CIBC CAPITAL MARKETS

Economics

PROVINCIAL BUDGET BRIEFS

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Andrew Grantham andrew.grantham@cibc.com

Tom Bognar, CFA tom.bognar@cibc.com

Nova Scotia budget 2024

Nova Scotia is now expecting to achieve a budget balance in the outgoing 2023/24 fiscal year, as higher revenues, including a beneficial adjustment in prior years' tax receipts, has more than offset an increase in spending. For the upcoming 2024/25 fiscal year, the province expects to see a return to deficit due to greater spending on priorities such as healthcare and a normalisation in tax receipts which won't be bolstered by that positive prior years' adjustment. The $467mn deficit projected is a fairly moderate 0.8% of GDP. Total funding requirements will increase by about $1.4bn in fiscal 2024/25 relative to the prior year, although a drawdown of short term assets and/or increase in short term borrowing will mean that new bond issuance increases more modestly from $2.0bn to $2.6bn.

Table 1: Summary of fiscal position: (C$millions)

Fiscal measure	2022/23 Actual	2023/24 23 Budget	2023/24 24 Budget	2023/24 Change	2024/25 24 Budget	2025/26 24 Budget	2026/27 24 Budget	2027/28 24 Budget
Revenue	14,547	14,169	15,531	1,362	15,844	16,240	16,669	16,999
• % change	11.0	-1.0	6.8	7.8	2.0	2.5	2.6	2.0
Own source	9,322	8,520	9,651	1,131	9,328			
• % change	18.5	-6.9	3.5	10.4	-3.3			
Federal transfers	4,759	5,364	5,410	47	6,042			
Net income: Govt business enterprises	465	285	470	184	474	473	485	484
Expenditures	14,551	14,820	15,643	823	16,519	17,054	17,444	17,552
Program spending	13,712	13,851	14,660	809	15,536	15,984	16,268	16,308
• % change	13.9	0.1	6.9	6.8	6.0	2.9	1.8	0.2
Public debt charges	671	767	792	25	823	900	1,001	1,057
Pension valuation adjustment	69	67	58	-9	33	42	47	59
Refundable tax credit	98	136	134	-2	126	128	128	128
Consolidation & acct. adjustments	120	372	153	-219	208	205	200	192
Budgetary balance	116	-279	40	320	-467	-609	-576	-360

Nova Scotia GDP growth expected to be moderate

Revisions to previously released Statistics Canada data show that Nova Scotia suffered a modestly worse contraction and slower recovery in economic activity during the pandemic years than initially estimated, which leaves the level of nominal GDP below what was expected in last year's budget. Looking forward, the province is expecting a return to trend growth ahead, with real GDP just below 2% on average and nominal GDP averaging slightly above 3.5% in 2024 and 2025. Consumer spending is expected to slow in 2024, but be offset by an increase in residential investment. While population growth is expected to slow following the record increase of the past year, at 1% a year by the mid 2030's it is still expected to remain stronger than the province experienced throughout much of the early 2000's.

Table 2: Key assumptions (Y/Y % chg)

Economic assumptions	2023	2024	2025
Real GDP	1.3	1.7	1.9
• Private sector average	1.2	1.0	2.0
Nominal GDP	3.3	3.9	3.3
Employment (thousands)	498.0	505.5	515.2
Unemployment rate (%)	6.3	7.4	7.9
Compensation of employees	6.7	3.7	3.7
Retail sales	3.5	2.3	3.1
Corporate profits	-25.5	17.3	15.4
Exports of Goods & Services	-0.6	3.5	3.4
CPI	4.0	2.7	1.9

Table 3: Key financial assumptions

Financial assumptions	2024	2025
Exchange rate (US¢/C$)	74.3	76.6

Slight surplus in 2023/24 expected to turn into modest deficit

For the outgoing 2023/24 fiscal year, the province is now projecting a slight surplus of $40mn, relative to a budgeted deficit of $279mn that was largely unchanged at the time of the mid-year update. While spending is tracking roughly $800mn higher than was expected at the time of last year's budget, revenues are expected to be nearly $1.4bn greater. That increase in revenues is helped by a $560mn adjustment for prior years' provincial taxes, as well as higher than previously expected personal and sales tax receipts. Net income from government owned enterprises is also tracking higher than had been anticipated in Budget 2023.

Looking ahead to the 2024/25 fiscal year, the province is anticipating a budget deficit of $467mn (around 0.8% of nominal GDP). That reflects a 6.0% rise in program spending, with healthcare continuing to be a priority, while revenues are expected to be up by a more modest 2.0%. Tax revenue is expected to decline relative to the prior year, largely because the 2023/24 numbers were bolstered by the previously mentioned adjustment for prior years' receipts. The province announced that they will be indexing tax brackets for personal income tax to inflation, but with this starting in January 2025 it will have a larger impact to revenues in future years. For fiscal 2025/26, which will be the first year this indexing is fully incorporated, it is expected to cost the province $64.5mn in forgone revenue.

The medium term projections show the budget deficit widening a little further to $609mn in fiscal 2025/26 (around 1% of GDP), before starting to narrow again to $360mn by fiscal 2027/28.

