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Nova Scotia: Larger deficits to defend economy

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Highlights

As had been telegraphed in recent budget updates, Nova Scotia is on track to run a larger deficit than originally anticipated a year ago. Indeed, the 2025-26 shortfall is expected to settle at \$1.25 billion (compared to a \$0.9 billion estimate in Budget 2025). In 2026-27, the budgetary balance isn't expected to change much. Including a \$50 million contingency, Nova Scotia foresees a deficit of \$1.24 billion (1.7% of GDP). Further out the forecast horizon, the shortfall will moderate but will remain at or above 1% of GDP through 2029-30. Overall, more red ink is being spilled in this latest fiscal plan. Across the four overlapping years of Budget 2025 and Budget 2026 (i.e., 2025-26 to 2028-29), the combined deficit has more than doubled. Dubbed 'Defending Nova Scotia' the Budget outlines plans for strategic long-term investments, keying in on economic growth initiatives, affordability measures, and commitments to health care, communities, and housing. The Capital Plan allocates over \$3.5 billion in infrastructure spending to build a financially sustainable and resilient economy. The province's net debt load will end the outgoing fiscal year \$3.2 billion higher than previously guided, and is set to step up from \$28.0 billion in 2026-27 to \$36.1 billion in 2029-30 (after contingencies). The bulk of debt accumulation is attributable to capital investment. Scaled to GDP, net debt is projected to end 2029-30 at 45.7%, up from 39.5% in the coming fiscal year. The interest bite, for its part, will pick up slightly in 2026-27 (from 5.5% to 5.9%). Nova Scotia expects to be a more active borrower in the coming fiscal years. For 2026-27, the gross borrowing requirement is forecast at \$3.39 billion (before contingency) and is expected to rise to \$4.7 billion in 2027-28. Gross requirements moderate further out the horizon, to ~\$3.9 billion in 2028-29 and \$3.2 billion in 2029-30. For the entire four-year period spanning 2025-26 through 2028-29 inclusive, Budget 2026's \$15.0 billion aggregate gross borrowing requirement stands \$1.22 billion above the corresponding four-year forecast contained in Budget 2025.

- **Economic outlook** — As elsewhere in the country, Nova Scotia's economy in 2025 was impacted by uncertainty caused by the trade conflict with the United States and slower population growth. As a result, it is estimated that the province's real GDP grew by 1.8% in 2025 compared to 3.1% in 2024, but growth was still higher than the 1.4% estimated at the national level. More important for public finances, nominal GDP grew by 5.0% (Canada: 4.3%). After experiencing record population growth of 2.8% in 2023 and 2024, the province saw an increase of only 1.0% in 2025. As for the labour market in 2025, job creation was only 0.3%, which is much lower than the 1.3% growth in the working-age population, but the decline in the labour force participation rate limited the rise in the unemployment rate from 6.5% in 2024 to 6.6% in 2025. Looking ahead, uncertainty and slowing population growth are likely to continue to weigh on Nova Scotia's economy. In this context, the budget is based on a lower real GDP growth rate of 1.5% in 2026, a relatively cautious forecast compared to the 1.4% expected by the consensus of private-sector economists. The budget forecasts that growth should remain at 1.5% in 2027 (consensus at 1.6%). As for nominal GDP, growth of 3.4% has been forecast for 2026 (consensus at 3.8%), followed by 3.7% in 2027 (in line with consensus). As for the labour market, the average annual unemployment rate is expected to remain stable at 6.6% in 2026 and 2027 as job creation remained weak at 0.3% for both years. If there is one area where the budget may seem particularly optimistic, it is in terms of population growth. The budget forecasts total population growth of 0.6% in 2026 and 0.5% in 2027, while Statistics Canada's most recent projections predict a decline of 0.3% in 2026 and 0.2% in 2027.
- **Outgoing year budget balance (2025-26)** — As was communicated in September's budget update (and reinforced in December's), Nova Scotia's 2025-26 deficit is going to be larger than originally anticipated. The latest but not yet official estimate of the 2025-26 shortfall stands at \$1.25 billion (1.9% of GDP). Originally, an \$897 million deficit was telegraphed. The miss versus Budget 2025 guidance is a function of higher spending (+3.5%) that was only partially offset by upside revenues (+0.5%). On a brighter note, this latest guidance is improved versus September and December budget updates as the province does not anticipate using its remaining contingency amount (\$179 million). The deficit before contingency is broadly in line with September/December guidance, however. Note the outgoing year's budget deficit is a rare occurrence for Nova Scotia. Excluding the COVID-impacted 2020-21 fiscal year, this will mark the province's first shortfall since 2015-16.
- **Medium-term fiscal outlook (2026-27 & beyond)** — Nova Scotia is expecting to remain in the red in 2026-27, with a similarly sized deficit as the outgoing fiscal year. Including a \$50 million contingency, the province is guiding towards a shortfall of \$1.24 billion (1.7% of GDP). Revenue is seen growing at a healthy clip (+4.6%) on the back of firmer income and sales tax receipts. Expenses will rise at a similar but slightly slower pace (+4.2%), with spending pressures most attributable to the Health and Education envelopes.

