LAURENTIAN BANK

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Sébastien Lavoie,
Chief Economist
LavoieS@vmbl.ca
514 350-2931

Nova Scotia Budget 2023 – Manageable Deficits Going Forward, Major Efforts to Fix Health Care System

Nova Scotia's population is booming at a year-over-year pace north of 3%, as of 2023Q1. In our *Provincial Outlook* released about a month ago, we highlighted the record number of interprovincial migrants and the arrival of international immigrants, expanding the pool of available workers. Also, the NS government deploys efforts to facilitate the expansion of businesses.

The PC government's dedication to fix healthcare was announced during the 2021 election campaign. Thus, it is not surprising to find out health care spending takes center stage in Budget 2023: a $1.2B, or 22% jump in health care funding from two years ago to support training, hiring and retention of existing and new medical staff, fast-track surgeries, expand seniors and long-term care, etc. Overall, $6.5B will be attributed to health care in FY 2023-24, almost half of total annual expenses tagged at $14.4B.

There is very little change in the key FY 2023-24 figures versus FY 2022-23. Total expenses are poised to barely rise (+0.7%). Total revenues are projected to edge down very mildly (-0.7%). Accordingly, the small $279M deficit does not represent a deterioration, neither an improvement relative to the FY 2022-23 shortfall estimate of $259M. FY 2022-23 stood out as a better-than-expected performance since the deficit was originally projected at $506M in Budget 2022. The NS government spent more, but own-source revenues surpassed expectations significantly, in addition to positive prior years' adjustments. Better-than-expected economic growth contributed to lower the net debt-to-GDP ratio figure to 32.5% in FY 2022-23. This metric sits lower relative to the 33%-38% range observed for most of the 2010s decade. The 4-year fiscal outlook shows larger deficits in Years 2 ($464M), 3 ($611M) and 4 ($499M) as the small average annual growth in expenses (+1.6%) outpaces revenues (+1.2%). Accordingly, the 4-year outlook shows an upward path to the net debt-to-GDP ratio toward 36%. Similar to other provinces, the NS 2023 budget is based on a soft-landing scenario including a 0.6% and 1.4% real GDP expansion in 2023 and 2024. The key development to monitor in upcoming weeks relates to the reaction of U.S. banks in respect to liquidity hoarding and tightening financial conditions for customers.

FY 2023-24 borrowing requirements are projected at $2.0B (including higher cash requirements) versus $1.4B in FY 2022-23 and $1.1B in FY 2021-22. Borrowing activity for FY 2022-23 is completed. The NS government does not anticipate drawing down its $972M discretionary funds to manage interest rates, short-term liquidity and assist in the refunding of maturing debt. Annual debt servicing costs briefly declined below the $700M mark because of stimulative monetary policies triggered by the pandemic but are projected to steadily increase again over time, closer to the usual $750M-$850M range observed in the late 2010s decade.

In summary, the PC government is pushing forward boldly with its objective of improving the health care system. Accordingly, markets should not expect Nova Scotia to return to the streak of steady balanced budgets that characterized the years before the pandemic. Nonetheless, the size of the deficits proposed in FY 2023-24 and beyond are manageable. The net debt-to-GDP ratio is projected to increase mildly — not significantly — over the medium-term. In our view, Budget 2023 should not be interpreted as a game-changer in terms of public finances, nor modify the perception of investors and the three rating agencies that all confirmed a stable outlook last year.

Sébastien Lavoie | Chief Economist
514 213-4571| LavoieS@vmbl.ca