

Contributors

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Current-Year Fiscal Forecast \$ millions except where noted

	FY22		FY23
	Dec. '21	Bud.'23	Bud.'23
Personal Income Tax	3,170	3,173	3,283
Corporate Income Tax	508	518	536
Harmonized Sales Tax	2,137	2,080	2,177
Other Taxes	985	1,030	724
Tax Revenues	6,800	6,800	6,720
Other Own-Source Revenue	460	566	470
Own-Source Revenue	7,261	7,367	7,189
Gov. Bus. Ent. - Net Income	403	400	420
Ordinary Recoveries	779	346	358
Federal Transfers	4,341	4,766	4,695
Total Revenue	12,784	12,878	12,662
Program Spending	11,939	12,247	12,616
Debt Service	689	682	676
Total Expenditure	12,852	12,929	13,292
Consolidation & Adjustments	176	159	124
Provincial Balance	108	108	-506
Memo Items, %			
Budget Balance / GDP	0.2	0.2	-1.0
Debt Service / Revenue	5.4	5.3	5.3
Net Debt / GDP	31.2*	33.5	34.9

* Estimated by Scotiabank Economics.
Sources: Scotiabank Economics, Nova Scotia Finance, Statistics Canada.

Nova Scotia: 2022–23 Budget

THE TIDE TURNS TO DEFICITS

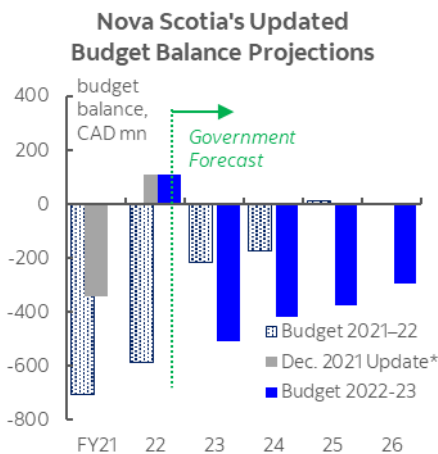
- **Budget balance forecasts: +\$107.6 mn (+0.2% of nominal GDP) in FY22, -\$506.2 mn (-1.0%) in FY23, -\$418.8 mn (-0.8%) in FY24, -\$377.3 mn (-0.7%) in FY25, -\$293.7mn (-0.5%) in FY26 (chart 1).**
- **Net debt: expected to decline from 36% of nominal GDP in FY21 to 33.5% in FY22, then climb gradually to 40% by end-FY26—three-quarters of the increase in net debt driven by the government’s record-level capital spending plan (chart 2).**
- **Real GDP growth forecasts: +3.1% in 2021, +2.1% this year, +1.6% in 2023, -0.2% in 2024, and +0.9% in 2025; medium-term outlook sensitive to the timing of major projects and infrastructure construction.**
- **Borrowing program: \$1.1 bn in FY22, \$1.6 bn in FY23 (\$600 mn has been pre-financed), \$2.1 bn in FY24, \$1.6 bn in FY25, and \$1.3 bn in FY26.**
- **Absent a plan to return to balance, the budget mostly constrains spending growth within the bound of revenue gains to gradually reduce the shortfalls. Lifted spending profile and hefty capital investments are front and center in the plan, which should support growth in the medium term.**

OUR TAKE

Nova Scotia’s 2022–23 budget took a turn from a modest surplus of +0.2% of GDP in FY22 to projecting a deficit of -1.0% of GDP in FY23. This is predominantly the result of a revenue slide of -1.7% after the one-time windfalls in FY22, coupled with a decent 2.8% increase in total unadjusted spending. In their first budget, the Progressive Conservative government pencilled in higher spending assumptions from FY23 to FY25, which resulted in slightly larger outer year shortfalls versus the last budget. The province now expects deficits to decline gradually from just above -1% of GDP in FY23 to -0.5% of GDP in FY26, versus last budget which had an FY23 deficit of -0.4% of GDP and declining thereafter to near-balance by FY25.