In subsequent years, spending is expected to slow relative to revenue and the deficit is seen moderating gradually. Shortfalls of \$1.1 billion, \$1.0 billion and \$0.8 billion are projected in 2027-28, 2028-29 and 2029-30, respectively. In all cases, the deficit is expected to represent at least 1% of GDP. Note that these budget balance estimates all include a \$50 million contingency. The annual contingency in Budget 2025 was \$200 million, though this came at a more uncertain time.

Overall, more red ink is being spilled in this updated fiscal plan. Across the four overlapping years of Budget 2025 and Budget 2026 (i.e., 2025-26 to 2028-29), the combined deficit has increased from \$2.1 billion to \$4.6 billion (both figures including contingencies). Before contingencies, the combined deficit profile increases from \$1.3 billion to \$4.4 billion.

- **New initiatives** — Titled 'Defending Nova Scotia', Budget 2026-27 keys in on strategic investments that will benefit the province in the long-run. The document outlines four primary pillars of action. The first, 'Growing Our Economy', homes in on enhancing industry to ensure that critical services can be provided on a sustainable basis. \$3.6 million of increased funding will be allocated to the Green Hydrogen Action Plan and to support offshore wind



development, while a total of \$30 million is devoted to onshore natural gas research alongside Dalhousie University. This subsection also outlines a \$1.5 million enhancement for Invest Nova Scotia to drive growth in priority sectors, such as forestry, fishing, and energy. Significant investments will continue to be made to increase climate change resilience and support the province's film industry. To keep the small business tax rate unchanged, \$46.3 million is pencilled in, while \$2.5 million will go towards supporting businesses in an effort to diversify their trade markets. The second focus, 'Empowering People', will key in on building safer communities and improving affordability (which involves improving access to housing). Roughly \$12 million in funding will be allocated to fire services and the Nova Scotia Coast Card, while \$110.3 million is earmarked for the building and renovating of schools. On housing, the First Time Homebuyers Pilot Program will allow eligible applicants to purchase a home with a two per cent downpayment, while investments are continuing with a focus on supporting the skilled trades. Previously announced tax saving measures will continue, saving the average Nova Scotia family more than \$1,400 in the upcoming fiscal year by maintaining HST at 14 per cent and keeping tax brackets indexed, among other measures. In the effort of 'Rebuilding Care', the provincial government is investing to improve access to primary health care. Funds are allocated towards hiring and retaining skilled professionals, while nearly \$10 million is attributed to digital tools which will help Nova Scotians better find and access the care they need. Over \$870 million is pencilled in to build 5,700 new and replace long-term care spaces by 2032. Lastly, to 'Build a Financially Sustainable and Resilient Province', Nova Scotia outlines investments which will build and sustain communities in the long-run. The Capital Plan invests more than \$3.5 billion in required infrastructure projects, concentrated in digital transformation, as well as the expansion of health care infrastructure and public transportation systems.

- **Debt outlook & interest bite** — Nova Scotia's net debt is set to end 2025-26 at \$24.0 billion. That's a \$3.2 billion step up from the prior fiscal year and an increase of \$1.6 billion above the Budget 2025 estimate. Over the projection horizon (2026-27 to 2029-30), net debt is expected to climb higher still, rising gradually from nearly \$28.0 billion in 2026-27 to \$36.1 billion in 2029-30. The bulk of net debt accumulation can be attributed to the province's capital plans, while larger deficits and accounting changes also play a role. Scaled to GDP, net debt will also move higher, from an estimated 35.0% at the of 2025-26 to 39.5% in 2026-27 and finally reaching 45.7% in the final projection year (all figures include contingencies). Note that accounting changes have put upward pressure on the debt trajectory and without these, the province estimates that net debt-to-GDP would have been 3.7 percentage points lower by 2029-30. As noted above, budgetary prudence via a \$50 million contingency is built into the debt projections for 2026-27 and each following fiscal year. Nova Scotia's 'interest bite'—which ends the outgoing fiscal year roughly in line with prior Budget guidance (5.5%)—is set to step up to 5.9% in 2026-27. Finally, sensitivity analysis suggests that a 1% increase/(decrease) in T-bill yields would add/(subtract) \$6.1 million in annual interest (note that the province has no foreign currency exposure). For reference, debt-serving costs are projected at \$1.03 billion for the coming fiscal year, up from an estimated \$920 million in 2025-26.
- **Borrowing requirement** — Nova Scotia raised an even \$3 billion par (or \$3.03 billion proceeds) from debt capital markets in 2025-26, an amount that was largely in line with the requirement originally set forth in Budget 2025. Once again, completed issuance was placed exclusively in the domestic market. The province supported key benchmark bond liquidity with deals in 10s (\$400 million re-opening plus \$400 million new issue) and 30s (combined re-openings of \$1.4 billion via three trades). Additionally, a 50-year MTN was tapped for \$300 million, while \$500 million was added to an existing 7-year CORRA FRN. Given the revised profile for the budget balance and anticipated capital spending plans, Nova Scotia expects to be a more active borrower in the coming fiscal years. For 2026-27, the gross borrowing requirement is forecast at \$3.39 billion (before contingency). Notwithstanding increased needs for tangible capital assets in the coming fiscal year, longer-term funding needs are partially mitigated by a scheduled \$850 million increase in short-term borrowings (and/or drawdown of short-term assets). The province does not intend to draw on its roughly \$1 billion in discretionary sinking funds in 2026-27. With no increase in short-term borrowings currently pencilled in for 2027-28, gross requirements for that fiscal year are seen rising to \$4.71 billion. The gross borrowing requirement would hover near \$4 billion in 2028-29 before receding in the final year of the plan. For the entire four-year period spanning 2025-26 through 2028-29 inclusive, Budget 2026's \$15.0 billion aggregate gross borrowing requirement stands \$1.22 billion above the corresponding four-year forecast contained in Budget 2025. Notwithstanding an ability to issue internationally, "the domestic Canadian debt market is expected to be the primary source of funding for the Province's borrowing program in 2026–27". As was demonstrated in the outgoing fiscal year, ensuring benchmark liquidity is a noted focus, while MTNs have long providing this issuer flexibility to respond to investor demand/market conditions.
- **Current long-term credit ratings** — S&P: A+, Negative | Moody's: Aa2, Stable | DBRS: A(H), Stable

