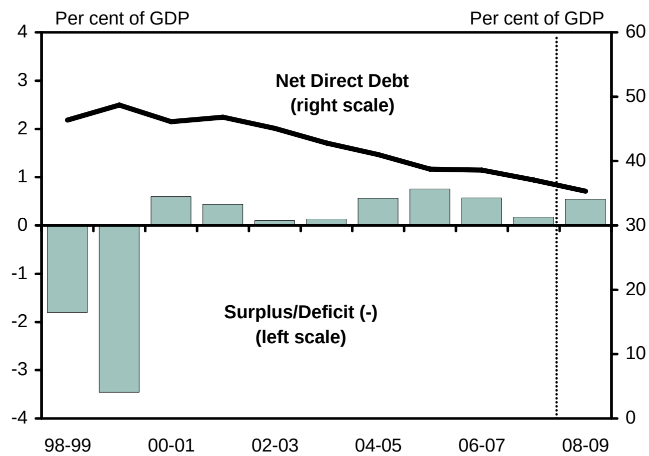
The province's fiscal position will benefit from the recent settlement with Ottawa of the long-standing Crown Share Adjustment Payment (CSAP) agreement. The province has already earmarked a minimum of 70% of these payments for FY 07-08 and before to debt repayment. The remaining 30%, capped at $75 million, will go towards purchasing protected lands, improving university infrastructure, and grants to geoscience and marine research. Going forward, any funds attributed to CSAP for FY 08-09 and beyond will go to debt repayment. All of which should significantly decrease the province's net direct debt measures.

After surging by 8-9% in the previous two fiscal calendars, part of which was arguably a catch-up phase, program expenditures are forecast to increase by 3.5%. Like most jurisdictions, the province faces pressure on the health care cost front. Infrastructure, education, safety and child care share the bulk of other spending increases. As debt charges decline from $954 million to $905 million, overall spending growth is budgeted lower (2.5%) than discretionary spending growth, which is also in line with the government's conservative revenue growth estimate of 2.3%. In all, a slightly larger surplus of $190 million is projected for FY 08-09, which should help to lower the province's still-lofty debt burden another notch. In that respect, the projected surplus continues a consistent run since FY 00-01 that has hovered near a respectable 0.5% of GDP. The so-called 'in-terest bite', or debt charges as a percentage of revenues, continues its descent from 18 cents per revenue dollar in 1999 to below 12 cents a decade later. The debt-to-GDP ratio has fallen by about 12 percentage points during the same period.

The bottom line

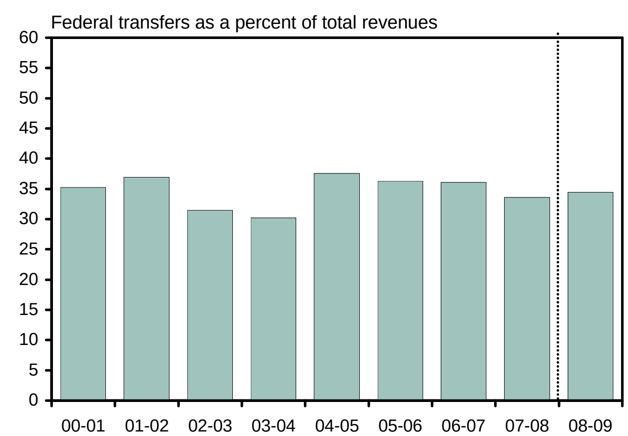
This year's budget doesn't rock the boat but provides a peppering of targeted modest tax relief. Nova Scotia has continued along a path of steady fiscal improvement, as the government chips away at some of the province's biggest challenges, including a relatively high income and capital tax burden as well as debt-load. Depending on how the economy performs, how commodity prices behave and specific payments to CSAP, the government's revenue,

NOVA SCOTIA GOVERNMENT FISCAL POSITION



Source: Nova Scotia Department of Finance

FEDERAL TRANSFERS* TO NOVA SCOTIA



* All Federal sources including Equalization, CHT and CST.
Source: Nova Scotia Department of Finance.

surplus, and debt reduction outlook could very well improve between now and the next budget. If current priorities are maintained, this should secure the province's fiscal position, paving the way for improved credit ratings and cheaper borrowing costs down the road.

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