



## NOVA SCOTIA BUDGET 2012

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## On the road back to balance

The Nova Scotia government presented a “stay the course” budget today, which made few substantive changes to its fiscal plan. While the 2011/12 deficit has been revised \$104 million lower to \$261 million (versus \$365 million as planned in the last fiscal update), the projected deficit for 2012/13 remains largely unchanged at \$211 million (it was \$216 million previously.) The deficit is still expected to be eliminated next year, with the planned \$15 million surplus unchanged from last year’s projection. Better-than-expected results in 2011/12 and previous years gave the government some room to introduce new measures on the revenue side, with a number of small tax reductions for individuals and businesses included in the budget. The government also announced that it is planning to reduce the HST by two percentage points by 2015. Aside from these new measures, however, today’s budget looks very similar to those presented in previous years.

### Budget highlights

**Revenues** are planned to increase by 4.7% in 2012/13, to \$8.9 billion. This is the result of a 3.6% increase own-source revenues, combined with an 8.3% increase in federal transfers. In terms of own-source revenues, rises in personal income tax, corporate income tax and HST revenues will be partially offset by a large decline in offshore natural gas royalties. This drop in natural gas royalties is due to declining production at the Sable Offshore Energy Project (which will outweigh increases from the Deep Panuke gas project starting in July 2012), combined with low natural gas prices. The strong growth in federal transfers reflects federal-provincial fiscal arrangements related to the 2005 Offshore Accord.

The budget introduced a number of smaller tax cuts and tax credits, including an increase in spousal and dependent basic amounts, a small business tax cut of 0.5 percentage points and the introduction of a university graduate retention tax rebate. The province is also continuing with its previously planned elimination of the corporation capital tax for non-financial companies. Together, these cuts are expected to cost around \$60 million in lost revenue in 2012/13. The budget also promised to reverse revenue measures taken in previous budgets once the deficit is eliminated in 2014. This includes reducing the HST by one percentage point in each of 2014 and 2015 (the HST was increased by two percentage points in the 2010 budget), and removing a fifth income tax bracket for high income earners (also introduced in 2010.) While the second measure was always intended to be temporary, the reductions in the HST were not previously planned.

**Program expenditures** are expected to increase by 3.5%, to \$8.7 billion. Health care spending is planned to grow at 2.5%, while education spending will see a cut of 1.5%. The budget notes that the government is expecting a public school enrolment decline of 1.7% this year, implying that per-student funding will still increase. Assistance to Universities will also decline, by nearly 10.0%. Strong increases will be seen in Economic and Rural Development and Tourism

