

2017 NOVA SCOTIA BUDGET



TD Economics

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NOVA SCOTIA EXPECTS MODEST BUDGET SURPLUSES

Highlights

- Nova Scotia enters balanced territory for the first time in seven years. The budget surplus is expected to reach \$136 million in fiscal year 2017-18, and remain balanced thereafter. The net debt-to-GDP ratio is expected to continue to trek lower, reaching 33.7% by FY2020-21.
- The government opted to stick with the theme of spending restraint and held expense growth to an average annual rate of 2% per year over the four year plan. But, the province did find room for an additional \$384 million in spending this year and next.
- The government also introduced some new revenue measures, helping to lower the debt burden for households and businesses.

Spending restraint and a new revenue boosting measures over the last few years have helped the Government of Nova Scotia dig its way out of a seven-year deficit, allowing it to start loosening the purse strings, albeit slightly. The government tabled a budget that estimated a modest surplus in fiscal year (FY) 2016-17 to the tune of \$40 million, or 0.1% of GDP, with the surplus just one-third of what was expected in Budget 2016 (\$127 million). The government expects the surplus to rise to \$136 million (or 0.3% of GDP) this fiscal year and plans to balance the budgets for the upcoming four fiscal years. The government has opted for smaller surpluses over the medium-term, relative to that forecasted in Budget 2016, in order to allow for some additional stimulative spending and revenue measures. These include the already communicated reduction in the threshold for the small business tax credit and an increase in the personal basic amount. The return to balance, alongside a growing economy, will help the Province reduce its indebtedness, with the net debt-to-GDP ratio continuing its gradual fall from the peak reached in FY2014-15.

Near-term revenues get a bump, but medium-term story unchanged

The one big source of the downside revenue miss for the last fiscal year was the delayed opening of the Halifax Convention Centre. This was expected to generate \$110 million, or 1% of total revenues, with the one-time boost to revenues from the project now pushed into FY2017-18 leading to a 4.1% increase overall.

NOVA SCOTIA GOVERNMENT FISCAL POSITION					
(Million C\$ unless otherwise indicated)					
	2017 Budget				
	16-17*	17-18	18-19	19-20	20-21
Revenues**	10,170	10,587	10,579	10,732	11,054
% change	2.4	4.1	-0.1	1.4	4.5
Spending	10,145	10,516	10,586	10,720	11,008
% change	2.0	3.7	0.7	1.9	4.0
Program spending***	9,285	9,612	9,656	9,802	10,147
Debt charges	830	850	873	845	786
Pension valuation adj.	29	54	57	72	75
Consolidation adj.	15.9	65.7	43.2	34.9	15.4
Surplus/Deficit (-)	41	136	36	47	61
% of GDP	0.1	0.3	0.1	0.1	0.1
Net Debt	15,061	15,161	15,272	15,361	15,578
% of GDP	36.6	35.9	35.2	34.4	33.7

* Forecast.
**Including net income from Government business enterprises.
***Including refundable tax credits.
Source: Nova Scotia Department of Finance.

Looking beyond the volatility generated by the timing of the project, government revenues appear to be on a stronger footing than previously anticipated. Aside for the one time Convention Centre boost, government coffers are expected to be up 3% in FY 2017-18 or \$100 million more than anticipated in Budget 2016, reflecting higher personal income taxes, corporate taxes and HST collection. However, the revenue outlook has been scaled back beyond the upcoming fiscal year, expected to moderate to an annual average growth rate of 1.9% per year in the upcoming four fiscal years.

The government has decided to use the available fiscal room to offer some tax relief to households and businesses, costing about \$99 million once fully implemented. These measures include:

- Increasing the Basic Personal Amount from \$8,481 to \$11,481 and pushing the maximum rebate to \$1,009.18 from \$745.48. Note, the nonrefundable rebate is scaled back on income between \$25,000 and \$75,000 by \$0.06 per every dollar earned in this ranged, and is completely wiped out for incomes greater than the upper threshold.
- Increasing the age amount, a nonrefundable tax credit to those 65 years and older. The maximum credit is rising from \$4,141 to \$5,606, and is phased out for incomes between \$25,000 and \$75,000.
- Increasing the threshold for the Small Business Rate from \$350,000 to \$500,000. The government estimates that this will lower taxes for 1,800 businesses at a cost of \$14 million.

The province also continued to embed economic caution

TABLE 2. NOVA SCOTIA ECONOMIC ASSUMPTIONS					
[Per cent change unless otherwise noted]					
	2017 BUDGET				
	2016	2017	2018	2019	2020
Real GDP	1.0	1.1	0.8	0.8	1.6
Nominal GDP	2.2	2.8	2.6	2.9	3.6
Unemployment rate (Level, %)	8.3	8.0	8.0	--	--
Employment	-0.4	0.3	-0.2	--	--
Population	0.6	0.3	0.2	--	--

Source: Nova Scotia Government. *Actual.

into its budget forecast. Real GDP is expected to continue to grow by 1.0% per year over the medium-term, with nominal GDP expected to grow by an average of 2.8% per year. The government’s assumptions are below our own forecast for provincial economic growth of 1.5% and 3.2% real and nominal GDP, respectively, with the prudence welcomed in a time of economic uncertainty. Moreover, the government noted that while the economy may benefit from infrastructure spending and shipbuilding in the near-term, they would rather look beyond these temporary boosts to growth and focus on the fact that an aging population will remain a long-term economic challenge for the province.

