

2024 Nova Scotia Budget

Tax Breaks, Persistent Deficits, Rising Debt

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Highlights

- An unexpected surplus last year is expected to swing to a deficit measuring 0.8% of GDP in FY 2024/25, as robust expenditure growth pairs with a slowdown in revenue gains.
- New personal income tax relief measures will weigh on revenues, while supporting consumption, when they're rolled out in the beginning of 2025.
- Moving forward, a plan of ongoing budget deficits alongside rising capital spending is expected to drive a 5 ppt rise in the debt-to-GDP ratio from its current 33.3% level by FY 2027/28.
- All things equal, the fiscal stimulus announced today will boost the province's near-term economic outlook. However, the trade-off of a higher debt burden is significantly less fiscal flexibility down the road.

Surging revenues drove an unexpected \$40 million surplus for Nova Scotia in FY 2023/24. However, this surplus is expected to rapidly evaporate this fiscal year, with the government projecting a \$467.4 million deficit for FY 2024/25 (or a reasonably hefty 0.8% of GDP). Further down the road, similar sized budget shortfalls are anticipated through FY 2027/28.

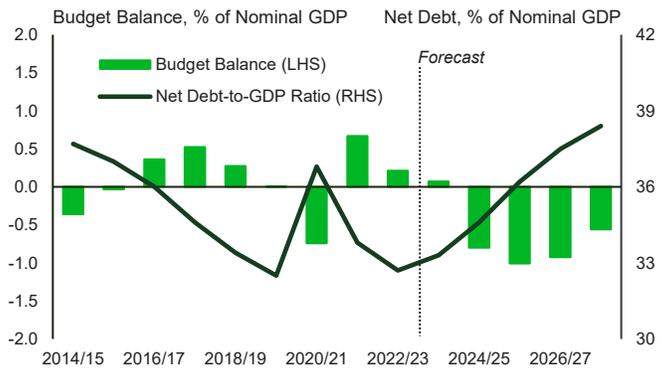
Much of the focus in Budget 2024 is on healthcare, education and community services, although the province will also roll out several measures to help with the cost of living, headlined by notable tax relief that will include the indexation of personal income tax brackets, the basic personal amount, and other non-refundable tax credits to inflation.

Economic growth to be Firm in 2024, Less So for Revenues

Like other parts of the country, Nova Scotia's fiscal situation has benefitted from the recovery from the pandemic in recent years, although the government expects that nominal GDP growth cooled to a still-decent 3.3% pace in 2023.

Economic growth is forecast to accelerate moving forward, with real GDP up 1.8% on average in 2024 and 2025 (from an estimated 1.3% in 2023), with nominal GDP rising by about 3.6%, on average, over the same timeframe. Growth is expected to be supported by ongoing population gains, a pickup in residential investment and rising exports. These forecasts are a fair bit stronger than our own, especially for real GDP. Note that population growth (which has been a major economic driver for Nova Scotia) eased a touch at the end of last year, consistent with TD's narra-

Chart 1: Large Deficits to Persist in Nova Scotia, While Capital Spending Raises the Debt Burden



Source: Nova Scotia Budget 2024, TD Economics.

Nova Scotia Economic Assumptions [Percent Change Unless Otherwise Noted]					
Budget 2024					
Calendar Year	2023	2024	2025	2026	2027
Nominal GDP	3.3	3.9	3.3	3.2	3.3
Real GDP	1.3	1.7	1.9	2.0	1.7
Employment	3.9	1.5	1.9	-	-
Labour Force	3.5	2.7	2.5	-	-
Unemployment Rate (%)	6.3	7.4	7.9	-	-
CPI	4.0	2.7	1.9	-	-

Source: Nova Scotia Budget 2024, TD Economics.

tive for slower GDP growth in 2024.

The government’s forecasted improvement in the economic backdrop is expected to drive solid growth in personal income, corporate and consumption taxes this year while federal government transfers are also projected to be firm. However, revenue growth is seen as dropping to 2% this fiscal year as an accounting adjustment that boosted revenues in FY 2023/24 falls away.

The new personal income tax relief introduced in this budget is effective January 1st, 2025, and will restrain revenue growth in FY 2025/26. By 2028, this measure is expected to save households \$150-160 million annually. Elsewhere, the More Opportunities for Skilled Trades and Occupations tax refund expanded its reach to include qualified nurses as of the 2023 taxation year, although this was flagged in last year’s budget. Also previously announced (but mentioned in the budget) was Nova Scotia’s decision to cancel its portion of the HST on purpose-built rental units. With the federal government also taking the same measure, we estimate that purpose-built rental starts across Canada will be durably lifted by 5k units.

On the opposite end of the ledger, expense growth is pegged at a robust 5.6% in FY 2024/25, supported by healthy gains in healthcare, education, and community services. Notable outlays include funds to help persons with disabilities, continue the rollout of the federal-provincial agreement to lower daycare costs, combat homelessness, and support mental health and other healthcare initiatives. Meanwhile, debt servicing costs are seen as climbing 3.8% this year and chewing up 5.2% of revenues (the so-called interest bite). While the interest bite is expected to rise to above 6% by FY 2027/28, it is projected to remain below its 10-year average of about 8%.

Net Debt Burden to Rise Sharply

The one-two punch of deficits and robust capital spending is expected to drive a 5 ppt increase in Nova Scotia’s net debt-to-GDP ratio by FY 2027/28, from 33.3% in FY 2023/24.

Nova Scotia’s FY 2024/25 \$1.6 billion capital plan will invest in highways, schools, and healthcare. Within the latter category, about \$300 million will go towards the expansion of the Halifax Infirmary and the Cape Breton Regional Municipality healthcare redevelopment. Notably, the recently released capital investment intentions survey points to a solid gain of 7% for public sector capital spending in 2024.

Borrowing requirements are expected to total \$2.6 billion in the upcoming fiscal year, up from \$2 billion in FY 2023/24, owing to both the swing from surplus to deficit and the capital spending plan.

Bottom Line

Nova Scotia is already one of the more indebted provinces in the country (certainly in the Atlantic Region, apart from Newfoundland and Labrador), and its fiscal situation is forecast to deteriorate markedly over the projection horizon. And this is with relatively rosy economic projections baked in. This will leave the province’s fiscal finances increasingly vulnerable to unforeseen economic shocks over the longer haul.

That said, solid government spending and investment are positives for short-term economic growth (and could even help the government meet its forecast for an acceleration in 2024 real GDP growth). Capital spending also has the potential to boost productivity and in recent years Nova Scotia, like other parts of the country, has been a laggard in this regard.

Nova Scotia Government Fiscal Position					
[Millions of C\$ Unless Otherwise Noted]					
Fiscal Year	2023-24 Forecast	2024-25 Estimate	2025-26 Estimate	2026-27 Estimate	2027-28 Estimate
Revenues	15,531	15,844	16,240	16,669	16,999
% Change	8.5	2.0	2.5	2.6	2.0
Expenses	15,644	16,519	17,054	17,444	17,552
% Change	6.3	5.6	3.2	2.3	0.6
Consolidation/Accounting Adjustments	153	208	205	200	192
Surplus (+) / Deficit (-)	40	-467	-609	-576	-360
% of GDP	0.1	-0.8	-1.0	-0.9	-0.6
Net Debt	18,702	20,217	21,814	23,373	24,713
% of GDP	33.3	34.6	36.2	37.5	38.4

Source: Nova Scotia Budget 2024, TD Economics.

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