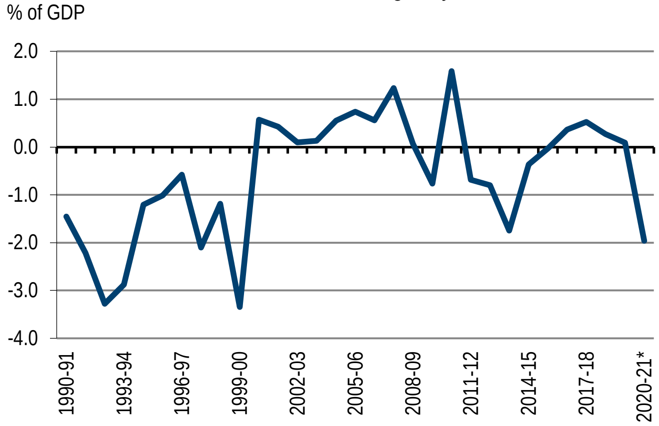
Laurentian Bank Securities
ECONOMIC RESEARCH AND STRATEGY

Nova Scotia First 2020-21 Budget Update

Finance and Treasury Board Minister Caren Casey presented today an update reflecting the impact of the pandemic on Nova's Scotia public finances. The government was predicting a $55M surplus in the February budget. It is now projecting a $853M deficit (2.0% of GDP). This represents the largest deficit as a share of GDP since FY 1999-00 (chart 1).

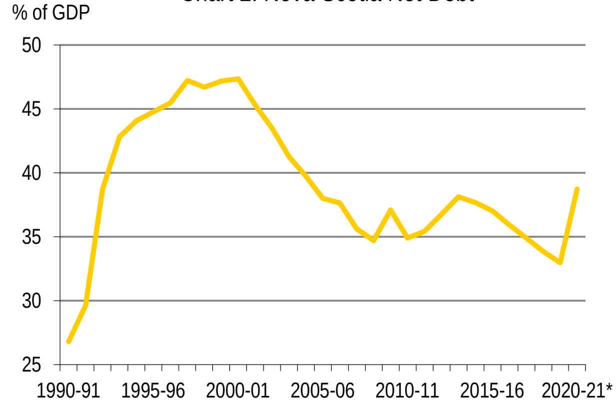
This update presents economic information up to May 22 and available information of revenues and expenses from departments up to early July. The $2.0B deficit estimate is based on a 5.2% nominal GDP contraction in 2020 as media reported that economic growth would fall short of the +2.4% February forecast by 7.6 percentage points. Similar to most provinces, the pandemic has a larger immediate impact on Nova Scotia's fiscal revenues than expenditures. Revenues are down $532M, or -5%, relative to Budget, a modest revision relative to the 7.6% GDP downward revision. HST and CIT are the main revenue categories affected. In contrast, PIT revenues continue to be supported by several federal special programs such as the Canadian Emergency Response Benefit. Spending has risen by $470M, or 4%, relative to the 2020 budget expectation. Departments will spend an additional $443M in FY 2020-21 relative to Budget appropriations and a portion of the $228M stimulus package announced last June is integrated into this year's fiscal framework. Without surprise, the lion's share of additional funding ($339M) goes to personal protective equipment and funding for medical staff.

Chart 1: Nova Scotia Budgetary Balance



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

Chart 2: Nova Scotia Net Debt



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

The 2.0% deficit-to-GDP ratio for FY 2020-21 is smaller than other estimates released recently (BC: 4.4%; QC: 2.8%; PEI: 2.5%, Saskatchewan: 3.4%; N&L: 7.0%). Nonetheless, the pandemic will require additional borrowing on the bond market. We continue to see this year's borrowing program at $2.4B as we highlighted in our report released in late May, up from the government's own $1.5B forecast published in the February budget. So far, $1.3B of the program has been completed, all in Canadian dollars. Net debt is projected to increase by $1.2B to $16.9B in FY 2020-21. The net debt to GDP ratio is projected to remain lower than in the 1990s and 2000s and only a notch higher than after the 2009 financial crisis, reflecting remarkable progress in lowering the debt burden in recent years (chart 2).

Of course, the deficit estimate released today is subject to change. First, the path of the recovery remains tied to the virus. Also, tourism activity will likely take a longer period to recover, a sector more important to employment in NS than in most provinces. On the positive side, the province tends to report zero or very few new daily cases lately. In addition, the expected $250M federal transfer from the Safe Restart Agreement will lead to a positive revision to the bottom line. This new federal funding will be included in the next fiscal update to be published on or before December 31 according to legislative requirements. Finally, the 2020-21 revenues and expenses figures released today could be revised once the final numbers for FY 2019-20 are available. Indeed, the public accounts for FY 2019-20, to be released on or before September 31, will include the initial negative impact of the pandemic on public finances.

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