

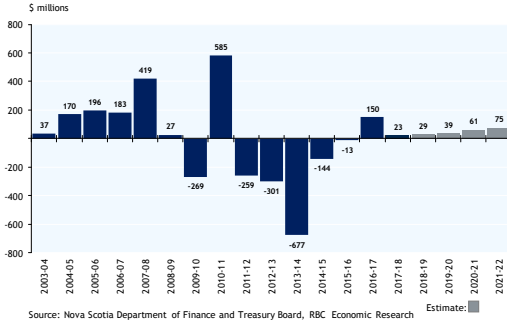
NOVA SCOTIA BUDGET 2018

March 21, 2018

Highlights

- Budget 2018 encouragingly indicated that Nova Scotia will record its third consecutive budget surplus in FY18/19.
- The budget also indicated that the FY17/18 came in slightly stronger than what was projected a year ago.
- The province also expects to maintain a surplus position through the medium term though expected lower equalization payments from the federal government suggests a downside risk to the fiscal outlook.
- The province saw revenues come in much stronger than expected in FY17/18 though this largely reflected the impact of a one-time upward hit related to offshore petroleum royalties. This additional revenue was largely used to fund a number of initiatives announced in Budget 2018 such as increased funding for health and education.

Nova Scotia Budget Balance (after adjustment)



Source: Nova Scotia Department of Finance and Treasury Board, RBC Economic Research Estimate: ■

Overview

Nova Scotia's 2018 budget continues to show the province sustaining a modestly improving budget surplus through the medium term. The surplus in FY17/18 is in fact estimated to come in slightly higher at \$23.2 million versus the \$21.3 million projected last budget. This improvement is relatively modest given that the level of FY17/18 revenues were an impressive \$167 million higher benefiting mainly from a one-time upward lift from petroleum royalties and to a lesser extent stronger-than-expected economic growth. However, the government opted to take advantage of this unexpected gain by boosting FY17/18 expenditures through various initiatives by \$163 million. This was reminiscent of the recent federal budget where additional revenues from stronger growth nationally were immediately used to increase spending. The key difference is that the Nova Scotia government did so while maintaining a budgetary surplus whereas the federal government opted not to pay down a projected deficit. The maintenance of a small surplus does leave the Nova Scotia government in a stronger fiscal position to deal with any adverse near-term economic shock relative to the federal government.

Most of the out years of the four-year plan are similarly showing a slightly higher surplus with the exception being FY19/20 where the surplus was lowered to \$39.1 million from the previously projected \$46.0 million. The results largely stemmed from FY 19/20 revenue growth being cut relative to what was projected in Budget 2017. The Nova Scotia government attributed this to a downwardly revised assumption related to equalization payments from the federal government that contributes to revenue growth of only 0.4% in that fiscal year. To maintain the projected surplus in FY19/20 the government plans to cut expenditure by 0.1%. There is no indication in Budget 2018 how these savings will be achieved. Revenues bounce back over the next two fiscal years which is likely in part related to GDP growth jumping higher in 2020 benefitting

Table 1: Economic Assumptions

Year-over-year % change	Forecast	
	2018	2019
2018 Budget		
Real GDP growth	1.0	0.8
CPI	1.7	2.0
Nominal GDP growth	2.9	2.9
Unemployment Rate*	8.5	8.3
Employment growth	0.1	0.1
RBC Economics		
Real GDP growth	0.8	0.6
CPI	1.7	1.9
Nominal GDP growth	2.7	2.6
Unemployment Rate*	8.0	7.7
Employment growth	0.0	-0.1

*Average level

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



from the “second phase of combat vessel construction at the Halifax Shipyard.” However, the budget does hint at some downside risk to the revenue projections in the out-years related to possible continued weak equalization payments to the province by the federal government. Any revenue shortfall and/or the inability to lower FY19/20 expenditures could jeopardize the maintenance of the province’s surplus position over the medium term.

Budget Balance Profile

Nova Scotia’s Budget 2018 indicates that the province will record its third consecutive budget surplus in FY18/19. The FY17/18 surplus was revised slightly higher to \$23.2 million from the \$21.3 million projected a year ago. The fiscal plan continues to show a gradually improving surplus through the medium term rising to \$75.0 million by FY21/22. The surpluses are in the main larger than what was projected in last year’s budget. The exception is a smaller FY19/20 surplus that was revised down to \$39.1 million from a previously-estimated \$46.0 million.

