

# BUDGET ANALYSIS

## Nova Scotia: Budget 2024

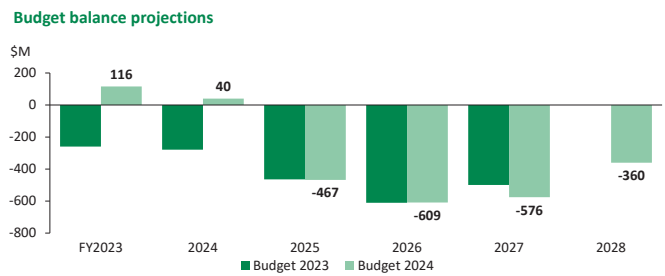
### More Population Outperformance Drives More Spending

By Marc Desormeaux, Principal Economist, and Kari Norman, Economist

#### HIGHLIGHTS

- ▶ Nova Scotia’s (NS) fiscal year 2024–25 (FY2025) budget again increased spending plans and continues to expect red ink for the foreseeable future (graph 1). Table 1 on page 2 summarizes the province’s updated fiscal forecasts.
- ▶ Although new spending and infrastructure investments will put upward pressure on the debt burden, this is arguably necessary given the strength of recent and projected population growth. And a boost to the province’s forecast net debt-to-GDP ratio versus last year’s plan partly reflects historical revisions to GDP data.
- ▶ Spending measures were concentrated in the healthcare sector, while the province will also increase its personal income tax brackets and basic personal tax amount according to the rate of inflation.
- ▶ Borrowing requirements are now expected to total \$2.6B in FY2025, \$3.4B in FY2026, \$2.0B in FY2027, and \$2.6B in FY2028.

**Graph 1**  
Nova Scotia’s Bottom Line

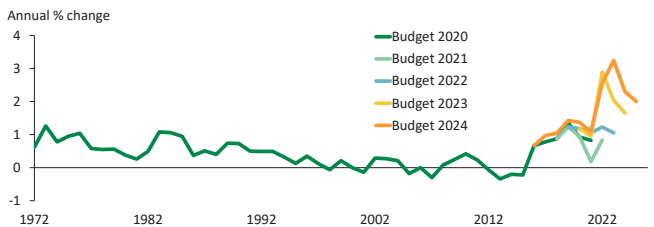


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#### Our Takeaways

Whether you like Nova Scotia’s fiscal plan ultimately depends on what role you think government ought to play in absorbing surging population gains; in this instance, we see a compelling argument for a bigger public sector footprint. While all provinces were experiencing record or near-record headcount gains as of [the last data release](#), NS’s rate of expansion stands out. The surge of more than 3% last year was nearly triple the record annual pre-pandemic rate (graph 2)—no other province has seen that much of an acceleration. Moreover, consistent with Budget 2024 demographic projections, we see potential for further advances well above the long-run trend, given NS’s draw to immigrants and non-permanent residents. Relative housing affordability and the province’s status as Atlantic Canada’s high-wage services hub are also [increasingly attracting younger Canadians](#). Against

**Graph 2**  
Unfathomably Strong Population Growth Arguably Necessitates New Spending



Statistics Canada, Nova Scotia Ministry of Finance and Desjardins Economic Studies

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**TABLE 1**  
**Updated Nova Scotia Fiscal Forecasts**

IN \$M (UNLESS OTHERWISE INDICATED)	2023–2024		2024–2025		2025–2026		2026–2027		2027–2028
	Q2 FY2024	Budget 2024	Budget 2023	Budget 2024	Budget 2023	Budget 2024	Budget 2023	Budget 2024	Budget 2024
Total revenues	14,840	15,531	14,348	15,844	14,764	16,240	15,026	16,669	16,999
% change	5.4	10.3	1.3	2.0	2.9	13.2	1.8	2.6	2.0
Total expense	15,260	15,644	14,972	16,519	15,533	17,054	15,681	17,444	17,552
% change	4.9	7.5	1.0	5.6	3.7	13.9	1.0	2.3	0.6
Program spending	14,470	14,851	14,175	15,696	14,693	16,155	14,778	16,443	16,495
% change	4.3	7.0	0.9	5.7	3.7	14.0	0.6	1.8	0.3
Debt servicing costs	790	792	797	823	840	900	903	1,001	1,057
% of total revenues	5.3	5.1	5.6	5.2	5.7	5.5	6.0	6.0	6.2
Consolidation and accounting adjustments	156	153	160	208	158	205	155	200	192
<b>Budget balance</b>	<b>-264</b>	<b>40</b>	<b>-464</b>	<b>-467</b>	<b>-611</b>	<b>-609</b>	<b>-499</b>	<b>-576</b>	<b>-360</b>
% of GDP	-0.5	0.1	-0.8	-0.8	-1.0	-1.0	-0.8	-0.9	-0.6
Net Debt, % of GDP	—	33.3	34.8	34.6	35.8	36.2	36.2	37.5	38.4
<b>Borrowing Program</b>	<b>—</b>	<b>2,018</b>	<b>2,296</b>	<b>2,598</b>	<b>2,209</b>	<b>3,422</b>	<b>1,145</b>	<b>1,957</b>	<b>2,585</b>

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that backdrop, and with the [costs of population aging becoming clearer](#), a focus on ramping up strategic investments makes sense.

