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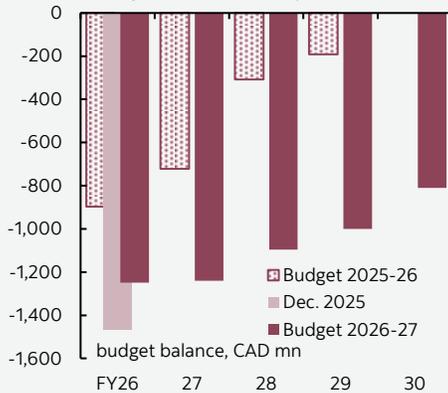
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Chart 1

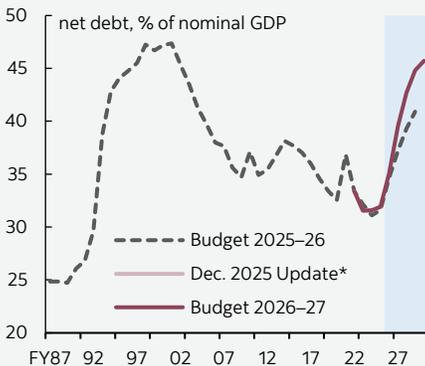
**Nova Scotia's Updated Budget Balance Projections**



Sources: Scotiabank Economics, Nova Scotia Finance.

Chart 2

**Nova Scotia's Projected Debt Load**



\*FY25 figure is final result.

Sources: Scotiabank Economics, Finance Canada, Nova Scotia Finance.

# Nova Scotia: 2026–27 Budget

## FISCAL OUTLOOK DETERIORATES ON WEAKER GROWTH, HIGHER SPENDING, AND ACCOUNTING CHANGE

- **Bottom line:** A weaker near-term economic outlook and higher spending growth means that the deficit is not expected to shrink nearly as quickly as previously projected, despite new cuts to public sector jobs and some tax increases. Given the higher deficit path and the impacts of an accounting change, the province's debt burden is now expected to climb to 45% by the end of the forecast horizon—though the province has reiterated its commitment to a fiscal planning guardrail of 40%.
- **Budget balance:** **-\$1.25 bn (-1.8% of nominal GDP) in FY26**, with the deficit gradually declining over the forecast horizon to a budget balance of **-\$0.8 bn (-1%) by FY30 (chart 1).**
- **Economic assumptions:** real GDP growth is expected to remain soft over the coming years, averaging 1.5% in 2026–2028, before picking up to 2% in 2029.
- **Net debt:** increasing from **\$24 bn (35% of nominal GDP) in FY26 to \$36.1 bn (45.7%) by FY30 (chart 2).**
- **Borrowing requirements:** for FY26 is complete at **\$3.0 bn**, increasing to **\$3.4 bn in FY27** and **\$4.7 bn in FY28**, before declining to **\$3.9 bn in FY29** and **\$3.2 bn in FY30** before **\$50 mn in contingencies** each year of the outlook.

### OUR TAKE

**Nova Scotia's Budget 2026–27 sees a deterioration in the budget balance over the forecast horizon amid higher spending and a weaker economic outlook that weighs on revenue growth.** The Budget forecasts a deficit of \$1.25 bn (1.8% of nominal GDP) for the current fiscal year 2025–26 (FY26), up from \$0.9 bn (1.4%) planned at the beginning of the fiscal year but smaller than the deficit of \$1.5 bn (2.1%), after contingency, expected in December. The Budget now shows planned deficits greater than \$1 bn each year through FY29, gradually declining towards \$0.8 bn (1% of GDP) by FY30. The larger deficits for longer come amid upward revisions to spending while the revenue outlook is largely unchanged. Meanwhile, contingencies were lowered from \$200 mn each year to \$50 mn per year, reducing buffer room across the outlook.

### The province raised overall spending across the outlook amid higher cost pressures.

Total expenditure for fiscal year 2025–26 (FY26) is projected to be \$18.17 bn, a 5.2% increase from the previous fiscal year and up from the \$17.6 bn planned in last year's budget. Budget 2026–27 adds \$2.46 bn of spending to the outlook spread over the next three years compared to Budget 2025–26. Healthcare costs continue to add pressure to the budget, with Health and Wellness spending, the largest expense by department, expected to be \$6.7 bn in FY27, up from \$5.8 bn in FY25. The Budget includes some measures to limit upward pressures to spending, including a multi-year Fiscal Stability Plan total target reductions of \$0.9 bn through FY30.