Revenues

The upward revision to FY17/18’s surplus was attributable to revenues coming in much stronger than expected rising 5.2% in the year and thus surpassing last year’s projected level by \$166.9 million. This was in large part due to a one-time bump-up in royalty payments and to a lesser extent stronger nominal GDP growth in both 2017 and 2018. With the adjustment to the royalty payments not persisting, it contributes to FY 18/19 revenue growth slowing that year to 0.6%. The introduction of the tax on cannabis in FY18/19 provides some offset though it is projected to only add \$10.4 million to revenues. Budget 2018 is now indicating that the weaker revenue growth will persist with FY19/20 rising only 0.4%. Last year’s budget projected a rebound in FY19/20 revenue growth to 1.4%. The Nova Scotia government attributed this greater weakness to a downward revision to equalization payments by the federal government to the province. Revenue growth then does rebound back above 3% over the next two years. In part this reflects GDP growth rebounding as a second phase of the federal government shipbuilding contract occurs in 2020. However, it may also reflect some recovery in equalization payments though as Budget 2018-19 warns there are potential “downside risks for revenues” in those out years.

Expenditures

The greater-than-expected jump in revenues in FY17/18 helped boost expenditures by an additional \$163 million that contributed to overall expenditure growth rising 5.8% in the year. Last year’s budget had already allowed for a solid increase though a lesser 4.2%. These additional funds were used to fund better internet services to under-served communities (\$109 million), along with increased funding for health (\$50 million) and education (\$40 million) along with initiatives to promote better energy efficiency (\$24 million). Some offset is expected from a reduction in restructuring costs (\$75 million).

Beyond FY17/18, expenditure growth slows to 1.8% in FY18/19 before stalling completely in FY19/20 dropping 0.1% in the year. There is no detail provided as to the source of this falloff in spending. However, it does coincide with the above mentioned drop in revenues and thus does allow the government to continue to show a modestly rising surplus in FY19/20. In the following two fiscal years expenditure growth bounces back strongly averaging 3% with spending seemingly being funded by the projected recovery in revenues in those last two fiscal years.

Net Debt

The province’s net debt rises from \$15.0B in FY17/18 to \$15.2B in FY18/19 and \$15.5B by Y 21/22. The combination of stronger nominal GDP growth in both 2017 and 2018 along with the FY17/18 deficit coming in lower than expected resulted in Nova Scotia’s FY17/18 net debt-to-GDP ratio coming in at a lower 34.9% relative to the 35.5% projected a year ago. The maintenance of a small surplus through the forecast along with the expectation of continued modest GDP growth results in this ratio continuing to trend lower averaging 32.1% in FY21/22. Nova Scotia largely sits ‘in the middle of the pack’ among the ten Canadian provinces in terms of its net debt-to-GDP ratio. The province appears to be on track to meet its target of a 30% net debt-to-GDP ratio by 2024.

Borrowing Requirement

The provincial government projects term debt borrowing requirements of \$1.4B in FY18/19, \$1.7B in FY19/20, \$1.2B in FY20/21 and \$1.1B in FY21/22. This compares to the \$0.8B completed in FY17/18.

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

	Forecast		Estimate		
	2017-18	2018-19	2019-20	2020-21	2021-22
Total Revenue	10,741	10,810	10,859	11,270	11,614
Departmental and Other Expenses	9,838	9,969	9,984	10,431	10,785
Public Debt Charges	838	894	864	807	776
Total Expenses	10,676	10,863	10,849	11,237	11,561
Accounting Adjustments	69	82	29	29	22
Contribution to Fiscal Capacity for Provincial Health Complex	-110				
Net Budgetary Balance (after adjustments)	23	29	39	61	75
Net Debt	15,051	15,171	15,272	15,491	15,527
Nominal GDP	43,099	44,329	45,604	47,224	48,406
Net debt to GDP Ratio	34.9%	34.2%	33.5%	32.8%	32.1%

Source: Nova Scotia Department of Finance and Treasury Board