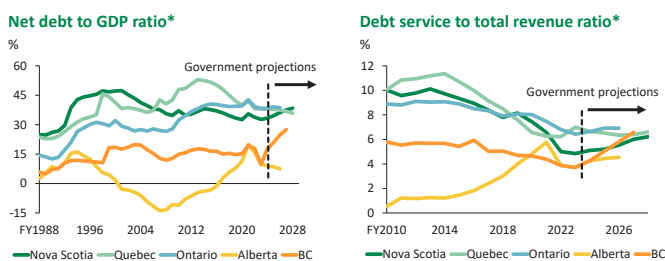
The higher projected spending and infrastructure outlays somewhat alter Nova Scotia’s fiscal position relative to other provinces in Canada. Its forecast debt-to-GDP ratio is on track to surpass those forecast by Quebec and Ontario at mid-year, though it remains to be seen how those jurisdictions’ projections will evolve. Keep in mind as well that increases to the ratio versus last year partly reflects Statistics Canada’s historical downward revisions to provincial nominal GDP since the last budget. In any case, more optimistically, NS’s debt service-to-revenue ratio remains below those of Quebec and Ontario (though above that of Alberta). If government projections come to fruition, Nova Scotia is also set to gain ground on BC in this respect in the years ahead (graph 3). New Brunswick’s outlook will be key for benchmarking purposes going forward; its budget is scheduled for release on March 19.

from Moody’s, DBRS and S&P in 2023 stated that a meaningful deterioration of budget balances and debt would be needed for a downgrade. Debt and deficit plans were increased relative to Budget 2023, but not meaningful so. That’s particularly true as a share of the economy, given that historical revisions impacted the debt-to-GDP ratio.

**Revenue Details**

Economic assumptions underpinning the plan are more optimistic than ours but look generally reasonable. Unlike most private sector forecasters, Nova Scotia expects growth to pick up this year (table 2). Further upward revisions to population forecasts appear to have been responsible for some of the boost versus last year’s fiscal blueprint. The government noted: “Nova Scotia’s economy is expected to return to trend growth as the population continues to grow and inflationary pressures abate. Residential investment is expected to rebound in 2024 as construction picks up to meet growing housing needs.” Desjardins Economic Studies still has a [below-consensus outlook](#) when it comes to Canadian economic growth this year, so there’s some risk to output and tax revenues to the extent that our forecasts come to fruition.

**Graph 3**  
**How Nova Scotia’s Debt Sustainability Compares**



\* Quebec, Ontario and Alberta figures based on mid-year FY2024 projections  
Provincial budget documents and Desjardins Economic Studies

It’s unclear what impact this plan will have on credit ratings. While organizations like the Parliamentary Budget Office prefer to see declining net debt to GDP ratios, rating affirmations

**TABLE 2**  
**Updated Nova Scotia Economic Projections**

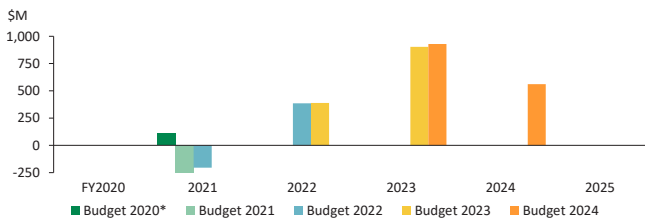
IN \$ MILLIONS (UNLESS INDICATED)	2023	2024	2025	2026
Real GDP Growth (%)				
Q2 FY2024 Update	1.2	1.1	—	—
<b>Budget 2024</b>	<b>1.3</b>	<b>1.7</b>	<b>1.9</b>	<b>2.0</b>
Nominal GDP Growth (%)				
Q2 FY2024 Update	3.2	3.2	—	—
<b>Budget 2024</b>	<b>3.3</b>	<b>3.9</b>	<b>3.3</b>	<b>3.2</b>
Population Growth (%)				
Q2 FY2024 Update	3.2	2.6	—	—
<b>Budget 2024</b>	<b>3.2</b>	<b>2.3</b>	<b>2.0</b>	—

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Nova Scotia’s mid-year update had already showed a prior year adjustment that boosted FY2024 tax revenue projections, but Budget 2024 contained a further increase. This starting point boost appears to have contributed to higher revenues in later fiscal years as well. Like many provinces, Nova Scotia benefited from federal-level changes to its tax base in prior years in FY2022 and FY2023 (graph 4). So far, NS has been spared the big downward revisions seen in Ontario, which delayed plans to balance in that province’s [FY2024 Fall Economic Statement](#) and weakened corporate taxes in the [third quarter update](#). At this stage, windfalls from this channel look to be easing with peak federal government pandemic support now behind us. But we can’t rule out further revisions—up or down—in the future.

