

Economics

PROVINCIAL BUDGET BRIEFS

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Nova Scotia budget 2026

Nova Scotia is ending the current 2025/26 fiscal year with a wider deficit than previously expected, reflecting increased spending against weaker revenues tied to prior tax cuts and a cooling in population growth. That leaves the deficit at roughly 1.8% of GDP for the outgoing fiscal year, with the shortfall anticipated to narrow only slightly in the upcoming fiscal year, as spending continues to increase. However, the deficit is expected to narrow thereafter due to cuts to the public sector, leaving the deficit (after contingency) at \$809mn by 2029/30. With capital spending plans rising, and despite an increase in short term borrowing/draw down of short term assets, term borrowing is expected to rise to \$3.4bn in the upcoming fiscal year, up from \$3.0bn in outgoing 2025/26.

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

Fiscal measure	2024/25 Actual	2025/26 25 Budget	2025/26 26 Budget	2025/26 Change	2026/27 26 Budget	2027/28 26 Budget	2028/29 26 Budget	2029/30 26 Budget
Revenue	17,174	16,506	16,594	88	17,354	17,669	18,352	19,076
• % change	10.8	-1.8	-3.4	-1.6	4.6	1.8	3.9	3.9
Own source	10,750	9,879	9,928	49	10,523	-	-	-
• % change	12.3	-5.3	-7.6	-2.3	6.0	-	-	-
Federal transfers	5,934	6,161	6,195	34	6,369	-	-	-
Net income: Govt business enterprises	491	465	471	5	463	465	469	472
Expenditures	17,277	17,569	18,170	601	18,932	19,103	19,683	20,210
Program spending	16,261	16,495	17,105	610	17,770	17,763	18,186	18,583
• % change	10.5	3.7	5.2	1.5	3.9	0.0	2.4	2.2
Public debt charges	876	909	920	11	1,030	1,187	1,330	1,457
Pension valuation adjustment	-16	17	-20	-37	-29	-10	3	4
Refundable tax credit	156	148	165	17	161	163	164	166
Consolidation & acct. adjustments	368	366	327	-39	387	387	380	375
Budgetary balance (before contingency)	-	-697	-1,249	-552	-1,191	-1,047	-950	-759
Contingency	-	200	-	-	50	50	50	50
Budgetary balance (after contingency)	265	-897	-1,249	-352	-1,241	-1,097	-1,000	-809

Steady but slower growth backdrop

The province projects a step down in real GDP growth in 2026 to 1.5%, with growth stabilizing at that pace into 2027. That will be the weakest GDP growth seen since 2016, and largely reflects the slowing in population growth that is underway. Population growth is expected to cool to 0.6% in 2026, from 1.0% in 2025, and put a cap on consumption and housing market activity. International exports were under pressure in 2025 due to tariffs, but 2026 is expected to see a rebound, helped by the removal of Chinese tariffs on seafood products, while goods destined to the US will benefit from CUSMA compliance. Nominal GDP growth is also expected to decelerate in 2026, although revisions to the 2022 and 2023 data mean that the level of both nominal and real GDP are higher than what was expected at the time of last year's budget.

The unemployment rate averaged one tick higher in 2025 at 6.6%, and is expected to remain there through 2027. Given trade uncertainty in 2025, employment growth was led by service industries, with healthcare being particularly strong.

Recent data have shown a weakening, however, with the job vacancy rate retreating in the second half of 2025. The budget contains a contingency of \$50mn a year starting in the upcoming fiscal year given lingering economic uncertainty.

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

Economic assumptions	2025	2026	2027
Real GDP	1.8	1.5	1.5
• Private sector average	1.6	1.4	1.6
Nominal GDP	5.0	3.4	3.7
Employment (thousands)	524	525	527
Unemployment rate (%)	6.6	6.6	6.6
Compensation of employees	5.6	4.2	4.0
Retail sales	3.4	3.2	4.6
Corporate profits	3.9	4.0	5.2
Exports of Goods & Services	3.3	4.6	4.1
CPI	2.1	2.0	2.0

Table 3: Key financial assumptions

Financial assumptions	2026	2027
Exchange rate (US\$/C\$)	73.3	75.4

A modest narrowing of the deficit ahead

Nova Scotia is entering the 2026/27 fiscal year on less solid fiscal footing than thought, with the deficit coming in higher than expected at \$1,249mn. Although revenues were higher than expected in the 2025/26 budget for the current fiscal year, due to provincial source revenue, they are down sharply from the prior fiscal year due to tax cuts, while spending growth was sharply higher.

Looking ahead, the province outlined a fiscal stability plan that includes reductions increasing reductions in expenses over the forecast horizon. The province is aiming to reduce the public sector by 3% annually over that period, including a reduction in grants, with \$305mn in reductions planned for the upcoming fiscal year, and cuts increasing to \$914mn by 2029/30. This is in response to pressure on revenues from slower population growth, and the deficit (before contingency) is expected to shrink to \$759mn by 2029/30 as a result of these measures. Program spending is expected to average 2.1% over the forecast horizon, a sharp slowdown from recent years, but there is a 3.9% increase in program spending for the upcoming year. The province's Capital Plan invests over \$3.5bn in infrastructure tied mainly to healthcare and housing, while other strategic spending is tied to the development of natural resources, the diversification of trade markets, and investments in priority sectors ranging from defense to AI.

On the revenue side, a tax on electric and hybrid vehicles will come into effect in October, in an effort to offset lost gas tax revenues. Still, slower population growth and nominal GDP growth will result in more modest revenue increases following an expected rebound in 2026/27. Overall, revenues are expected to average 3.6% over the forecast horizon.