[Refer to our [Provincial Ratings Snapshot](#) for additional colour on specific credit rating drivers/considerations]



Nova Scotia

\$ Million	Budget	Estimate	Budget	Estimate	Estimate	Estimate
	2025-26	2025-26	2026-27	2027-28	2028-29	2029-30
Revenues	16,505.6	16,593.9	17,354.3	17,669.2	18,352.3	19,075.5
Provincial Taxation, Fees and Charges	8,593.6	8,612.9	9,172.9			
Interest Revenues and Sinking Funds Earnings	215.4	148.8	149.0			
Federal sources	6,161.2	6,194.9	6,368.6			
Ordinary Recoveries	1,070.0	1,166.5	1,201.2	1,092.4	1,138.3	1,101.8
Sub-total	16,040.2	16,123.0	16,891.8	17,203.9	17,883.0	18,603.7
Net Income from Government Business Enterprises	465.4	470.9	462.5	465.3	469.3	471.8
Expenses	17,568.7	18,169.7	18,932.2	19,102.7	19,682.6	20,209.6
Departmental expenses	16,495.2	17,105.3	17,770.4	17,762.8	18,185.7	18,582.7
Refundable tax credits	148.0	164.6	160.6	162.5	164.4	166.4
Pension Valuation Adjustment	17.1	(20.0)	(28.9)	(9.8)	3.1	3.7
Debt Servicing Costs	908.5	919.8	1,030.1	1,187.2	1,329.5	1,456.7
Consolidation and Accounting Adjustments	365.6	326.6	386.9	386.9	380.3	374.6
Provincial Surplus (Deficit)	(697.5)	(1,249.1)	(1,190.9)	(1,046.6)	(950.0)	(759.5)
Contingency	(200.0)	-	(50.0)	(50.0)	(50.0)	(50.0)
Provincial Surplus (Deficit) - after Contingency	(897.5)	(1,249.1)	(1,240.9)	(1,096.6)	(1,000.0)	(809.5)
Term debt borrowing						
Provincial Deficit (Surplus)	697.5	1,249.1	1,190.9	1,046.6	950.0	759.5
Tangible capital assets: Net cash	1,672.0	1,937.3	2,723.8	2,314.2	1,691.2	1,204.7
Other Non-Budgetary transactions	(478.7)	(788.3)	(27.6)	(51.0)	(50.1)	(49.2)
Other Net Allocations to Various Funds	238.5	(211.2)	(499.5)	199.3	234.6	227.6
Cash Debt Retirement	841.2	841.2	3.5	1,203.4	1,103.6	1,103.9
Sub-total: Total borrowing requirements	2,970.5	3,028.1	3,391.0	4,712.5	3,929.3	3,246.5
Change in Short-Term Borrowing (inc)/dec	(750.0)	(448.7)	(850.0)	-	-	-
Total	3,720.5	3,476.8	4,241.0	4,712.5	3,929.3	3,246.5
Net Direct Debt						
Opening Balance	19,749.8	20,843.6	24,030.1	27,944.8	31,305.6	33,946.7
Provincial Balance	697.5	1,249.1	1,190.9	1,046.6	950.0	759.5
Increase in net book value of tangible capital assets, other	1,672.4	1,937.4	2,723.8	2,314.2	1,691.2	1,204.7
Other	300.0	-	-	-	-	-
Closing Balance	22,419.7	24,030.1	27,944.8	31,305.6	33,946.7	35,910.9
Nominal GDP	65,389	68,586	70,945	73,603	76,129	79,018
Net position: Surplus (Deficit) / GDP	-1.1%	-1.8%	-1.7%	-1.4%	-1.2%	-1.0%
Net Direct Debt / GDP	34.3%	35.0%	39.4%	42.5%	44.6%	45.4%
Gross Debt Servicing / Total revenues	5.5%	5.5%	5.9%	6.7%	7.2%	7.6%

Source: Budget Documents, Nova Scotia Department of Finance.



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