

BUDGET ANALYSIS

Nova Scotia: Budget 2026

Deeper Deficits and Higher Debt Risk More Leaks in the Fiscal Ship

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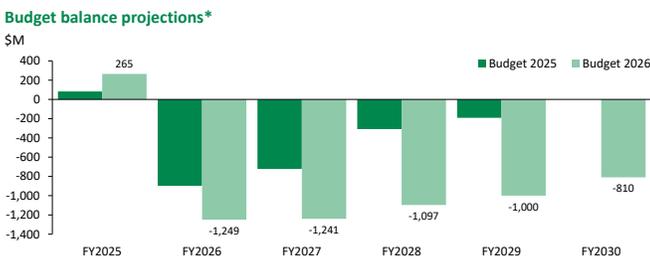
Nova Scotia’s Budget 2026–27 made clear that the Maritime province has seen a deterioration in its fiscal outlook since [this time last year](#) (graph 1). Deficits are projected to surpass \$1.2B this year and next, as expenses top prior budget projections and revenues are broadly unchanged. Deficits should remain elevated thereafter. Keep in mind, the Fiscal Stability Plan aims to limit spending growth and find savings of as much as \$2.6B over four years. Despite this, larger deficits and an accounting change for long-term care (LTC) facilities are forecast to push the net debt-to-GDP ratio to 35.0% this year—up from a projected 34.3% in the prior budget. It’s expected to continue this upward trajectory, rising to 39.4% in the 2026–27 fiscal year (FY27) and ultimately reaching 45.4% by FY30. That risks pushing this key debt metric above Ontario or Quebec levels (graph 2). S&P had given a negative watch recently largely in anticipation of these developments, but other agencies have not adjusted their ratings recently. See table 1 on page 2 for details.

Outlook for Revenues a Mixed Blessing

Nova Scotia’s economic outlook in Budget 2026 was a mix of good and bad news. Beginning with the good news, Nova Scotia benefitted from a stronger economic starting point than expected last year. Statistics Canada materially revised up its estimated historical levels for real and nominal GDP—the broadest measures of the tax base—with Nova Scotia seeing among the largest percent increases across all Canadian provinces. But that’s largely where the good news ends. The forecast for GDP growth has been revised lower relative to Budget 2025, in part on lower population growth (table 2 on page 2). That said, we believe this economic forecast is a prudent basis for fiscal planning as it comes in noticeably below [our recent outlook](#) in 2027.

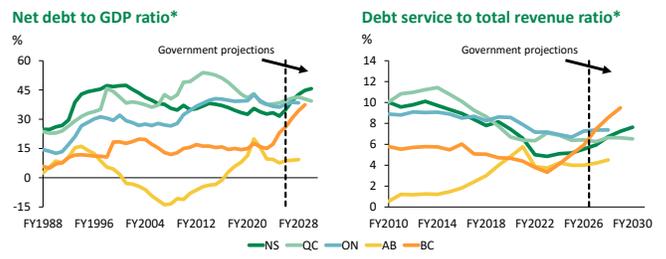
The revenue projection is a mix of economic tailwinds and tax cuts. The outlook for total revenues in FY26 (\$16.6B) is broadly in line with the prior budget projection (\$16.5B). But this is 3.4% below the final estimate of the prior year as the permanent one percentage point reduction in the small business

Graph 1
Nova Scotia Expects More Red Ink



* Budget balance after contingency.
Nova Scotia Ministry of Finance and Desjardins Economic Studies

Graph 2
Nova Scotia’s Debt Burden Climbs Higher



* British Columbia figures are from Budget 2026. Quebec and Ontario figures based on mid-year FY26 projections. Alberta figures are from Budget 2025.
Provincial budget documents and Desjardins Economic Studies

TABLE 1
Nova Scotia Fiscal Forecasts

IN \$M (UNLESS OTHERWISE INDICATED)	2025–2026		2026–2027		2027–2028		2028–2029		2029–2030
	Bud. 2025	Bud. 2026	Bud. 2026						
Total revenues	16,506	16,594	17,265	17,354	17,934	17,669	18,369	18,352	19,076
% change	-1.8	-3.4	4.6	4.6	3.9	1.8	2.4	3.9	3.9
Total expense	17,569	18,170	18,148	18,932	18,395	19,103	18,713	19,683	20,210
% change	3.7	5.2	3.3	4.2	1.4	0.9	1.7	3.0	2.7
Program spending	16,495	17,105	16,926	17,770	17,053	17,763	17,238	18,186	18,583
% change	3.7	5.2	2.6	3.9	0.8	0.0	1.1	2.4	2.2
Debt servicing costs	909	920	1,029	1,030	1,137	1,187	1,249	1,330	1,457
% of total revenues	5.5	5.5	6.0	5.9	6.3	6.7	6.8	7.2	7.6
Consolidation and accounting adjustments	366	327	361	387	353	387	353	380	375
Budget balance – Before contingency	-698	-1,249	-522	-1,191	-108	-1,047	9	-950	-759
% of GDP	-1.1	-1.8	-0.8	-1.7	-0.2	-1.4	0.0	-1.2	-1.0
Net debt, % of GDP	34.3	35.0	36.6	39.4	38.4	42.5	39.8	44.6	45.4
Contingency	-200	0	-200	-50	-200	-50	-200	-50	-50
Budget balance – After contingency	-898	-1,249	-722	-1,241	-308	-1,097	-191	-1,000	-809
% of GDP	-1.4	-1.8	-1.1	-1.7	-0.4	-1.5	-0.3	-1.3	-1.0
Net debt, % of GDP	34.6	35.0	37.2	39.5	39.3	42.7	40.9	44.8	45.7
Borrowing program	3,171	3,028	3,678	3,441	4,124	4,763	3,666	3,979	3,297

