

Economics

PROVINCIAL BUDGET BRIEFS

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Nova Scotia budget 2023

Higher tax receipts, including a beneficial adjustment from prior years, sees Nova Scotia now estimating a \$259mn deficit for the outgoing 2022/23 fiscal year, which is almost half the \$506mn shortfall originally budgeted for. For the upcoming fiscal year, higher transfers from the federal government, broadly offsetting a decline in own-source revenues but little change in spending, sees the deficit hold fairly steady at \$279mn (0.5% of nominal GDP). The medium term forecasts see deficits increasing modestly to peak at \$611mn in 2025/26. Term debt borrowing is higher at \$2.0bn for the upcoming year, which represents an increase of roughly \$675mn from the outgoing requirements, despite an incremental accumulation of pre-borrowing worth \$680mn which is being drawn down over the fiscal year.

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

Fiscal measure	2021/22 Actual	2022/23 22 Budget	2022/23 23 Budget	2022/23 Change	2023/24 23 Budget	2024/25 23 Budget	2025/26 23 Budget	2026/27 23 Budget
Revenue	13,109	12,662	14,318	1,656	14,169	14,348	14,764	15,026
• % change	14.7	-1.7	9.2	10.9	-1.0	1.3	2.9	1.8
Own source	7,866	7,547	9,146	1,599	8,520	-	-	-
• % change	20.0	-4.0	16.3	20.3	-6.9	-	-	-
Federal transfers	4,837	4,695	4,777	82	5,364	-	-	-
Net income: Govt business enterprises	406	420	396	-24	285	279	276	280
Expenditures	12,871	13,292	14,713	1,420	14,820	14,972	15,533	15,681
Program spending	12,041	12,423	13,833	1,411	13,851	13,983	14,505	14,577
• % change	9.3	2.8	14.9	12.0	0.1	1.0	3.7	0.5
Public debt charges	662	676	680	4	767	797	840	903
Pension valuation adjustment	65	71	63	-9	67	55	51	63
Refundable tax credit	103	122	136	14	136	137	137	138
Consolidation & acct. adjustments	112	124	135	11	372	160	158	155
Budgetary balance	351	-506	-259	247	-279	-464	-611	-499

Economy starting to slow, following quick post-pandemic recovery

Nova Scotia witnessed a smaller decline in GDP than the national average in 2020, but a faster recovery in 2021. However, like most of the country, growth is now starting to slow due to rising interest rates, inflationary pressures and tighter labour markets. The province estimates that real GDP grew by a further 2.9% in 2022, but then expects only modest advances of 0.6% and 1.1% respectively this year and next. The forecasts for 2023 and 2024 are slightly below the private sector consensus. Nominal GDP, which tracks more closely with provincial revenues, is expected to increase by 4.0% and 3.4% in 2023 and 2024 respectively.

While the economy has slowed alongside the rise in interest rates, the tourism industry continued to recover in 2022 and should continue to do so in 2023. Moreover, strong population growth is expected to help the province maintain current solid momentum in areas such as homebuilding and consumer spending. While the unemployment rate reached its lowest level since the early 1970's in 2022, it is expected to rise again in the years to come as employment growth fails to keep pace with the rate of increase in the population.

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

Economic assumptions	2022	2023	2024
Real GDP	2.9	0.6	1.1
• Private sector average	2.0	0.8	1.5
Nominal GDP	7.7	4.0	3.4
Employment (thousands)	479.5	482.9	486.6
Unemployment rate (%)	6.6	7.4	7.7
Compensation of employees	8.1	4.8	4.0
Retail sales	5.2	1.8	2.1
Corporate profits	3.8	1.8	2.7
Exports of Goods & Services	7.3	5.3	3.4
CPI	7.5	3.7	2.1

Table 3: Key financial assumptions

Financial assumptions	2023	2024
Exchange rate (US\$/C\$)	74.7	77.7

Modest deficits to remain

For the outgoing 2022/23 fiscal year, the \$259mn deficit now projected is almost half the size of the deficit that was expected in Budget 2022, and equivalent to less than 0.5% of nominal GDP. Tax revenue is more than \$1.5bn higher than budgeted for, with \$900mn due to a favourable prior-years adjustment. In-year personal and corporation income tax receipts were also better than had originally been expected. Largely offsetting that improvement in revenue, spending was also \$1.4bn higher than originally planned, with that increase broadly based across departments.

Looking ahead to the 2023/24 fiscal year, revenues are expected to decline, although this is largely because the prior year revenue figures include the \$900mn linked to prior years' adjustments for provincial taxes. Transfers from the Federal government are expected to be higher, but net income from Government Business Enterprises will be \$110mn lower, mainly attributable to accounting changes. The province expanded its previous tax refund aimed at encouraging young people to take up skilled trades to include registered nurses, licensed practical nurses and nurse practitioners. This More Opportunity for Skilled Trades (MOST) program is projected to provide \$20.9mn in refunds in the coming fiscal year which will rise to \$35.9mn upon full implementation.