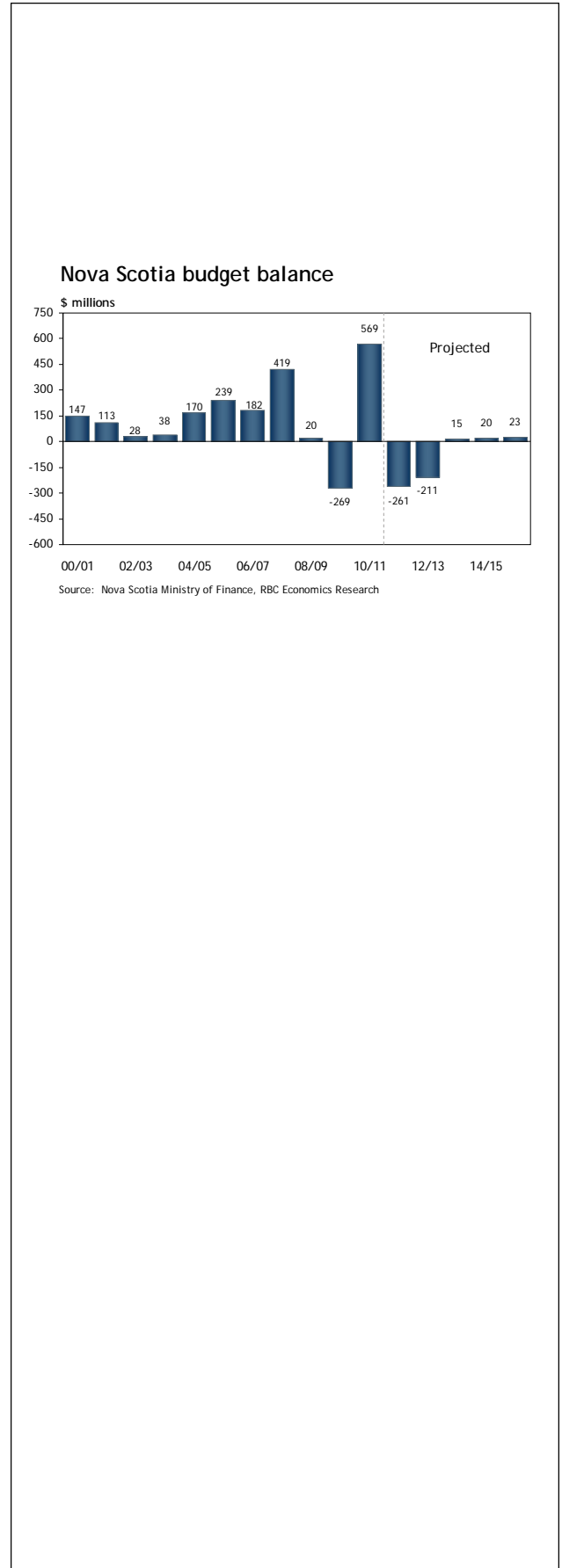
(+59.0%, due to increases in the Nova Scotia Jobs Fund) as well as Service Nova Scotia and Municipal Relations (up 5.8%.)

**Planned capital spending**, which was presented in a separate document last December, is \$610 million in 2012/13. Nearly half of this is earmarked for building and maintaining provincial highways.

**Net debt** is expected to increase to \$13.3 billion in 2012/13. The net debt to GDP ratio is expected to fall to 34.8% at March 31st, 2013, from an estimated 35.2% at March 31st, 2012. The fiscal plan shows net debt to GDP further diminishing to 31.2% by 2015/16. **Provincial borrowing requirements** will be \$1.6 billion, down from \$2.0 billion in 2011/12.

**Economic assumptions** used in the budget projections are quite conservative. The province is planning for 1.7% real GDP growth in 2012, in line with RBC's 1.6% projection; however, the 2013 projection is well below our own at 1.9% (RBC: 3.2%.)

We are now entering the third year of the province's four-year plan to eliminate the deficit, first presented in Budget 2010. The government has so far been able to outperform its targets, with the deficit coming in lower than expected in each of the past two years. To the government's credit, this was mainly due to restraint on the expenditure side: while revenue growth has been in line with that expected in the 2010 budget, expenditure growth has slowed to just 2.0% over the past two years. This is a significant improvement over the 7.5% growth that prevailed from 2005-2010. If the province continues on this track, it should easily be able to meet its goal of balancing the budget in 2013/14, as planned.



## Nova Scotia's fiscal plan

\$ millions	Actual	Estimate	Forecast	Projection	Projection	Projection	Projection
	2010-11	2011-12	2011-12	2012-13	2013-14	2014-15	2015-16
Revenue	8,840	8,524	8,519	8,919	9,183	9,221	9,396
Expense	8,740	9,337	9,224	9,561	9,553	9,594	9,769
Program spending	7,897	8,452	8,386	8,680	8,650	8,662	8,831
Interest on public debt	843	886	838	882	903	931	938
Consolidation adjustments	112	69	77	80	29	29	29
Government Business Enterprises	357	355	367	351	357	363	367
Surplus/ (deficit)	569	-390	-261	-211	15	20	23

Source: Nova Scotia Ministry of Finance, RBC Economics Research

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