

# ECONOMIC RESEARCH AND STRATEGY



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## Nova Scotia First Budget Update and Public Accounts – Improved Results

Newly appointed Finance and Treasury Board Minister Allan MacMaster presented Nova Scotia's [First Budget Update](#) today. It came two weeks after the province released the public accounts for FY 2020-21 revealing a \$342M deficit (1.5% of GDP), half the \$705M Budget 2021 forecast. This large improvement came from lower-than-expected expenditures (-\$235M), a minor increase to revenue (+\$80M) and an upward revaluation of consolidation and accounting adjustments (+\$49M).

Today's update also shows an improvement in the province's fiscal situation. The government now projects a \$445M deficit for FY 2021-22 (0.9% of GDP), down from a \$585M Budget 2021 estimate. The province estimates that nominal GDP only declined by 2.2% in 2020, a much smaller contraction than the 4.6% national average, broadly matching our latest forecasts. A smaller-than-expected 2020 contraction underpins the +\$102M revision to personal income tax revenue in FY 2021-22. PIT revisions also represent the second largest line item improvement in FY 2021-22, behind the +\$103M revision to the Canada Health Transfer. The federal-provincial Canada-wide childcare agreement and a boost to the Canada Community Building Fund, offset by corresponding expenses, mainly explain the \$111M upside revision to ordinary recoveries. Overall, revenues are revised up by \$407M (+3.5%), to \$12.2B, and have more than fully recovered from the effect of the pandemic last year with nominal GDP set to expand by 5.6% in 2021 and 4.4% in 2022.

On the expenditure side, COVID-19 outlays boost the *Health and Wellness* and the *Inclusive Economic Growth* departmental expenses by \$117M and \$57M, respectively. Including the above-mentioned revisions to education and municipal affairs program expenditures, total departmental expenses are revised up \$397M (+3.5%), to \$11.9B. Finally, the Ministry of Finance revises up consolidation and accounting adjustments mainly due to a \$101M one-time gain on the sale of shares in an early-stage technology company. Nova Scotia's vaccination coverage stands higher than the national average, at 72.9%. At 21, the number of new cases per capita registered in the province per day remains below the national average of 79, with only PEI registering fewer cases this week. Also, the level of COVID-19 restrictions is slightly higher than the national level according to the [Bank of Canada stringency index](#). Consequently, the government's outlook for further reopening of the economy, including moving to Stage 5 (the last stage) of the [reopening plan](#) on October 4<sup>th</sup>, should lead to relatively stable expenditures relative to budget, in our view.

Today's fiscal document did not provide an update to the \$2.2B borrowing program for FY 2021-22, completed at 26% according to our calculations. The capital plan has also not changed materially relative to the budget. Nonetheless, the improvement in the provincial deficit will reduce net debt accumulation, all else equal, and therefore could lead to smaller financing needs by the end of this year.

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