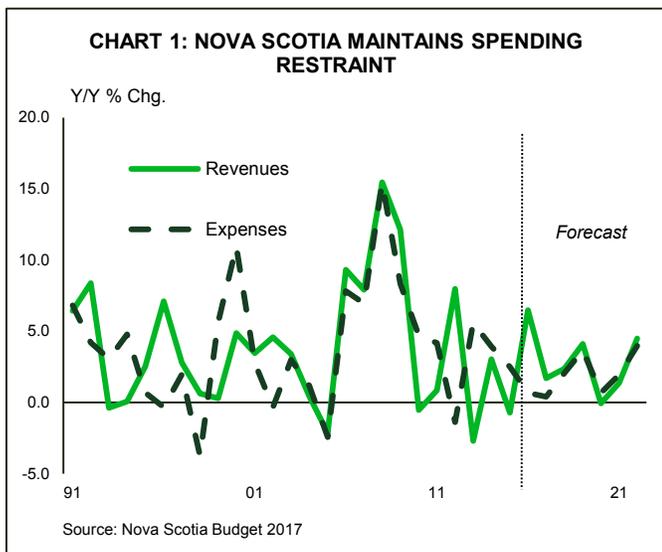
Spending up, but still under control

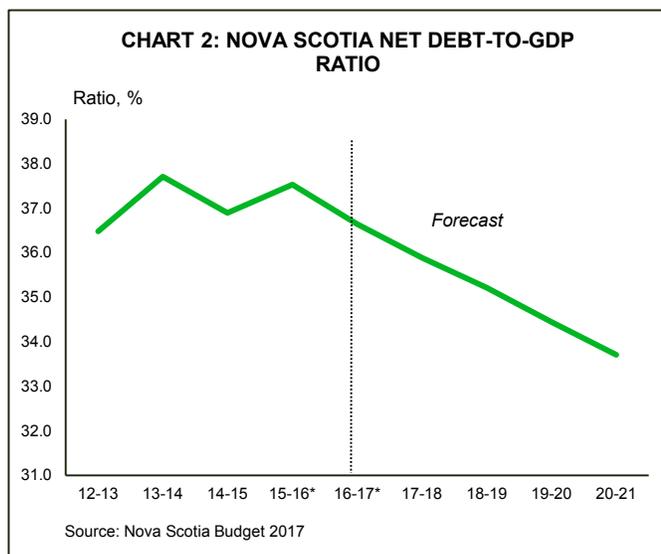
The province also found a bit more room to introduce a moderate amount of new spending initiatives for the next few years. Total expenditures are forecast to be 4% higher in FY2017-18 relative to both Budget 2016 estimates and the FY2016-17 estimate, due to \$386.4 million in new departmental expenses. A quarter of these are slated to go into health care expenses with another quarter going towards infrastructure spending with initiatives directed at new roads, waste management, post-secondary education, tourism and support for entrepreneurship. In addition the government has earmarked roughly \$60 million towards programs to fund support for youth, job training and the economy. These spending measures are expected to boost expenditures this fiscal year, with growth moderating thereafter.

Overall, expenses are expected to grow at roughly 2.1% per year, on average, between the current fiscal year and FY2020-21. This is higher than that expected in Budget 2016, but still lower than revenue and nominal GDP growth. By far, the government has maintained a spending stance over the medium term.

Bottom Line

The Nova Scotia Government tabled a budget that plans to keep its fiscal house in balance, while starting to slightly loosen the purse strings. Despite some stimulative elements,





this remains a budget of spending restraint, with average expenditure growth expected to hold near 2% over the forecast horizon, or well below both revenue and nominal GDP growth. While the absolute level of debt will continue to go up under this budget plan, the net debt-to-GDP ratio will continue to trend lower, dropping from 36.6% last fiscal year to 33.7% by FY2020-21. The ratio is expected to edge to the province’s goal of 30% by FY 2024-25, highlighting the fact that despite the balanced budget, the path towards reducing its indebtedness to pre-recession levels remains a long one.

TABLE 3: Value of the Generations Fund (\$ Millions)		
	Book Value	Market Value
2006-2007	584	576
2007-2008	1,233	1,147
2008-2009	1,952	1,598
2009-2010	2,677	2,556
2010-2011	3,437	3,524
2011-2012	4,277	4,375
2012-2013	5,238	5,550
2013-2014	5,659	6,299
2014-2015	6,938	8,182
2015-2016	8,522	9,562
2016-2017	10,564	
2017-2018	13,052	
2018-2019	15,886	
2019-2020	19,102	
2020-2021	22,729	

Source: Québec Budgets 2017.

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