

ECONOMIC AND FISCAL UPDATE

Mr. Speaker, the last year has seen more global economic turmoil than the world has experienced in many decades. We have seen stock market values collapse and international financial institutions fold. Industrial giants have needed government support to survive the crisis. With the exception of gold, commodity prices are a fraction of their 2008 highs.

In the NWT, we have seen an 80 per cent drop in mineral exploration spending, and we expect diamond production to drop in 2009. The employment rate has fallen by seven percentage points from last September to this, by far the largest decline of any province or territory over this period.

However, the news is brightening. Diamond prices are showing some improvement. Diavik and DeBeers have both announced the cancellation of their planned December shutdowns. Avalon Rare Metals Inc.'s *Nechalacho* project is emerging as one of the largest undeveloped rare earth elements resources in the world. High gold prices are buoying prospects for several gold projects in the NWT. On the traditional economy side, we are continuing to see both strong prices for our NWT furs as well as an increase in the number of people participating in this sector.

Although the global economic downturn appears to be slowing, and the national economy is showing signs of recovery, most forecasters agree that the recovery, when it comes, will be slow and weak. Furthermore, we expect that employment, corporate profits and government revenues will recover more slowly than other economic activity.

None of this comes as a surprise, Mr. Speaker. We developed and implemented our fiscal plans in light of this economic downturn. Because we entered the downturn in relatively sound fiscal shape, we were able to take measures in our 2009 Budget that

would support our economy and our residents through this period of economic uncertainty. We reduced our plans for spending cuts and deferred decisions about major tax increases.

Last May, I advised Members that government revenues, corporate income tax collections in particular, would be negatively affected by the economic slowdown, but that we would not know the actual impact until this Fall. Based on information from 2008 corporate tax assessments completed as of the end of August, the Department of Finance estimates that 2009-10 Corporate Income Tax revenues will be \$50 million, \$32 million less than projected in our February budget. In addition, we expect declines in other taxes of \$3.7 million from our budget forecast. Although these numbers are subject to change as new assessment information is made available, they give us a preliminary estimate of our tax revenues for 2009-10.

Despite the prospect of lower corporate income tax revenues in 2009-10, we made the decision, early into the current fiscal year, to stay the course on spending and investment. This fiscal year we will invest a record \$484 million in infrastructure, including the stimulus funding received from Canada. This includes \$426 million for government and community infrastructure projects and \$58 million for housing projects. Approximately 75 per cent of the projects in the 2009-10 Capital Plan are currently underway, with the Department of Public Works and Services leading the way, having awarded 95 per cent of the projects they are managing. Our increased capital spending will be responsible for about 1,000 person years of employment over this year and next.

This Session we will be bringing forward a request for Supplementary Appropriations that will include \$18 million to implement recently completed collective agreements. While compensation and benefits is a major portion of our expenditures and we need to manage this responsibly, the public service is critical to meeting the goals we have as the 16th Legislative Assembly.

Our revenue outlook for 2010 continues to be uncertain. We will not know the full extent of the impact of the 2009 downturn on our corporate income tax collections until this time next year. This means that we must continue to make budgeting decisions based

on our best estimates of our revenues and be prepared to make adjustments should reality prove substantially different. However, we must also make these decisions based on what is in the best interests of NWT residents, given that our fiscal situation is reasonably sound and that we have some latitude for risk. This July, Moody's Investors Service reviewed our fiscal plans, and last month they confirmed that there would be no change in our favourable Aa1 credit rating. According to Moody's, the rating reflects the GNWT's prudent fiscal policies that have, over the past several years, limited debt accumulation. They stated that adhering to our Fiscal Responsibility Policy should help to ensure that our debt burden remains low and affordable.

In fact, Mr. Speaker, despite lower forecast revenues for 2009-10, accelerated cash flows from Canada under the Economic Action Plan mean that we anticipate our short-term borrowing needs will be only \$38 million this year, substantially less than the \$81 million anticipated in February's budget.

This Session, Members will also review the Government's 2010-11 capital budget. Although smaller than this year's record levels, the capital plan will continue to support our economy and our residents with investments in badly needed infrastructure.

Standing Committees have concluded their reviews of the Government's 2010-11 Business Plans and we will now consider the advice that has been given and finalize our 2010-11 O&M Budget for presentation early in 2010. The Budget will continue to advance initiatives that support this Assembly's vision of strong individuals, families and communities sharing the benefits and responsibilities of a unified, environmentally sustainable and prosperous Northwest Territories.

Mr. Speaker, last February, I committed to convene a second roundtable to take a closer look at how we raise revenues in the NWT to see if there are changes to our tax system that might further our economic, social and environmental objectives, without necessarily increasing the total amount of revenue collected. In early October, therefore, I invited representatives from a number of key business, social, labour and environmental organizations to discuss these issues. The input I received was extremely useful and I want to thank those who participated for their work. I encourage

NWT residents to review the discussion document and provide their comments. The document can be accessed on the Department of Finance website.

This work on our revenues looks beyond next year's Budget. We want to take a longer-term view of our tax policies that will help the GNWT align our tax structure with our vision and goals. Changing the tax mix can create winners and losers. We need to be sure we have done our research and discussed the options with NWT residents before making any changes. The Department of Finance will be undertaking more research, based on what hear from this year's consultations, with a view to developing more detailed options for NWT residents to consider.

The 2010-11 Budget will also incorporate the second year of our four-year plan to invest \$60 million in key energy initiatives. These continued investments in wind, hydro, and biomass generation, will demonstrate both the technology and the fact that our government is serious about reducing the NWT's reliance on diesel fuel. These investments, by providing infrastructure for communities currently dependent on fossil fuels, will make a critical difference in the cost of living and sustainability of our smaller communities and form a lasting legacy of the work of the 16th Legislative Assembly.

Mr. Speaker, as we develop our fiscal plans for 2010-11 and beyond, we will proceed with caution, but we will continue to move forward, advancing the goals and priorities we have set as the 16th Legislative Assembly.

Thank you, Mr. Speaker.