BUDGET ANALYSIS

Nova Scotia: Budget 2025

Looking Past the Surplus

By Laura Gu, Senior Economist, Kari Norman, Economist, and LJ Valencia, Economic Analyst

HIGHLIGHTS

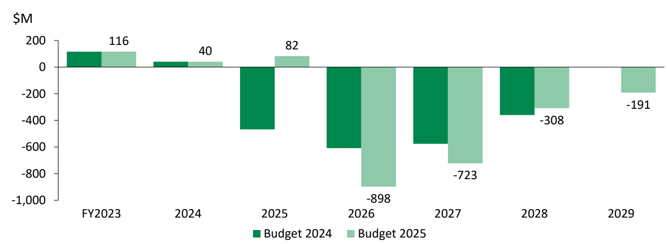
- While Nova Scotia's Budget 2025 lifted its spending plan on the back of recent revenue windfalls, it continues to project deficits over much of the planning horizon (table 1 on page 2). The plan includes a $200M contingency in each year of the planning horizon to address ongoing uncertainties related to US tariffs.
- The current consolidation plan includes a rapid reduction in the deficit and eventually a balanced budget before the contingency by FY29. However, this rests upon somewhat optimistic economic assumptions—the province anticipates robust revenue growth to offset minimal spending increases over the medium term.
- Despite a better starting point, wider deficits and a large capital spending program are expected to drive the net debt-to-GDP ratio sharply upward, reaching over 40% by FY29.
- Borrowing requirements before contingency are now projected to total $3.0B in FY26, $3.5B in FY27 and $3.9B in FY28—a total of $2.4B more than the last budget's projection over the three-year horizon—and $2.6B in FY29.

Our Takeaways

The noteworthy improvement in Nova Scotia's fiscal position in FY2024–25 (FY25), thanks to impressive population-driven growth over the past two years, appears to be a temporary boost. The focus has now shifted to preparing for the impact of tariffs, fulfilling campaign promises and investing in essential government services.

Following a surprise surplus of $82M (0.1% of nominal GDP) in FY24, Nova Scotia projects larger deficits in the next two fiscal years relative to its prior fiscal blueprint (graph 1). This includes shortfalls increasing to -$898M (-1.4%) in FY26 and -$722M (-0.8%) in FY27, after accounting for the $200M contingency introduced in the forecast. Over the medium term, the current consolidation plan rests upon somewhat optimistic assumptions—the province anticipates robust revenue growth of 3.1% annually which offsets the minimal expenditure growth of 1.5%. As a result, there is a rapid reduction of the deficit and eventually a balanced budget by FY29 before the contingency.

Graph 1
Nova Scotia Continues to Expect Red Ink
Budget balance projections*



*As of Budget 2025, starting in 2026 the budget balance includes a contingency fund of $200M.
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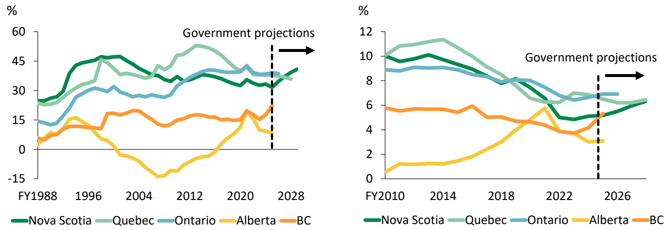
The $200M contingency over the planning horizon is a prudent measure to account for substantial downside risks from expected US tariffs and other headwinds faced by the province. The contingency could be used to offset a revenue loss should the impact of tariffs transpire, or to cover unforeseen spending needs.

The net debt-to-GDP ratio for FY25 is forecast to be 31.6% instead of 34.6% projected in last year's budget, positioning the province's debt burden on a better footing. Wider deficits and a larger capital spending program are expected to drive up the net debt-to-GDP, reaching over 40% by FY29 (graph 2). Nova Scotia's debt burden is on track to top those of Quebec and Ontario, though these provinces will face similar economic headwinds and the trajectory of their projections remains uncertain.

