

## NOVA SCOTIA BUDGET 2017

April 28, 2017

### A second surplus in an election year

#### Overview

As election season draws near for the province, Nova Scotia released its second consecutive balanced budget yesterday. After achieving budget surplus last year, Budget 2017 maintains a profile for small surpluses through 2020-21 while boosting spending, cutting taxes, and introducing a host of new initiatives. This budget signals that the days of penny pinching to balance the books are over as the government prepares to face the voters.

#### Fiscal balance

Excluding one-time adjustments, weaker than expected revenues caused Nova Scotia's 2016-17 budget surplus to narrow to \$41 million. Budget 2017 is projecting a \$26 million surplus for this year as growth in departmental expenditures keeps pace with revenues. Complicating the picture is a one-time adjustment related to the Halifax Convention Centre. The province is projecting expenditures rising broadly in step with revenues leading to modest surpluses through the four years of the fiscal plan.

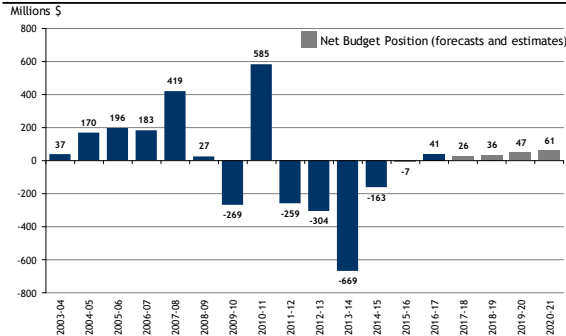
#### Lots of new spending in an election year

After modest measures to boost economic growth in 2016, Budget 2017 contains a host of initiatives from new spending on health care and education to infrastructure spending and tax cuts. The budget projects a 4% increase in program expenditures in 2017-18, the fastest in 6 years. The budget includes nearly \$200 million in new spending on more than 40 relatively modest initiatives. The largest among these are \$38 million to improve housing affordability (in partnership with other levels of government), \$15 million to expand rural high speed internet, \$13 million for the Film and Television incentive fund, \$10 million to improve classroom conditions, and over \$20 million to improve home care, mental health services, pharmacare and to recruit doctors. While none of the initiatives are particularly large, taken together, these new spending programs represent a major increase in expenditures and change in tone from previous budgets.

#### A growing economy sustains revenue growth despite tax cuts

Nova Scotia's economy is expected to continue to grow modestly over the next few years furnishing the government with rising revenues to pay for planned spending. The government is expecting revenues to increase by 4% in 2017, the fastest pace since 2010. This increase in revenues is expected despite tax cuts as the government aims to ease the burden on taxpayers in one of the country's highest-tax jurisdictions. The province is introducing a means-tested increase in the basic personal amount from \$8,841 to \$11,841 which will reduce revenues by \$85 million per year and lower the tax burden on most Nova Scotians. Moreover, the province is also reducing small business taxes by \$14 million. The budget did not include further details on a carbon pricing system which the government has previously committed to implementing in 2018.

Nova Scotia government budgetary balance



Source: RBC Economics Research, Nova Scotia Department of Finance and Treasury Board

Table 1: Economic Assumptions

Year-over-year % change	Forecast	
	2017	2018
<b>2017 Budget</b>		
Real GDP growth	1.1	0.8
CPI	1.9	2.0
Nominal GDP growth	2.8	2.6
Unemployment Rate*	8.0	8.0
Employment growth	0.3	-0.2
<b>RBC Economics</b>		
Real GDP growth	0.8	1.2
CPI	2.5	2.5
Nominal GDP growth	2.7	3.2
Unemployment Rate*	8.2	8.1
Employment growth	0.2	0.2