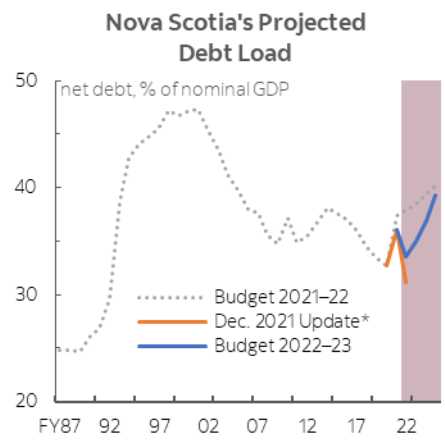
The budget raised the province’s spending profile since the last budget. The new plan expects FY23’s total spending (before consolidation & adjustments) to increase by 2.8%, whereas a 2% contraction was pencilled in the last budget. This allows the government to increase spending in priority areas such as health (+3.8% in FY23), education (+6.7%) and

Chart 1



* FY21 figure is final result.
Sources: Scotiabank Economics, Nova Scotia Finance.

Chart 2



* FY21 figure is final result. FY22 figure is estimated by Scotiabank Economics. Sources: Scotiabank Economics, Finance Canada, Nova Scotia Finance.

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long-term care (+6.5%). In outer years, total pre-adjustment spending is set to grow by an annual average of 1.7%, slightly slower than projected revenue growth.

Overall revenue is projected to fall by 1.7% in FY23 after a 4.8% growth in FY22. Despite robust growth in PIT, CIT and HST, tax revenues are set to fall in FY23 after the FY22 figure is adjusted higher. Federal transfers are forecast to drop by 1.5%, further unwinding the revenue gains from the fiscal year prior. The budget introduced some new tax measures to help improve housing affordability in the province, namely, a 5% deed transfer tax (effective April 1, 2022) and a 2% property tax (effective for FY23) for non-residents of Nova Scotia. In outer years, total revenue is projected to grow at an annual average of 2.9%.

The budget continues to build on characteristically conservative growth assumptions, setting up potential for outperformance. The budget's real GDP growth assumptions are 0.5 ppts lower each year than our latest forecast from 2021 to 2023. Meanwhile, Nova Scotia's economy has strong momentum. Having officially passed the one million population milestone, the province maintains a positive outlook of its population growth in the medium-term, supported by the Atlantic Immigration Pilot program. The tourism-related industries—which remained around 40% below pre-pandemic levels near the end of 2021—should lead the recovery as the COVID-19 public health restrictions are lifted.

Net debt is projected to jump by 6.5 ppts as a share of output from 33.5% in FY22 to 40% in FY26, with roughly three-quarters of the increase contributed by elevated capital investments. The province expects another record year in capital spending, with a total of more than \$1.5 bn planned for FY23, 35% higher than in FY22. Health and wellness infrastructure spending doubled to over \$600 mn, with \$465 mn for two ongoing hospital projects, as well as \$123 mn for other hospital and medical facility improvements. Investments in transportation infrastructure will rise to above \$500 mn in FY23, as a part of the Five Year Highway Improvement Plan.

Nova Scotia's borrowing program is expected to pick up in light of stepped-up capital outlays and anticipated deficits. Borrowing requirements for FY23 are expected to increase to \$1.6 bn, slightly lower than the actual cash requirements due to the \$600 mn borrowing pre-accumulated in the past years. While maintaining access to the US and global bond markets, Nova Scotia intends to borrow primarily in the domestic debt markets for FY23. In outer years, the long-term borrowing program is set to reach \$2.1 bn in FY24, then gradually steps down to \$1.3 bn in FY26. Overall, the FY23–25 cash requirements are a cumulative \$1.9 bn more than forecast in the last budget.

Outer-Year Fiscal Forecast					
\$ millions except where noted					
	FY22	FY23	FY24	FY25	FY26
Ordinary Revenue	11,714	11,441	11,657	12,051	12,440
Ordinary Recoveries	764	802	818	764	765
GBE Net Income	400	420	436	449	457
Total Revenue	12,878	12,662	12,911	13,264	13,662
% change	4.8%	-1.7%	2.0%	2.7%	3.0%
Departmental Expenses	12,080	12,423	12,434	12,705	13,020
Refundable Tax Credits	105	122	123	124	125
Pension Valuation Adjustment	62	72	70	80	72
Debt Service Costs	682	676	704	734	740
Total Expenses	12,929	13,292	13,331	13,642	13,956
% change	2.4%	2.8%	0.3%	2.3%	2.3%
Consolidation & Accounting Adj.	158.6	124.4	1.4	1.1	0.7
Provincial Balance	107.6	(506.2)	(418.8)	(377.3)	(293.7)
Budget Balance / GDP	0.2	(1.0)	(0.8)	(0.7)	(0.5)
Net Debt	16,806	18,397	20,130	21,779	22,875
Net Debt-to-GDP Ratio	33.5%	34.9%	36.9%	39.2%	40.0%

Source: Nova Scotia Finance.

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