Graph 2
How Nova Scotia's Debt Burden Compares

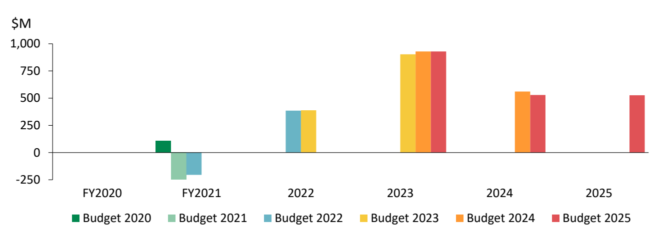


* Quebec, Ontario and Alberta figures based on mid-year FY2025 projections
Provincial budget documents and Desjardins Economic Studies

Revenue Projection Highlights Strong Momentum

The improvement in the FY25 bottom line is attributed to prior-year adjustments (graph 3). FY26 revenue benefits from a strong handoff, projecting a 1.3% growth in tax revenue net of prior years adjustments, and a 4.7% growth in federal transfers. The province anticipates continued robust revenue growth of 4.6% in FY27, followed by an average growth rate of 3.1% over the subsequent two years.

Graph 3
Another Budget, Another Revenue Windfall



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Although Nova Scotia's economy is relatively more insulated from trade shocks than most of its peers, economic assumptions underpinning the plan still appear optimistic. The province expects growth to pick up again this year from last year's strong estimate of 1.9% (table 2 on page 3). In our view, some of the tailwinds that have driven Nova Scotia's outperformance may be dwindling. Population growth has significantly slowed due to the federal government's plan to reduce permanent and non-permanent resident admissions, exacerbated by a reversal of the favorable interprovincial migration trend. Despite the downward revision of population forecasts, the province's economic outlook for this year remains largely unchanged from its previous plan.

Spending and New Policy Measures

Nova Scotia plans to grow its expenses by 3.7% in FY26, following an 8.0% increase in FY25, with a concentrated increase in the healthcare sector. Healthcare spending rose by 11% in FY25 due to higher staffing costs, facility operations, and inflationary increases for supplies, and it's expected to

TABLE 1
Updated Nova Scotia Fiscal Forecasts

	2024–2025		2025–2026		2026–2027		2027–2028		2028–2029
IN $M (UNLESS OTHERWISE INDICATED)	Budget 2024	Budget 2025	Budget 2024	Budget 2025	Budget 2024	Budget 2025	Budget 2024	Budget 2025	Budget 2025
Total revenues	15,844	16,811	16,240	16,506	16,669	17,265	16,999	17,934	18,369
% change	*2.0*	*8.3*	*2.5*	*-1.8*	*2.6*	*4.6*	*2.0*	*3.9*	*2.4*
Total expense	16,519	16,950	17,054	17,569	17,444	18,148	17,552	18,395	18,713
% change	*5.6*	*8.0*	*3.2*	*3.7*	*2.3*	*3.3*	*0.6*	*1.4*	*1.7*
Program spending	15,696	15,907	16,155	16,495	16,443	16,926	16,495	17,053	17,238
% change	*5.7*	*8.0*	*2.9*	*3.7*	*1.8*	*2.6*	*0.3*	*0.8*	*1.1*
Debt servicing costs	823	869	900	909	1,001	1,029	1,057	1,137	1,249
% of total revenues	*5.2*	*5.2*	*5.5*	*5.5*	*6.0*	*6.0*	*6.2*	*6.3*	*6.8*
Consolidation and accounting adjustments	208	221	205	366	200	361	192	353	353
Budget balance - Before Contingency	**-467**	**82**	**-609**	**-698**	**-576**	**-522**	**-360**	**-108**	**9**
% of GDP	*-0.8*	*0.1*	*-1.0*	*-1.1*	*-0.9*	*-0.8*	*-0.6*	*-0.2*	*0.0*
Net Debt, % of GDP - Before Contingency	*34.6*	*31.6*	*36.2*	*34.3*	*37.5*	*36.6*	*38.4*	*38.4*	*39.8*
Contingency	—		—	-200	—	-200	—	-200	-200
Budget balance - After Contingency		**82**		**-898**		**-722**		**-308**	**-191**
% of GDP		*0.1*		*-1.4*		*-1.1*		*-0.4*	*-0.3*
Net Debt, % of GDP - After Contingency		*31.6*		*34.6*		*37.2*		*39.3*	*40.9*
Borrowing Program	**2,598**	**2,532**	**3,422**	**3,171**	**1,957**	**3,678**	**2,585**	**4,124**	**3,666**

