

## NOVA SCOTIA BUDGET 2020

February 26, 2020

### Businesses get a break while capital investments soar

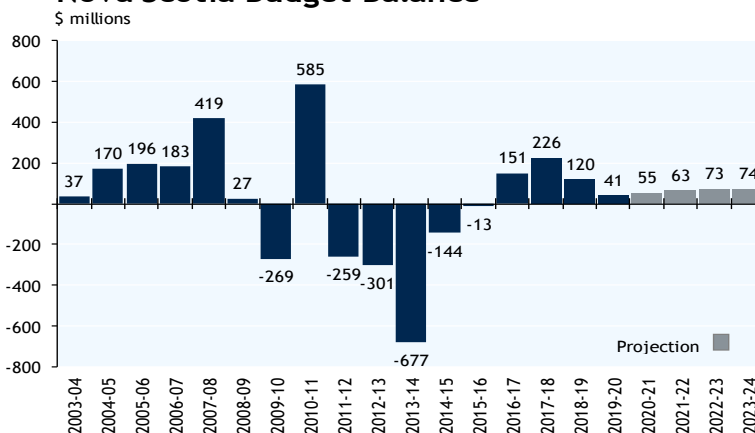
- Businesses to get a tax break with the reduction of both corporate income tax and small business income tax
- 2020 capital plan will be largest single-year funding in province's history (\$1 billion)
- Budget 2020 projects a fifth-straight surplus of \$55 million in FY 20/21
- Four-year fiscal plan will stay in the black thereafter

### Strong capital spending sets the tone for Budget 2020

Nova Scotia's Minister of Finance Karen Casey presented a fifth consecutive balanced budget with surpluses projected through the next four years. Some of the measures included in the budget were previously announced— including a corporate income tax rate reduction as well as a blockbuster capital plan. The capital plan with a total budget of \$1 billion will invest in schools, healthcare redevelopment, hospitals and medical facilities as well as roads and other infrastructure. The current estimate of the FY 19/20 surplus is \$41 million—larger than the \$34 million projected in Budget 2019. Going forward, both revenue and expenditure growth is expected to be modest over the four year plan. Revenues are forecast to grow 1.6% on average, while expenses will rise by a slightly smaller 1.4%. This narrow gap between their growth rates means the province will maintain slim surpluses – however economic headwinds could easily throw this off kilter.

The government forecast significantly slower economic growth in 2020 at 0.4% (compared to the estimate in Budget 2019 of 0.9%) owing to the Northern Pulp mill closure. There is no mention of any contingency funds built into this budget to protect against any negative shocks.

**Nova Scotia Budget Balance**



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

### Some tax cuts for businesses, and increased access to child benefits

In FY 20/21, revenues are expected to rise by 1.6%, largely thanks to higher federal transfers. Equalization payments are projected to increase by 6.8%. This helps with rolling out new initiatives for households and businesses, including the corporate income tax rate reduction of 2 percentage points from 16% to 14% (beginning on April 1, 2020), that is expected to cost the government \$70.5 million in lost revenues. The small business tax rate reduction (also set for April 1) from 3% to 2.5% will cost \$10.5 million. The low income

#### Economic growth assumptions

	2020	2021	2022	2023
<b>Real GDP growth (%)</b>				
Budget 2020	0.4	1.2	1.0	1.2
RBC	1.1	1.4		
<b>Nominal GDP growth (%)</b>				
Budget 2020	2.4	3.2	3.1	3.2
RBC	3.1	3		

Source: Nova Scotia Ministry of Finance, RBC Economics

threshold for eligibility towards the Nova Scotia Child Benefit has also been increased to \$34,000, making 28,000 more families eligible and costing \$18 million. Other measures include the extension of the digital media tax credit for another five years, as well as an increase in the tobacco tax, and the introduction of a vaping product tax.

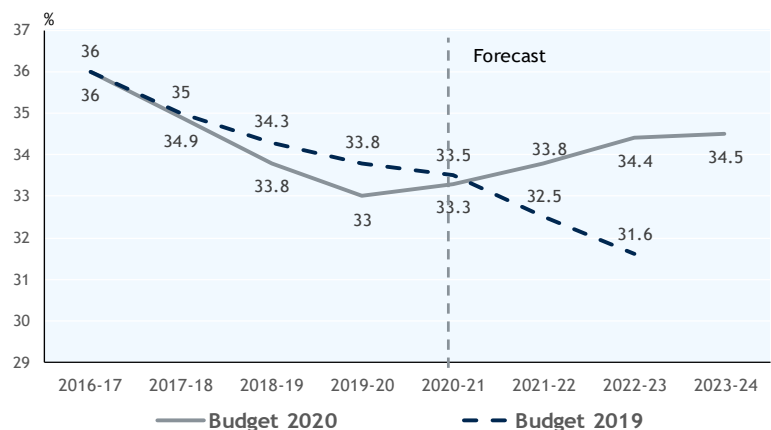
## Spending initiatives focused on health and education

The government projects expenditures will rise 1.2%. More than half the ministries will get an increase, with education and early childhood spending rising 3.4% and health and wellness rising 2.3%. New initiatives include improving doctor recruitment and retention (\$75.3 million) as well as inclusive education and student loan forgiveness programs (\$15 million). Spending cuts were announced in several departments with the largest cut in the department of business which deals with promoting entrepreneurship and attracting venture capital investment.

## Net debt-to-GDP to increase through fiscal plan

Net debt is expected to grow to \$15.7 billion in FY 20/21 from \$15.2 billion in FY 19/20, primarily due to the major capital investments. It will also increase each year of the fiscal plan to reach \$17.9 billion in FY 23/24. This means net debt to GDP will rise from 33% in FY 19/20 to 34.5% in FY 23/24 – a reversal of trend from the previous budget which expected this ratio to decline through the fiscal plan. However, it is still lower than the 10-year average of 35.8%. Debt servicing costs are expected to decline by 10% to \$758.4 million due to lower effective interest rates.

### Debt to GDP



Source: Nova Scotia Ministry of Finance, RBC Economics

## Higher borrowing to fund capital investments

The government projects borrowing requirements to be \$1.52 billion in FY 20/21 – an increase of 16.7% from the previous year due to net acquisition of tangible capital assets. Total borrowing is expected to be \$1.42 billion in FY 21/22, \$1.1 billion in FY 22/23 and \$368 million in FY 23/24.

Nova Scotia's fiscal plan						
(\$ billions)	Forecast	Estimate				
	2019/20	2020/21	2021/22	2022/23	2023/24	
<b>Total revenues</b>	11.4	11.6	11.9	12.0	12.2	
<b>Total expenditures</b>	11.5	11.6	11.8	11.9	12.1	
<b>Program spending</b>	10.6	10.9	11.1	11.3	11.5	
<b>Debt servicing costs</b>	0.8	0.8	0.7	0.7	0.7	
<b>Consolidation and Accounting Adjustments</b>	0.11	0.07	0.03	0.02	0.02	
<b>Surplus/(Deficit)</b>	0.041	0.055	0.063	0.072	0.074	