Borrowing projected to increase for next two years before falling on lower maturities

For the fiscal year ending next month, total borrowing requirements are projected to finish at $2.0bn, basically unchanged from the budget estimate. The province has borrowed almost that full amount (proceeds of $2.018bn) in term debt this year. That was completed through five fixed-rate transactions that were each $300mn in size, and a $500mn Floating Rate Note (FRN). Overall, this year’s borrowing was higher than the prior year’s $1.5bn, which was completed through five transactions. All the deals were completed in the domestic market, as the province currently does not have any international issues outstanding. The province highlighted that they maintain documentation to access foreign markets, but the domestic market is expected to be the primary source of funding for the upcoming year.

As for the upcoming year, today’s budget shows a large increase from the outgoing year for cash operating requirements ($2.5bn from $1.1bn), while debt retirement increased by $8mn. That places total requirements at $3.3bn, up from $2.0bn this outgoing year. Recall, the province stated in last year’s budget that over a number of prior years there had been an incremental accumulation of pre-borrowing of $680mn, which was being drawn down over the fiscal year. However, from the borrowing table in today’s budget it appears that was not used, as the change in short-term borrowing or drawdown of short-term assets decreased by $68mn instead of increasing by $680mn. That has allowed the province to allocate $750mn in short-term funding towards this year’s requirements, whether a drawdown in assets or increase in short-term borrowing, bringing down total term borrowing to $2.6bn. That is an increase of $580mn from the outgoing requirements.

Over the medium-term, borrowing for the following year (i.e. 2025/26) is projected to peak at $3.4bn, before decreasing to $2.0bn in 2026/27. That decrease is due to only having $3.5mn in debt retirements as the province currently does not have any bonds due in 2026. Those figures are higher when compared to last year's budget estimates of $2.2bn and $1.1bn, respectively. For the first time, we are seeing 2027/28 estimates which has borrowing increasing to $2.6bn in 2027/28, as the province has $1.2bn in maturities.

Table 4: Borrowing requirements (C$millions)

Borrowing requirements	2023/24 Estimate	2023/24 Forecast	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Budget (surplus)/deficit	279	-40	467	609	576	360
Net capital advances	261	304	1,028	1,050	469	127
Tangible capital assets: net cash	1,079	971	1,048	988	984	980
Other operating requirements	221	-157	-77	-92	-106	-121
Sinking/Discretionary Fund	19	21	22	27	32	36
Net financial requirement	1,858	1,099	2,489	2,581	1,954	1,382
Maturities and calls	851	851	859	841	4	1,203
Total	2,710	1,950	3,348	3,422	1,957	2,585

Table 5: Sources of funding (C$millions)

Funding requirements	2023/24 Estimate	2023/24 Forecast	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Total requirements	2,710	1,950	3,348	3,422	1,957	2,585
Change in ST debt or drawdown of ST asset	-680	68	-750			
Total borrowing requirements	2,030	2,018	2,598	3,422	1,957	2,585

Net debt as a percentage of GDP increasing throughout forecast horizon

As a result of the swing to surplus in the outgoing year, net debt is projected to be $18.7bn at March 31, 2024. That is an improvement from the $19.5bn that was forecasted in the budget last year. That lower net debt translates into a net debt-to-GDP ratio of 33.3%, an improvement of 0.3% from Budget 2023.

For the upcoming year, net debt is projected to increase to $20.2bn on the back of funding the deficit and investments in the capital plan. When compared to last year's budget assumption for this upcoming year, the current estimate is lower by some $700mn, mainly due to the better hand-off from this outgoing year. Looking at the GDP ratio, it is expected to increase to 34.6% by March 31, 2025, an improvement from the 34.8% in last year's estimate for this upcoming year.

Over the forecast horizon, net debt is expected to steadily increase each year and reach $24.7bn by 2027/28. Those increases have the GDP ratio rising each subsequent year from 33.3% this outgoing year to 38.4% by the end of the timeframe. When compared to last year's budget, the projections have increased as the ratio was set to reach 36.2% by 2026/27. Overall, operating deficits are expected to add close to $2.0bn to net debt between 2023/24 and 2027/28, while the remaining $4.9bn increase in debt is mostly reflective of government's capital plans over the four-year period.

2024/25 Capital plan set at $1.6bn again

The 2024/25 Capital Plan calls for a total of $1.6bn in spending again, almost identical to last year's amount. Overall, $703mn will be towards buildings and land, while $492mn is earmarked for Highways and Structures. The plan invests $483.3mn in projects outlined in the Five-Year Highway Improvement Plan, down from $499mn last year.

When breaking down capital spending by project types, 43.1% will be spent on buildings and land, 30.2% will be spent on Highways and Structures, while 18.1% will be on Capital Grants. The remaining spending will be on IT projects (2.8%), contingencies (4.3%), as well as Vehicles and Equipment (1.5%).

CIBC Capital Markets – PO Box 500, 161 Bay Street, Brookfield Place, Toronto, Canada M5J 2S8 – Bloomberg @ CIBC