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Fiscal Pulse

Nova Scotia's 2009-10 Budget ... Retaining Black Ink

Grappling with the current economic downturn, the Budget maintains a string of modest surpluses through FY12. For fiscal 2008-09 (FY09), a \$22 million surplus is estimated, followed by annual \$4 million balances from FY10 to FY12, before black ink in FY13 surges to \$133 million. Nova Scotia's minority Conservative government was subsequently defeated and a provincial election is scheduled for June 9th.

Given the protection offered by Nova Scotia's relatively diversified economy and its large services sector, the Budget assumes positive, albeit very modest, provincial real GDP growth of 0.2% for 2009, following Statistics Canada's estimate of a healthy 2.0% expansion in 2008. To help sustain economic momentum, the government introduced in early March a three-year "Building for Growth" infrastructure plan that adds \$0.8 billion to \$1.1 billion of base capital spending from FY10 to FY12. While work continues on the offshore Deep Panuke project and the Sydney Tar Ponds remediation, current economic and financial market volatility are delaying some private-sector investment. For a petrochemical plant, for instance, financing will not be sought until credit conditions improve, and the construction of two onshore drilling rigs plus some wind power installations are on hold.

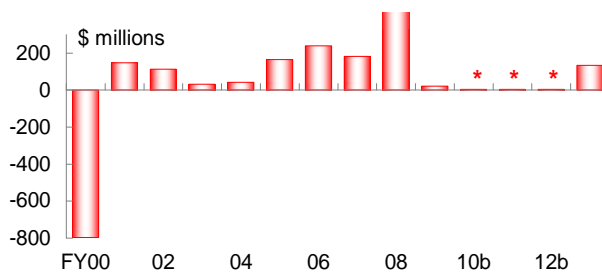
Total revenues in FY09 are expected to fall just short of FY08 receipts, and the modest 0.3% gain projected for FY10 reflects a gain of almost 11% in federal transfers. Own-source receipts in FY10 are expected to slide 5.5%, dampened by a 0.5% correction in personal income tax revenues, a 9.4% drop in corporate income taxes and a steep decline in petroleum royalties to \$196 million from the \$459 million FY09 record. The fall-off in royalties this year reflects lower natural gas prices, increased operating costs, the capital expense of drilling a new well in 2009 and lower output from scheduled summer maintenance.

To sustain surpluses, program spending growth in FY10 is trimmed to 1.1%, considerably slower than the annual increases averaging just over 8.0% from FY06 to FY09. Aided by historically low interest rates, the FY10 debt service is expected to edge just over \$900 million, including \$161 million of accrued interest on pension, retirement and other obligations. Taking into account \$93 million of sinking fund earnings, the net debt service in FY10 is expected to be \$810 million.

The Budget plan suspends, until FY13, the objective of absolute annual declines in the Province's net direct debt. However, increases in the debt will be constrained to ensure that by March 2012, debt-to-GDP will be no higher than the March 2008 level of 36.7%. As well, the long-term goal of reducing the Province's debt-to-GDP to the national average by 2020 is retained.

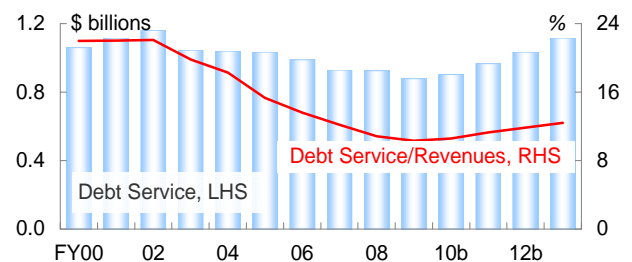
Borrowing in FY09 was \$1.484 billion, higher than the \$915 million Budget estimate as a result of refinancing an additional \$435 million in callable debt and pre-borrowing for future years. In FY10, Nova Scotia expects to fund \$1.465 billion in term-debt markets, alongside a \$340 million increase in short-term debt.

The Budget's Projected Surpluses ...



* Annual surpluses of \$4 million projected.

... and Debt Service



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