

# ECONOMIC RESEARCH AND STRATEGY



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## **Nova Scotia December Update – Moving closer to a balanced budget**

The second quarterly report shows a significant improvement over the first update released last September, thanks to stronger than anticipated economic growth. The \$506M budgeted deficit, revised up to \$554M three months ago, has been scaled down to \$143M, a mere 0.3% of nominal GDP.

Total revenue is now forecast to reach an impressive \$14B in FY2022-23, up 10% relative to the first update. Of the \$1.3B increase, a substantial \$1.2B comes from provincial tax-related sources with PIT (\$269M), CIT (\$251M) and a non-budgeted adjustment of \$620M related to prior years' taxes as the three main drivers.

This additional revenue allows the province to increase spending in cost of living related items and to invest more in healthcare and energy efficiency programs. Total expenses are projected to reach \$14.3B, a 6.4% climb compared to the September update. Almost half (48%) of this \$856M in extra spending is linked to three departments. First, \$140M is allocated to the Efficiency One program for off-oil homes and heat pumps. Second, an increase of \$138M will go into housing investments, including \$50M in disaster assistance related to Hurricane Fiona. Finally, expenses in the department of service Nova Scotia and internal services are projected to be \$135M higher, allowing for the expansion of the Heating Assistance Rebate Program and to cover the cost of damages and food loss from Fiona. At \$684M (1.3% of NGDP), debt servicing is up \$8M from the budget estimate but down \$4M relative to the September update.

The province has experienced a solid economic performance recently. With the reopening of services sectors including tourism, the 2021 real GDP growth of 6.2% was the second highest among provinces. Surpassing one million people, population increased 2.9% from July 2021 to July 2022, the fastest pace ever. At 1.6% between 2016 and 2021, NS welcomed a higher share of recent immigrants in Canada than in previous periods. And at 6.3% last November, unemployment rate has dropped to a level not seen since the 1970s. The province projects solid real GDP growth of 2.9% at 2022 (up from 2% forecast last September), but has downgraded its 2023 assumption to 0.5% (1.7%



in the first update). Nova Scotia's nominal GDP growth is expected to slow from 6.8% in 2022 to 4% in 2023. The main risks for 2023 are related to persistent high interest rates and to a possible recession impacting the province's major trading partners. In 2021, the top export destinations of Nova Scotia based on nominal merchandise trade were the United States (\$4B), China (\$691M), South Korea (\$130M), Netherlands (\$112M), and Japan (\$110M).

The December update does not include new figures on borrowing requirements previously estimated at \$1.65B. However, the capital spending plan has been revised down from \$1.6B to \$1.3B for FY 2022-23. Also, the deficit reduction of \$411M implies a large reduction in borrowing needs. Our tracking indicates that \$827M in issuance has already been completed so far this year.

In summary, following a \$342B deficit in 2020-21 due to the pandemic and a surplus of \$351B in 2021-22, the province is close to returning to its tendency of a balanced budget, as observed in the four years prior to the COVID-19 shock.

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