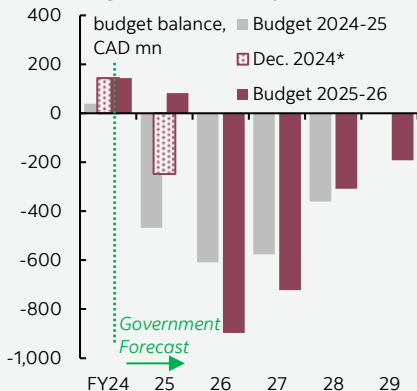


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Chart 1

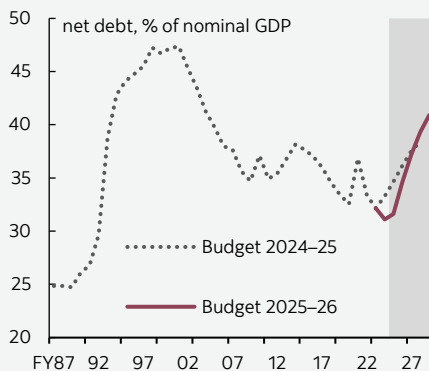
**Nova Scotia's Updated Budget Balance Projections**



\* FY24 figure is final result.  
Sources: Scotiabank Economics, Nova Scotia Finance.

Chart 2

**Nova Scotia's Projected Debt Load**



\*FY24 figure is final result.  
Sources: Scotiabank Economics, Finance Canada, Nova Scotia Finance.

## Nova Scotia: 2025–26 Budget

### BUDGET PLANS CONTINGENCIES FOR POTENTIAL DOWNSIDE RISKS AHEAD

- **Budget balance forecasts:** budget expects a slim surplus to close out the fiscal year but is forecasting deeper deficits over the horizon as it builds in contingencies. A budget balance surplus of \$82.4 mn (0.1% of nominal GDP) in FY2024–25, with each year thereafter allocating \$200 mn in contingencies, further adding to deficits in the near-term that are projected to decline from -\$898 mn (-1.4%) in FY26 to -\$191 mn (-0.3%) in FY29 (chart 1).
- **Net debt:** following a lower hand-off point from 31.6% of nominal GDP in FY25, net debt is projected to increase to 40.9% of GDP in FY29 should full contingencies be used (chart 2).
- **Real GDP growth forecasts:** economic activity is assumed to pick up from 1.9% in 2024 to 2.0% in 2025 before slowing to 1.8% in 2026 but does not incorporate potential downside risks of a prolonged trade war.
- **Borrowing program:** \$2.5 bn in FY25, \$2.97 bn in FY26, \$3.48 bn in FY27, \$3.92 bn in FY28, and \$3.47 bn in FY29 with an additional \$0.2 bn each year in FY26 through FY29 assuming full use of contingencies.
- **The first post-election budget delivers on platform pledges** including a 1 ppt permanent HST reduction and personal income tax cuts with combined relief for households estimated by the Province at \$1,000 per year.
- **Main takeaways:** The budget benefits from revenue tailwinds that leave the fiscal forecast largely intact—if contingencies are netted out—despite new election-promised spending. Tailwinds could reasonably become headwinds and potentially very serious ones if more severe downside economic scenarios materialize. Setting aside contingencies is a prudent approach and Nova Scotia sets a good precedent in this regard as provincial budget season kicks off. However, in a more serious downturn provinces including NS would likely face much more larger deterioration in fiscal balances that exceed this level of contingency. Broad-based tax cuts today on the margin could translate into heavier lifting by other parts of the balance sheet, but in such a significant downside scenario, fiscal paths get reset.

### OUR TAKE

Nova Scotia's Budget 2025–26 sees a temporary revenue windfall push the budget balance into the black for FY2024–25, with deficits each year thereafter through fiscal year 2028–29 should full contingencies be used. The budget balance in FY25 is revised upwards to a small surplus of \$82.4 mn (0.1% of nominal GDP) owing largely to additional revenues of \$527 mn in prior year adjustments. The budget also introduces \$200 mn in contingencies each year from FY26 through FY29 as the looming threat of tariffs imposed by the US on Canadian goods and uncertainty pose downside risks to the outlook. If contingencies are not used, and assuming downside risks to the outlook are avoided or there is a relatively small impact, then Nova Scotia's budget is expected to return to balance in FY29 (\$8.6 mn, 0% of GDP).

**The economic outlook presented in the Budget expects growth to marginally improve in 2025 before slowing in the outer years.** The Budget forecasts real GDP growth of 1.9% in 2024, picking up to 2.0% in 2025 before slowing to 1.8% in 2026, above the private sector average of 1.6% and 1.5% respectively. The economic assumptions include provisions for some short-run impacts of US tariffs and slower population growth that

offset fiscal stimulus in the near-term. Should the US impose tariffs that are larger or for longer than incorporated, there would be further downside risks to the outlook.

