AN EYE ON THE LONG-TERM

Highlights

- The deficit in fiscal 2013-14 was estimated at $562 million (1.4% of GDP), widening only moderately relative to the figure provided in the mid-year update but in stark contrast to the modest surplus forecast in the 2013 budget.

- The government’s forecasts a steady narrowing in the deficit until fiscal 2017-18, when balance is expected to be reached.

- Weaker-than-expected revenues tied to a slow growing economy as well as the one-time booking of a $280 million pension adjustment were the main culprits behind last year’s fiscal deterioration.

- Net debt is forecast to rise steadily under the fiscal plan, but decline as a share of GDP. Net debt is estimated at $15.0 billion (37.4% of GDP) in fiscal 2014-15 and is pegged at $15.7 billion (34.2% of GDP) in fiscal 2017-18.

- Economic growth in Nova Scotia has essentially stalled in recent years. The economic outlook assumed by the government calls for an improvement. Real GDP growth is expected to accelerate to 1.4% in 2014 and 2.1% in 2015.

- The budget references the recently released Ivany Report (Now or Never: An Urgent Call to Action) to highlight the province’s many longer-term challenges and recommended policy direction. The government will create the ONE Nova Scotia Coalition mandated with implementing changes outlined by the Ivany report.

- Total spending growth is expected to be held to around 2% per year. No new major tax hikes were announced, but no major breaks were introduced either. The HST will remain at 15 per cent, despite the previous government’s plan to reduce it.

Today’s document was the first budget tabled by the government since coming into power last October. The budget deficit for fiscal 2013-14 was estimated at $562 million (1.4% of GDP). This is slightly wider than the shortfall of $500 million estimated in December’s fiscal update but a dramatic departure from the modest surplus position forecast last spring. Recall that a one-time booking of a pension adjustment in December was the main culprit behind the swing in fiscal fortunes for the province. Holding spending growth down and improved economic fortunes help the government grind its way to balance over the fiscal plan – with a zero deficit targeted for fiscal 2017-18.

The Nova Scotia Commission on Building Our New Economy, chaired by Ray Ivany, released its final report in early February and highlighted the significant longer-term challenges faced by the province and identified a number of goals and strategies to put the economy on a sustainable track. The government will create the ONE Nova Scotia Coalition tasked with implanting changes outlined in the report.

Targeted measures towards health and education

Under the fiscal plan, total spending is estimated to increase at an average annual rate of 1.8% over the next four years. Departmental spending (including refundable tax credits) is estimate to rise at a
The recent soft economic environment has done little to boost revenues. According to government estimates, real GDP growth averaged a paltry 0.3% over the 2011-13 period. Nominal GDP is estimated to have run at an equally disappointing 1.7% over this period. This has done little to support government coffers. Demographic challenges have also worked against the province. In 2013, population fell outright by 0.5% – contracting for the first time since 2007. As a result, revenues are estimated to have edged down slightly in fiscal 2013-14.

Looking ahead, the economic outlook is more upbeat. The government estimates real GDP growth of 1.4% and 2.1% in 2014 and 2015, respectively. Nominal GDP will also gain a step over the outlook – rising to 4.3% by 2015.

Other notable announcements include:
- eliminating the graduate retention rebate;
- removing the efficiency tax from power bills effective January 1, 2015; and
- maintaining the HST at 15%. (The previous government had promised to reduce the HST by one percentage point in 2014 and another percentage point in 2015, returning the rate to 13% by July 2015).

Furthermore, in February, the government introduced a tax and regulatory review panel. The board will be tasked with identifying tax and regulation recommendations to better position the province to deal with its economic, fiscal and demographic challenges. The review will be delivered in the fall and the government will look to its results to help inform on what fiscal actions to take.

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Expanding U.S. demand and increased production of natural gas from the Deep Panuke offshore site are expected to boost exports. Population in Nova Scotia is expected to remain stable over the 2014-15 period. Major project spending is also key to the outlook, with the commencement of the military shipbuilding project in fall-2015 expected to buoy employment and income gains. TD Economics’ outlook is somewhat more optimistic. We expect real GDP growth to come in around 2% this year and 2.6% in 2015. This suggests that there is an upside risk to the revenue outlook.

All told, this improved economic outlook does feed its way into the revenue line of the fiscal plan. Total revenues are forecast to grow at an annual average rate of 3.3% over the plan. The government cites three revenue sources as being strongly linked to positive economic prospects – personal income tax, corporate income tax and HST. Indeed, in fiscal 2014-15, total revenue is estimated to increase 3.7% led by a 7% increase in personal income tax, 3.9% increase in corporate income tax and a 2.5% increase in HST.

**Debt levels set to rise**

Net debt is estimated to increase from $14.6 billion in fiscal 2014-15 to $15.7 billion in fiscal 2017-18. However, because of the improved economic fortunes assumed for the province, the net-debt-to-GDP ratio is estimated to fall steadily through the fiscal plan and land at 34.2% in four years (currently the net-debt-to-GDP ratio is an estimated 37.5%). The borrowing target for fiscal 2014-15 is $770 million and ramps up to around $1 billion before falling back to $440 million in fiscal 2017-18.

**Bottom line**

Challenging economic times have impeded fiscal progress in Nova Scotia. A brighter economic outlook should support the drive to a balanced budget. A key theme in the budget address was the need to take stalk of the current economic and fiscal situation and ensure that policy takes longer-term considerations to heart. The recent introduction of the tax and regulatory review panel and the creation of the ONE Nova Scotia Coalition do keep the bigger picture in mind.

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