

ECONOMIC RESEARCH AND STRATEGY



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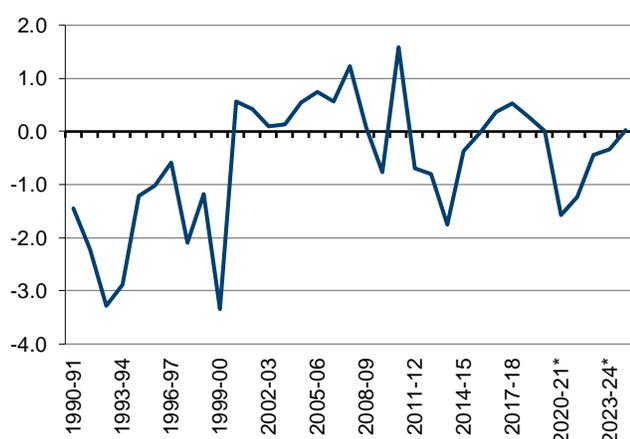
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Nova Scotia Budget 2021: 4-Year Plan to A Balanced Budget

There are plenty of developments in Nova Scotia. First, the Liberal Party elected Iain Rankin as their new leader, in February, making him the 29th provincial Premier. The Province has no fixed election date but the current government will have been in power for four years this May. Talks of a general election are growing and Premier Rankin has until spring 2022 to call one.

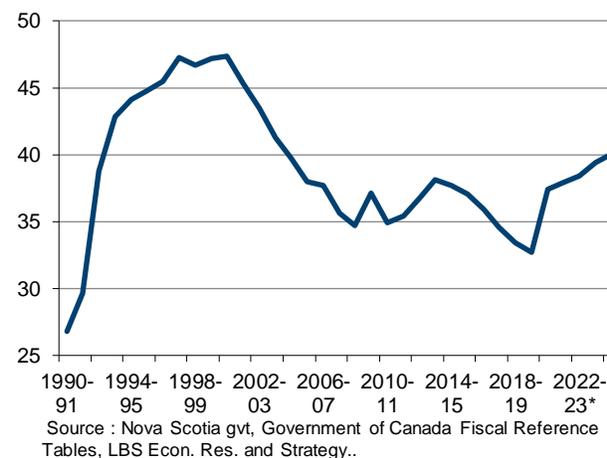
COVID-19 in Nova Scotia applied lighter pressure on the health care system relative to most Canadian provinces. Yesterday, Nova Scotia declared only 25 active COVID-19 cases. Still, the pandemic and the 2020 global economic contraction led to a record 5.3% real GDP contraction last year and a resulting deterioration in public finances. The pandemic ended a bright 4-year surplus streak over which net debt-to-GDP declined from 37.0% to 32.7% (chart 1 and 2).

Chart 1: Nova Scotia Budgetary Balance
% of GDP



Source: Nova Scotia gvt., Stat. Can., LBS Econ. Res. and Strategy

Chart 2: Nova Scotia Net Debt
% of GDP



Source : Nova Scotia gvt, Government of Canada Fiscal Reference Tables, LBS Econ. Res. and Strategy..

The Province forecasts the deficit at \$706M in FY 2020-21 (1.6% of GDP), a notch better than last December's \$779M update. COVID-19 related expenses amount to \$617M in FY 2020-21, the main driver behind the \$571M overrun in department expenses.

The 2021 Budget focuses on supporting individuals during the recovery and include multi-year commitments to reinforce many segments of the health care sector: mental health, long-term care, training, on top of direct COVID-19 expenses. Total spending is pegged at \$12.5B in FY 2021-22, up 2.5% from last year.



Total revenue, penciled at \$11.8B (+3.9%), leads the Province to project a \$585M deficit for FY 2021-22 (1.2% of GDP). The budget assumes a \$90M or 2.1% reduction in federal transfers relative to the previous year.¹ However, yesterday's new C-25 bill unveiled by the federal government will provide a one-time \$103M health care transfer to Nova Scotia in FY 2021-22.

Own-source revenues are projected to increase to \$7.6B in FY 2021-22, \$208M short of the pre-COVID \$7.9B level in 2019-20.² Agriculture, forestry, fishing and the construction sectors are among the main contributors to real GDP growth forecasts of 4.6% in 2021 and 3.4% in 2022.

During his speech at the House of Assembly, Finance Minister Labi Kousoulis said the Province is not running a structural deficit. Accordingly, a 4-year path to balance as the economy moves beyond COVID-19 is possible. The Province plans to balance the books in FY 2024-25, significantly faster than its peers. Accordingly, Nova Scotia will enter the post-COVID era with a relatively strong balance sheet position. Net debt-to-GDP is projected to reach 37.9% in FY 2021-22, growing to 40.1% in FY 2024-25, mainly driven by net capital investment.

Borrowing requirements

In FY 2020-21, the Province borrowed \$2.2B, up from \$1.6B in FY 2019-20. As the province continues to invest in infrastructure and neuralgic services, borrowing requirements remain virtually unchanged at \$2.2B in FY 2021-22, with most borrowing conducted in the Canadian market. From FY 2022-23 to FY 2024-25, as the deficit declines, financing needs will come down to \$1.8B, \$1.3B and \$0.9B, successively. As a measure of prudence, the province continues to hold \$941M in discretionary sinking fund reserves for interest rate and liquidity management purposes.

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¹ Sources to the General Revenue Fund.

² Including revenue from government business enterprises.