**Total revenues are expected to decline by -1.8% to \$16,506 mn in FY26 from \$16,811 mn in FY25, but when netting out the \$527 mn in prior year adjustments, total revenues are expected to increase by 1.4% in FY26.** Revenue from Harmonized Sales Tax is expected to be \$101 mn lower in FY26 (\$2,588 mn) than FY25 owing to the permanent one percentage point reduction in the provincial portion of the HST beginning April 1, 2025. Revenue from Personal Income Tax is forecast to increase by \$206 mn (4.5% year-over-year) to \$4,731 mn in FY26 despite the introduction of tax bracket and credit indexation owing to expected growth in household income.

**Total expenditure is projected to increase by \$619 mn (3.7% y/y) to \$17,569 mn in FY26.** More than two-thirds of this planned rise in FY26 spending is for the department of Health and Wellness (+\$209 mn, 3.6% y/y) and Education and Early Childhood Development (+\$227 mn, 11.3% y/y) which are the two biggest departmental expenses. Debt servicing costs are expected to increase from \$909 mn (5.5% of total revenue) in FY26 to \$1,249 mn (6.8% of total revenue) in FY29.

**Net debt as a percent of nominal GDP for FY25 is expected to be 31.6% in FY25, a lower hand-off point than projected in Budget 2024–25 owing to a mix of lower net debt and higher nominal GDP levels.** The net debt-to-GDP ratio is expected to increase from 34.3% in FY26 to 39.8% in FY29 before contingencies. However, should full contingencies be used each year, the ratio would increase from 34.6% in FY26 to 40.9% in FY29, above the province's guardrail to maintain net debt-to-GDP below 40 per cent.

**Borrowing Requirements.** Nova Scotia has completed \$2.5 bn in borrowing for the fiscal year 2024–25. Total borrowing requirements are expected to increase to \$3.0 bn in FY26 to fund the budget deficit and the net acquisition of tangible capital assets. The Budget projects that borrowing requirements will increase to \$3.5 bn in FY27, \$3.9 bn in FY28, and then decline to \$3.5 bn in FY29, with up to \$0.2 bn in additional borrowing each year from FY26 through FY29 should full contingencies be used.

Outer-Year Fiscal Forecast \$ millions except where noted					
	FY25	FY26	FY27	FY28	FY29
Ordinary Revenue	15,129	14,970	15,698	16,424	16,921
Ordinary Recoveries	1,196	1,070	1,098	1,032	958
GBE Net Income	487	465	469	478	490
<b>Total Revenue</b>	<b>16,811</b>	<b>16,506</b>	<b>17,265</b>	<b>17,934</b>	<b>18,369</b>
<b>% change</b>	11.8%	-1.8%	4.6%	3.9%	2.4%
Departmental Expenses	15,907	16,495	16,926	17,053	17,238
Refundable Tax Credits	153	148	163	163	163
Pension Valuation Adjustment	20	17	30	42	64
Debt Service Costs	869	909	1,029	1,137	1,249
<b>Total Expenses</b>	<b>16,950</b>	<b>17,569</b>	<b>18,148</b>	<b>18,395</b>	<b>18,713</b>
<b>% change</b>	8.0%	3.7%	3.3%	1.4%	1.7%
Consolidation & Accounting Adj.	220.9	365.6	360.6	353.1	353.1
<b>Provincial Balance - Before Contingency</b>	<b>82.4</b>	<b>(697.5)</b>	<b>(522.5)</b>	<b>(108.0)</b>	<b>8.6</b>
<b>Budget Balance / GDP</b>	<b>0.1</b>	<b>(1.1)</b>	<b>(0.8)</b>	<b>(0.2)</b>	<b>0.0</b>
<b>Net Debt</b>	<b>19,750</b>	<b>22,420</b>	<b>24,981</b>	<b>27,165</b>	<b>29,017</b>
<b>Net Debt-to-GDP Ratio</b>	<b>31.6%</b>	<b>34.3%</b>	<b>36.6%</b>	<b>38.4%</b>	<b>39.8%</b>
Contingency	-	(200.0)	(200.0)	(200.0)	(200.0)
<b>Provincial Balance - After Contingency</b>	<b>82.4</b>	<b>(897.5)</b>	<b>(722.5)</b>	<b>(308.0)</b>	<b>(191.4)</b>
<b>Budget Balance / GDP - After Contingency</b>	<b>0.1</b>	<b>(1.4)</b>	<b>(1.1)</b>	<b>(0.4)</b>	<b>(0.3)</b>
<b>Net Debt - After Contingency</b>	<b>19,750</b>	<b>22,620</b>	<b>25,381</b>	<b>27,765</b>	<b>29,817</b>
<b>Net Debt-to-GDP Ratio - After Contingency</b>	<b>31.6%</b>	<b>34.6%</b>	<b>37.2%</b>	<b>39.3%</b>	<b>40.9%</b>

Sources: Scotiabank Economics, Nova Scotia Finance.

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