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TABLE 2
Updated Nova Scotia Economic Projections

	2024	2025	2026
Real GDP Growth (%)			
Budget 2024	1.7	1.9	2.0
Budget 2025	**1.9**	**2.0**	**1.8**
Nominal GDP Growth (%)			
Budget 2024	3.9	3.3	3.2
Budget 2025	**4.8**	**4.7**	**4.3**
Population Growth (%)			
Budget 2024	2.3	2.0	—
Budget 2025	**1.9**	**0.9**	**0.8**

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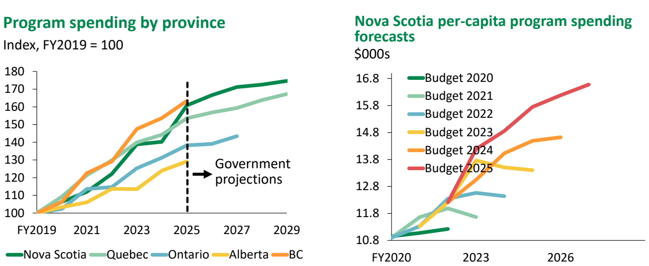
grow by another 3.6% in FY26. Education and Early Childhood Development is also receiving a boost, accounting for over one-third of the spending increases. The debt-servicing cost saw further upward revisions as it continues its trajectory of expanding by 6% each year over the planning horizon.

With a higher starting point, Nova Scotia's spending profile has been lifted again compared to its last fiscal blueprint, with program spending growing more than the other provinces since the pandemic (graph 4). Over the medium term, annual spending growth is projected to average 3.2% annually between FY26 and FY29, outpacing population growth. Consequently, program spending per capita should continue to rise.

Graph 4
Per-capita Program Spending Continues to Rise



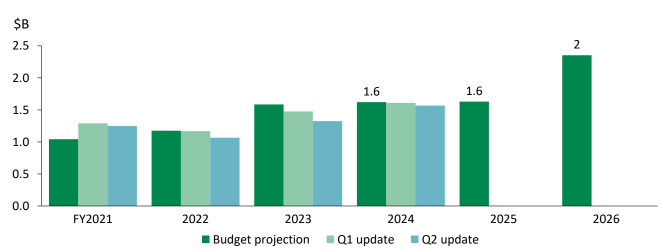
* Quebec, Ontario and Alberta figures based on mid-year FY2025 projections
Statistics Canada, provincial budget documents and Desjardins Economic Studies

The signature policy measure in Budget 2025 is a permanent one percentage point reduction in the Harmonized Sales Tax (HST) to 14%—one of the government's campaign promises—with an estimated cost of $294M in FY26. The small business tax rate will also be reduced from 2.5% to 1.5% and the small business threshold will be increased from $500K to $700K.

Capital Spending to Support Growth

Capital spending is projected to reach $2.35B in FY26, with a focus on health infrastructure, public housing and other critical projects, building on FY25's planned outlay of $1.6B (graph 5). This strategic investment aims to stimulate the economy amid the threat of US tariffs but will also contribute to the anticipated rise in the net debt burden.

Graph 5
Major Infrastructure Spending to Boost Growth



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Borrowing Program

Nova Scotia is expanding its borrowing program, with borrowing requirements before contingencies now projected to total $3.0B in FY26, $3.5B in FY27 and $3.9B in FY28—a total of $2.4B more than the last budget's projection over three years—and $2.6B in FY29. Although Nova Scotia retains the ability to borrow in foreign markets, the Canadian debt market is expected to be the primary source of funding to eliminate currency risks. There are no plans to withdraw from the discretionary sinking funds, which maintain a balance of approximately $1.0B.