\*Average level

Source: RBC Economics, Nova Scotia Department of Finance and Treasury Board

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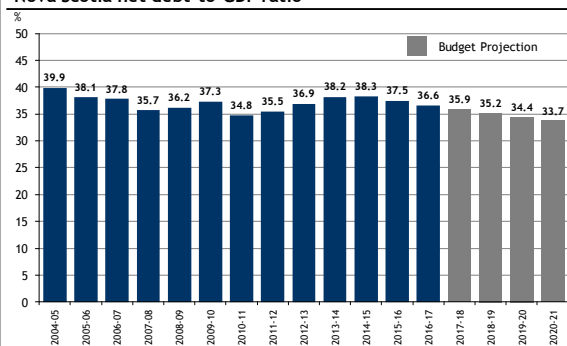
## Borrowing and net debt

The second consecutive year of surpluses is helping to reduce Nova Scotia's debt burden. Net debt as a percentage of GDP peaked in 2014-15 at 38% and is scheduled to decline through 2020-21. This puts the province on track to reach the suggested goal of 30% net debt-to-gdp ratio by 2024 as outlined by the One Nova Scotia Commission. After borrowing \$750 million in fiscal 2016-17, the province intends to borrow \$620 million in 2017-18 in term debt followed by \$1.3 billion the following year and an increased pace of borrowing thereafter.

## Our Take

Nova Scotia joins Quebec, Prince Edward Island, British Columbia and Ontario in balancing the books in 2017-18. After years of penny pinching to balance the budget which has included meagre wage gains for public employees and unpopular cuts to programs, the government now has fiscal room to boost spending and cut taxes as they head into an election year. Still, the budget's projected surpluses are razor thin and the lack of a contingency reserve means that unforeseen economic developments may yet derail the province's enviable surplus position.

Nova Scotia net debt-to-GDP ratio



Source: RBC Economics Research, Nova Scotia Department of Finance and Treasury Board

Table 2: Projected Borrowing Requirements (millions of dollars)

	Estimate		Forecast		Estimate	
	2016-17	2016-17	2017-18	2018-19	2019-20	2020-21
Cash Operating Requirements	-103	-247	35	134	104	-24
Cash Debt Retirements	995	997	460	1,259	2,071	1,079
Net Mandatory Sinking Fund Req	108	109	111	-88	-762	75
Net Discretionary Fund Requirements	10	11	14	18	21	23
Short-term borrowing	-200	-120				
<b>Total Term Debt Requirements</b>	<b>810</b>	<b>750</b>	<b>620</b>	<b>1,323</b>	<b>1,433</b>	<b>1,153</b>

**Table 3: Budget Summary (millions of dollars)**

	Estimate	Forecast	Estimate			
	2016-17	2016-17	2017-18	2018-19	2019-20	2020-21
<b>Total Revenue</b>	<b>10,264</b>	<b>10,170</b>	<b>10,587</b>	<b>10,579</b>	<b>10,732</b>	<b>11,054</b>
Departmental and Other Expenses	9,304	9,315	9,666	9,714	9,875	10,222
Public Debt Charges	842	830	850	873	845	786
<b>Total Expenses</b>	<b>10,146</b>	<b>10,145</b>	<b>10,516</b>	<b>10,586</b>	<b>10,720</b>	<b>11,008</b>
Accounting Adjustments	9	16	66	45	35	15
One-time adjustments	-110		-110			
<b>Net Budgetary Balance (after adjustments)</b>	<b>17</b>	<b>41</b>	<b>26</b>	<b>38</b>	<b>47</b>	<b>61</b>
<b>Net Debt</b>	<b>15,189</b>	<b>15,061</b>	<b>15,161</b>	<b>15,272</b>	<b>15,361</b>	<b>15,578</b>
<b>Nominal GDP</b>	<b>40,902</b>	<b>41,098</b>	<b>42,249</b>	<b>43,363</b>	<b>44,600</b>	<b>46,212</b>
<b>Net debt to GDP Ratio</b>	<b>37.1%</b>	<b>36.6%</b>	<b>35.9%</b>	<b>35.2%</b>	<b>34.4%</b>	<b>33.7%</b>

Source: Nova Scotia Department of Finance and Treasury Board

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