**Meanwhile, total revenue was revised down by \$0.2 bn across FY27–29.** Most of this downward revision to revenue was concentrated in FY28, which is now projected to be \$17.7 bn, a 1.8% year-over-year increase, owing to a \$0.3 bn downward revision to Ordinary Revenue compared to last year's budget. The Budget also adds some other taxes, including raising the Financial Institutions Capital Tax by 2 percentage points to 6% effective November 1<sup>st</sup>, 2026, which is expected to raise additional revenue of \$15.6 mn in FY27 and \$37.6 mn in FY28. Total revenue is then projected to increase 3.9% per year in FY29 and FY30.

**The outlook for economic activity was marginally revised downwards, as growth is expected to slow but remain positive over the outlook.** Real GDP is projected to grow 1.5% in 2026 and 2027, down from the estimated 1.8% in 2025, as tariffs weigh on trade and the federal government’s reduced immigration targets weigh on population growth. Meanwhile, nominal GDP growth is expected to ease from an estimated 5% in 2025 down to 3.4% in 2026 and 3.7% in 2027. The economic outlook included in the Budget reflects developments up to January 21<sup>st</sup> and includes the planned reduction in China’s tariffs on certain Canadian goods which is expected to take effect March 1<sup>st</sup>. The Budget also assumes that Canadian goods exports which are CUSMA compliant will continue to be exempt from certain US tariffs.

**Budget 2026–27 revised higher the province’s net debt projections for each year of the outlook relative to expectations a year ago amid a deterioration in the budget balance outlook and an accounting change.** Estimates of net debt for FY26 were revised up to \$24 bn (35% of nominal GDP) from \$22.6 bn (34.6%) in last year’s budget, marginally increasing net debt as a share of GDP as higher deficit and net capital spending are partially offset by the fall upward revision to GDP levels. Net debt levels are projected to increase 16.5% year-over-year in FY27 and 12.2% in FY28 before slowing to 8.6% in FY29 and 5.9% in FY30. As a result, the province’s debt burden as a share of GDP is projected to increase 10 percentage points by the end of the outlook, rising to 45.7% in FY30. Most of this increase is being driven by an accounting change that has put long-term care homes onto the province’s balance sheet. Without the long-term care accounting adjustment, net debt is projected to rise to 41.7% of nominal GDP by FY30. The province has established a planning guardrail to keep net debt-to-GDP less than 40% and reiterated a commitment to fiscal prudence.

**Borrowing for the current fiscal year 2025–26 (FY26) is complete at \$3.03 bn.** Borrowing requirements before contingencies are expected to increase over the next two years to \$3.39 bn in FY27 and \$4.71 bn in FY28, then declining to \$3.93 bn in FY29 and \$3.25 bn in FY30. Should the full contingencies be used, this adds an additional \$50 mn in borrowing requirements to each year of the outlook.

Updated Fiscal Forecast									
\$ millions except where noted									
	FY26		FY27		FY28		FY29		FY30
	Bud.'25	Bud.'26	Bud.'25	Bud.'26	Bud.'25	Bud.'26	Bud.'25	Bud.'26	Bud.'26
<b>Total Revenue</b>	<b>16,506</b>	<b>16,594</b>	<b>17,265</b>	<b>17,354</b>	<b>17,934</b>	<b>17,669</b>	<b>18,369</b>	<b>18,352</b>	<b>19,076</b>
<b>Total Expenses</b>	<b>17,569</b>	<b>18,170</b>	<b>18,148</b>	<b>18,932</b>	<b>18,395</b>	<b>19,103</b>	<b>18,713</b>	<b>19,683</b>	<b>20,210</b>
Contingency	200	0	200	50	200	50	200	50	50
<b>Budget Balance</b>	<b>(898)</b>	<b>(1,249)</b>	<b>(723)</b>	<b>(1,241)</b>	<b>(308)</b>	<b>(1,097)</b>	<b>(191)</b>	<b>(1,000)</b>	<b>(810)</b>
% of GDP	(1.4)	(1.8)	(1.1)	(1.7)	(0.4)	(1.5)	(0.3)	(1.3)	(1.0)
Net Debt	22,620	24,030	25,381	27,995	27,765	31,406	29,817	34,097	36,111
% of GDP	34.6	35.0	37.2	39.5	39.3	42.7	40.9	44.8	45.7

Sources: Scotiabank Economics, Nova Scotia Finance.

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