Borrowing projected to increase for the next two years before falling

For the fiscal year ending in just over a month, total borrowing requirements are projected to finish at \$3.0bn, an improvement of about \$150mn from the budget estimate. The province completed that amount in the term debt markets, which was accomplished through six fixed-rate transactions and a \$500mn Floating Rate Note (FRN). Included in those fixed deals was a \$300mn re-opening of their 50yr bond due in 2074, the longest outstanding bond in the province's maturity profile.

The main change with respect to financing sources for the outgoing year was the province was planning on increasing short-term debt/drawing down from short-term assets to the tune of \$750mn, whereas a reduced amount of net capital advances has allowed them to decrease that funding source to \$449mn.

Overall, this current year's borrowing was higher than the prior year's \$2.5bn, which was completed through six transactions. All the deals were completed in the domestic market as the province currently does not have any international issues outstanding. However, the province highlights that they do maintain documentation to access foreign markets, but the domestic market is expected to be the primary source of funding with focus on liquid benchmark issues.

As for the upcoming year, today's budget shows an increase for cash operating requirements (\$4.2bn from \$2.6bn in the outgoing year), while debt retirement decreased by some \$840mn to almost zero. Overall, total borrowing requirements are at \$3.4bn, up from \$3.0bn this outgoing year. Included in those plans is a \$50mn contingency, which has been incorporated throughout the forecast horizon. Again this year, the plan calls for an increase in short-term debt/draw down from short-term assets to the tune of \$850mn this time around, which otherwise would have had borrowing around \$4.2bn if not included. Note, subsequent years do not include any changes from that funding source. The province noted that it does not anticipate drawing down from its discretionary sinking funds in 2026/27, but draws attention to the fact that those funds total approximately \$1.05bn.

Over the medium-term, borrowing for the following year (i.e. 2027/28) is projected to increase to \$4.8bn, then decreases in subsequent two years to \$4.0bn in 2028/29 and \$3.3bn in 2029/30. Compared to last year's budget estimates, the three-year borrowing horizon (2026/27 to 2028/29) has increased a cumulative \$700mn. The main reason for the increase in borrowing for 2026/27 is more capital assets, while 2027/28 has \$1.2bn of bonds maturing which need to be refinanced.

Table 4: Borrowing requirements (C\$millions)

	2025/26 Estimate	2025/26 Forecast	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Borrowing requirements						
Budget (surplus)/deficit	698	1,249	1,191	1,047	950	760
Net capital advances	961	210	318	162	194	184
Tangible capital assets: net cash	1,672	1,937	2,724	2,314	1,691	1,205
Other non-budgetary transactions	-479	-788	-28	-51	-50	-49
Sinking/Discretionary Fund	27	28	32	37	41	44
Net financial requirement	2,879	2,636	4,238	3,509	2,826	2,143
Maturities and calls	841	841	4	1,203	1,104	1,104
Total (before contingency)	3,721	3,477	4,241	4,712	3,929	3,246

Table 5: Sources of funding (C\$millions)

	2025/26 Estimate	2025/26 Forecast	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Funding requirements						
Total requirements (before contingency)	3,721	3,477	4,241	4,712	3,929	3,246
Change in ST debt or drawdown of ST asset	-750	-449	-850	-	-	-
Contingency	200	-	50	50	50	50
Total borrowing requirements (after contingency)	3,171	3,028	3,441	4,762	3,979	3,296

Net debt as a percentage of GDP increasing throughout forecast horizon

As a result of a long-term care accounting adjustment that added almost \$1.5bn, net debt is now forecasted to be \$24bn at March 31, 2026. That is up from the \$22.6bn that was forecasted in the budget last year. That higher net debt, partially offset with higher nominal GDP, translates into a net debt-to-GDP ratio of 35.0%, an increase from the 34.6% in last year's budget.

For the upcoming year, net debt is projected to increase to \$28bn on the back of funding the deficit and investments in the capital plan. Looking at the GDP ratio, it is expected to increase to 39.5% by March 31, 2027, an increase of 4.5% from the outgoing year. While the GDP ratio is projected to increase in the near-term, the Province remains committed to achieving the fiscal planning guardrail of 40% established in 2025/26.

Over the forecast horizon, net debt is expected to steadily increase each year and reach \$36bn by 2029/30. Those increases have the GDP ratio rising each subsequent year from 35% this outgoing year to 45.7% by the end of the timeframe. Note, that ratio is projected to be 45.4% without the use of contingencies.

When compared to last year's budget, the ratio increased as it was set to reach 40.9% by 2028/29, whereas today's budget shows 44.8% (including contingencies) in that year. Overall, net debt is expected to increase by \$8bn between 2026/27 and 2029/30. Operating deficits are expected to add close to \$1.3bn, while a \$3.9bn increase is mostly reflective of government's capital plans over the four-year period. Most significantly, the long-term care accounting adjustment will have added more than \$3bn to net debt by 2029/30.

2026/27 Capital plan set to be a record

The 2026/27 Capital Plan calls for a record \$3.5bn in spending, continuing off last year's \$2.4bn plan. The main reason for the jump is the accounting change related to the long-term care facilities which are now included as capital. This will be the largest single-year investment in the province's history, which should support the economy and jobs. Overall, \$2.3bn will be towards Buildings and Land, \$476mn is earmarked for Highways and Structures, while \$495mn is for capital grants. The plan invests over \$464mn in projects outlined in the Five-Year Highway Improvement Plan, down from \$500mn last year.

When breaking down capital spending by project types, 66.0% will be spent on buildings, 13.9% will be spent on Highways and Structures, while 14.4% will be on Capital Grants. The remaining spending will be on IT projects (3.2%), land (1.5%), as well as Vehicles and Equipment (0.9%).

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