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TABLE 2
Nova Scotia Economic Projections

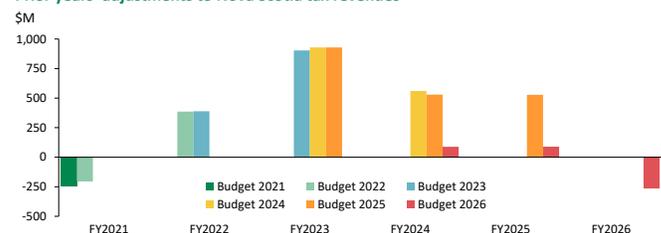
%	2025	2026	2027
<u>Real GDP growth</u>			
Budget 2025	2.0	1.8	
Budget 2026	1.8	1.5	1.5
<u>Nominal GDP growth</u>			
Budget 2025	4.7	4.3	
Budget 2026	5.0	3.4	3.7
<u>Population growth</u>			
Budget 2025	0.9	0.8	
Budget 2026	1.0	0.6	0.5

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tax rate and the Harmonized Sales Tax (HST) rate, as well as other tax saving measures, took effect (to the tune of \$1,400 per family or \$681M in FY27). And unfortunately, the tailwind from historical revenue revisions looks to be a thing of the past, ending the era of positive surprises (graph 3). Looking ahead, total revenues in FY27 are projected to be \$17.4B—an increase of 4.6% y/y over the estimate for this year. The increase is primarily attributable to a 5.6% anticipated advance in own-source revenues, along with a more modest 2.8% increase in federal transfers. In the outer years of the outlook, a moderate projected advance in total revenues of 1.8% in FY28 is then expected to be followed by back-to-back gains in the tax take of 3.9%.

Graph 3
The Era of Positive Revenue Surprises Looks to Have Come to an End

Prior years' adjustments to Nova Scotia tax revenues

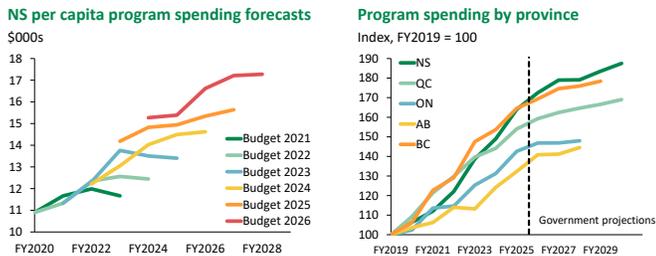


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Program Spending Includes New Measures and Some Savings

On the back of an estimated 5.2% increase in program spending in FY26 (to \$17.1B), the Government of Nova Scotia plans to grow its non-interest expenses by 3.9% in FY27 (to \$17.8B). The anticipated spending increase is broad based. After that, the province intends to restrain the advance in program spending to an annual average of 1.5% in the following three fiscal years. Nova Scotia's biggest single outlay in the fiscal plan is \$1.2B for expanding health infrastructure in Halifax and Cape Breton. Additionally, the budget allocates \$874M toward building 5,700 new and replacement long-term care spaces by 2032, with seven new facilities expected to open this year. Nova Scotia's spending profile per capita has increased once again as compared to last year's plan (graph 4). This has helped to put the province's program spending on a higher overall path than other provinces.

Graph 4
Per Capita Program Spending Continues to Rise



That's despite population growth slowing considerably and expected to remain subdued over the outlook. Additionally, the headline expense numbers include the Fiscal Stability Plan reductions, which aim to limit spending growth and find savings of as much as \$2.6B over four years.

Alongside elevated program expenses, debt-servicing costs have been revised marginally higher in this budget relative to Budget 2025. They are now expected to take up more than 7% of total revenues in the outer years of the outlook, up from 5.5% in FY26.

Borrowing Program is Increased

Capital spending is projected to reach \$3.5B in FY27, with a focus on health infrastructure, public housing and other critical projects, building on FY26's planned outlay of \$2.35B. This strategic investment aims to invest in critical infrastructure while protecting services Nova Scotians rely on against future shocks.

Nova Scotia is expanding its borrowing program, with borrowing requirements before contingencies now projected to total \$3.4B in FY27, \$4.7B in FY28 and \$3.9B in FY29—a total of \$1.2B more than the last budget's projection over three years—and \$3.2B in FY30. Although Nova Scotia retains the ability to borrow in foreign markets, the Canadian debt market is expected to be the primary source of funding to eliminate currency risks. There are no plans to withdraw from the discretionary sinking fund, which currently maintains a balance of approximately \$1.05B.