Spending will hold broadly steady in 2023/24, following the big increase seen in the outgoing fiscal year, although key focus areas such as Health and education will see budget increases. The retention incentives for nurses and healthcare workers announced earlier this week were expensed in 2022–23, but the cash payments are expected to occur early in the 2023–24 fiscal year.

With little change expected in both revenue and spending relative to the outgoing fiscal year, the budget deficit is anticipated to be little-changed at \$279mn (0.5% GDP) in fiscal 2023/24. Medium term projections suggest that spending will rise slightly faster than revenues ahead, with budget deficits expected to increase and average \$525mn (0.9% of nominal GDP) between 2024/25 and 2026/27.

Borrowing projected to increase for the next two years

For the fiscal year ending next week, total borrowing requirements are projected to finish at \$1.4bn, down from the budget estimate of \$1.6bn. The province borrowed \$1.5bn (proceeds of \$1,353.9mn) in term debt this year, which was completed through five transactions that were each \$300mn in size. All the deals were completed in the domestic market, as the province currently does not have any international issues outstanding. Overall, this year's borrowing was higher than the prior year's \$1.1bn, which was completed through four transactions.

Today's budget shows a large increase from the outgoing year for cash operating requirements, while lower maturities offset some of that increase. While the expected cash requirements are higher, over the past number of years there has been an incremental accumulation of pre-borrowing of \$680mn, which is being drawn down over the fiscal year. Despite that drawdown, term debt borrowing is higher at \$2.0bn for the upcoming year, an increase of some \$675mn from the outgoing requirements.

Over the medium-term, borrowing for the following year (i.e. 2024/25) is projected to peak at \$2.3bn, before marginally decreasing to \$2.2bn in 2025/26. Those figures are higher when compared to last year's budget estimates of \$1.6bn and \$1.3bn, respectively. For the first time, we are seeing 2026/27 estimates which sees a large decline from the prior year, expected to be \$1.1bn.

Table 4: Borrowing requirements (C\$millions)

Borrowing requirements	2022/23 Estimate	2022/23 Forecast	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Budget (surplus)/deficit	506	259	279	463	611	499
Net capital advances	137	113	154	50	50	50
Tangible capital assets: net cash	712	732	1,079	936	650	554
Other operating requirements	-177	-1,113	328	-33	-58	-100
Sinking/Discretionary Fund	-665	-661	19	20	24	29
Net financial requirement	512	-670	1,858	1,436	1,276	1,032
Maturities and calls	1,734	1,734	851	859	933	113
Total	2,246	1,065	2,710	2,295	2,209	1,145

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

Funding requirements	2022/23 Estimate	2022/23 Forecast	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Total requirements	2,246	1,065	2,710	2,295	2,209	1,145
Change in ST debt or drawdown of ST asset	-600	289	-680	-	-	-
Total borrowing requirements	1,646	1,354	2,030	2,295	2,209	1,145

Net debt as a percentage of GDP increasing throughout forecast horizon

As a result of the improvement in the outgoing year which required less borrowing, net debt is projected to be \$18.2bn at March 31, 2023. That is an improvement from the \$18.4bn that was forecasted in the budget last year. Coupled with the higher GDP forecast, that translates into a net debt-to-GDP ratio of 32.5%, an improvement of 2.4% from the budget.

For the upcoming year, net debt is projected to increase to \$19.5bn 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 \$600mn mainly due to the better hand-off from this outgoing year. Looking at the GDP ratio, it is expected to increase to 33.6% by March 31, 2024, an improvement from the 36.9% in last year's estimate for this upcoming year.

Over the forecast horizon, net debt is expected to steadily increase each year and reach \$23.3bn by 2026/27. Those increases have the GDP ratio rising each subsequent year from 32.5% this outgoing year to 36.2% by the end of the timeframe. When compared to last year's budget, the ratio is much improved as it was set to reach 40.0% by 2025/26. Overall, operating deficits are expected to add close to \$2.1bn to the debt level between 2022/23 and 2026/27, while the remaining increase in debt is mostly reflective of government's capital plans over the four-year period.

2023/24 Capital Plan is the largest single year investment in the province's history

The 2023/24 Capital Plan calls for a total of \$1.6bn in spending, the largest single-year capital funding program in the province's history. Overall, \$690mn will be towards buildings and land, while \$485mn is earmarked for Highways and Structures. Meanwhile, the Department of Public Works released its annual 5-Year Highway Improvement Plan with investments totalling \$499mn in 2023/24, almost the identical level as last year's estimate.

When breaking down capital spending by project types, 40.6% will be spent on buildings, 30.9% will be spent on Highways and Structures, while 18.6% will be on Capital Grants. The remaining spending will be on IT projects (5.4%), Land(3.3%), as well as Vehicles and Equipment (1.2%).

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