

ECONOMIC RESEARCH AND STRATEGY



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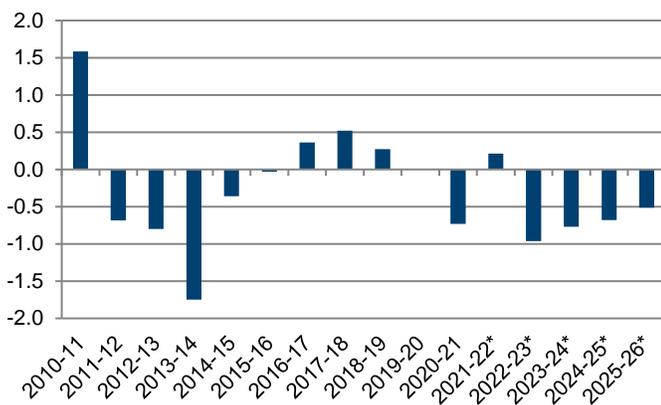
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Nova Scotia Budget 2022: Higher Debt Levels to Fund Infrastructure and Healthcare

In August of last year, Nova Scotia's Progressive Conservative Party led by Tim Houston secured a majority in the Legislative Assembly for the first time since 1999. Yesterday, Finance Minister Allan MacMaster presented the first budget of the PC government. Forecasting moderate deficits over the next 4 years, Budget 2022 aims to improve the healthcare system through additional debt financing.

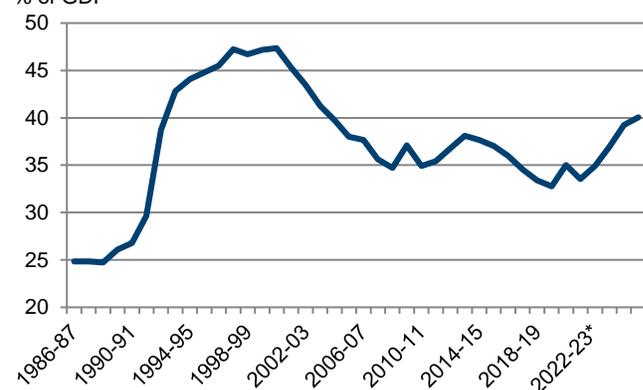
First, Budget 2022 builds on an expected \$108M surplus for FY 2021-22 (0.2% of GDP), up from a \$585M deficit forecast a year ago. Stronger-than-expected economic growth in 2021, as well as prior-year tax adjustments, explain most of the \$1.1B revenue improvement relative to Budget 2021. A \$570M upward revision to program expenses across many departments (advanced education, municipal affairs and housing, health and wellness and communities/culture/tourism/Heritage) partly offset the revenue boost. As a result, Nova Scotia is on track to register its fifth surplus out of the past six years (chart 1).

Chart 1: Nova Scotia Budgetary Balance
% of GDP



Source: Nova Scotia Government and LBS Econ. Res and Strategy calculations.

Chart 2: Nova Scotia Net Debt
% of GDP



Source: Nova Scotia Government, LBS Econ. Res. and Strategy calculations.

Favourable demographics and exports lead to solid economic growth

Following slow growth between 1995 and 2015, Nova Scotia's population increased at a rapid 1.0% annual average pace between 2016 and 2021, resulting from successful immigration retention and positive net interprovincial flows. As a result, Statistics Canada estimates that the province's population reached the 1 million milestone in early 2022. Combined to solid reopening momentum, the Ministry of Finance and Treasury Board estimates that Nova Scotia's real GDP grew 3.1% in 2021, slightly below our 3.5% [January 2022 estimate](#). As the province largely completed its economic and labour market recovery, the government forecasts real GDP growth to slow down in 2022 (2.1%) and return close to potential in 2023 (1.6%). While we anticipate continuous near-term strength in Nova Scotia's export industries,



notably seafood and agriculture products, Canada's turbulent relationship with China and the war in Ukraine inflating commodity prices represent a risk to the outlook.

Healthcare funding and structural deficits

Despite a solid base case economic scenario for 2022, the non-recurrent feature of 2020 tax assessments and a small pullback in federal transfers lead to a 1.7% contraction in total revenue during the FY 2022-23, estimated at \$12.7B. In contrast, the government projects a 3.0% rise in program expenditures. About two-thirds of the increase in departmental expenses will go to healthcare, long-term care and childcare. Objectives include increasing health care staff, virtual care and reducing surgery backlogs. Large \$402M restructuring costs also impact FY 2022-23 expenditures. Overall, the province forecasts a \$506M deficit for the upcoming fiscal year, the largest as a share of GDP since FY 2013-14. Average annual growth in revenue outpaces expenditures over the medium-term, leading to a smaller deficit of \$294M in FY 2025-26 (0.5% of GDP, chart 1).

Record high capital spending and deficits boost debt and borrowing requirements

The NS government uses some of the fiscal space liberated in the years prior to the pandemic to fund new spending and an ambitious \$1.6B capital plan for FY 2022-23 (\$712M in tangible capital assets). Close to \$700M of the capital plan will be allocated to healthcare to modernize hospitals and medical equipment.

The projected borrowing program is therefore \$1.6B for the upcoming fiscal year. This considers \$600M in accumulated pre-financing from previous years. At \$2.1B, borrowings will remain elevated in FY 2023-24, before declining to \$1.6B and \$1.3B in FY 2024-25 and FY 2025-26, respectively. Over the 4-year outlook proposed, net debt-to-GDP is projected to increase significantly, from 33.5% in FY 2021-22 to a two-decade high of 40% in FY 2025-26.

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