**Graph 4**  
**Pandemic Era Revenue Windfall May Have Peaked**

Prior years’ adjustments to Nova Scotia tax revenues

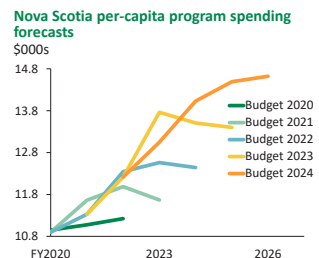
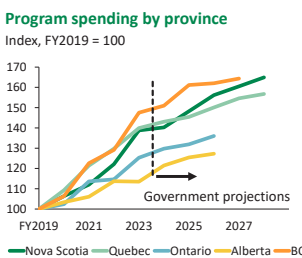


\* Quebec, Ontario and Alberta figures based on mid-year FY2024 projections  
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**Spending and New Policy Measures**

With today’s update, Nova Scotia finds itself closer to the high end of the provincial range when it comes to pandemic era program spending. Relative to Budget 2023, program expenditure forecasts were lifted by nearly \$3B combined in the two years to FY2026. Unlike in prior plans, the government expects to increase the rate of per person spending growth beyond the upcoming fiscal year (graph 5). However, program spending per capita is expected to stay roughly flat beyond FY2025 after adjusting for inflation.

**Graph 5**  
**Digging Deeper Into Nova Scotia’s Spending Plans**



\* Quebec, Ontario and Alberta figures based on mid-year FY2024 projections  
Statistics Canada, provincial budget documents and Desjardins Economic Studies

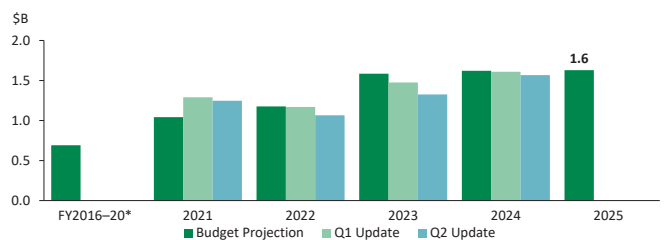
Spending plans are concentrated in the healthcare sector. Budget 2024 includes funds to increase the healthcare workforce, and for the delivery of various programs. It also includes money for children in the public school system and supports to address homelessness.

The signature tax measure of the plan was the indexation of personal income tax brackets and the province’s basic personal amount beginning in 2025. As with similar initiatives enacted in other provinces, these will clearly help the lower-income households that tend to be most impacted during periods of high inflation. But they can also generate gains higher up the income spectrum. To the extent that these amounts are spent, there is some risk of stimulating consumer demand and further inflationary pressures. That said, the peak impact will occur in FY2026, when the risks of reinvigorating inflation will be lower.

According to last week’s FY2025 capital budget, Nova Scotia expects Capital Plan infrastructure spending to reach \$1.6B for the second consecutive year (graph 6). Although delays have impacted prior infrastructure plans, they appear to have been less severe in FY2024 than in previous fiscal years and in other provinces. Though not detailed in the budget, infrastructure plans beyond FY2025 are still expected to contribute to the projected rise in net debt over the forecast horizon.

**Graph 6**  
**Project Delays Plagued Previous Infrastructure Plans**

Nova Scotia Capital Plan spending forecasts



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**Borrowing and Bond Market Commentary**

Presumably driven by increases to outer-year infrastructure spending plans, NS will run a bigger borrowing program than anticipated last year. Borrowing requirements are now expected to total \$2.6B in FY2025, \$3.4B in FY2026, \$2.0B in FY2027, and \$2.6B in FY2028.

As of March 31, 2024, the average term to maturity is expected to be 14.4 years, down slightly from one year prior. That longer-dated maturity profile should offer some protection from interest rate rollover risk. Although Nova Scotia maintains access to

foreign markets, the Canadian debt market is expected to be the primary source of funding in FY2025.

Nova Scotia long bond spreads did not move meaningfully after the release of the budget, which is not surprising given that key fiscal indicators in this plan largely followed last year's blueprint. Going forward, we expect the province's bond yields to be driven primarily by overall risk sentiment. The strength of fiscal metrics versus other provinces' plans—more of which will be released in the coming weeks—will also be important to watch. Over time, investors should respond positively if the province performs well versus budget targets.