Budget Assumptions and Schedules

for the fiscal year 2010–2011

The Honourable Graham Steele

Minister of Finance

NOVA SCOTIA

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NOVA SCOTIA

Budgetary Information

Supplementary to the 2010–2011 Budget

Budget Overview

The Province of Nova Scotia is tabling a budget in fiscal 2010–2011, with a deficit of $222.1 million. This is the first year of a four-year fiscal plan to return to a balanced budget.

Total revenues for 2010–2011, including government business enterprises' net income of $348.6 million, are projected to be $8.7 billion, an increase of $327.8 million over the 2009–2010 estimates. Provincial source ordinary revenues are estimated to be up $409.9 million, offset by a $82.0 million decrease in federal source ordinary revenues. Other revenue sources including fees and other charges, recoveries, and sinking fund earnings are up $8.2 million.

Provincial source revenues have increased primarily as a result of increases in HST revenues of $231.6 million, income taxes of $137.1 million, tobacco tax of $24.8 million, and petroleum royalties of $22.6 million, offset by a $10.6 million decrease in the Large Corporations tax.

Federal source revenues are down from the 2009–2010 estimates due to decreases in equalization payments of $104.2 and a decrease in the Crown share adjustment payment of $45.9 million, offset by increases in the amount accrued for the Offshore Agreement of $47.2 million and increases in the Canada Health and Social Transfers of $27.9 million.

Total expenses for fiscal 2010–2011, before consolidation adjustments, are budgeted at $9.0 billion, down $49.7 million from 2009–2010. Increases in program spending for departments includes Health $212.7 million, Education $30.2 million, Community Services $25.7 million, Service Nova Scotia and Municipal Relations $12.1 million, Transportation and Infrastructure Renewal $23.0 million, and Labour and Workforce Development $22.1 million, offset by a decrease in Assistance to Universities of $395.2 million.

A Change and Innovation Fund has also been established in Treasury Board with an estimate of $15.0 million. This fund will be used to incent change and encourage departments to consider efficiencies and innovative ways of achieving their business and service objectives. It also includes $3.0 million for the Emergency Department Protection Fund and $2 million is related to the government commitment on community schools.

Spending has increased for tax credit and rebate programs, which includes $52.5 million for the Affordable Living Tax Credit and $2.3 million for the Poverty Reduction Credit.

Restructuring costs, a portion of which is for funding of wage negotiations, is down $67.4 million from 2009–2010.

The Pension Valuation adjustment has decreased by $80.5 million from the 2009–2010 estimate of $89.0 million as a result of budgeted changes to the pension plans.

Debt servicing costs are up $70.1 million as a result of an increased borrowing program.

Authority for the annual cost to acquire provincially owned assets is reflected in the tangible capital assets appropriation. Gross capital purchase requirements in 2010–2011 total $579.9 million, which includes an investment of $310.0 million in the highway system, $190.0 million for buildings, including schools, $42.6 million for information technology, $23.2 million for vehicles and equipment, and $14.1 million for land and land improvements.

In addition, capital funding has been provided to the following governmental units: $96.2 million for the District Health Authorities and IWK Health Centre, and $34.5 million for the Housing Development Corporation to leverage federal cost sharing for social housing projects.

NOVA SCOTIA

Budget Summary

Supplementary to the 2010–2011 Budget

BUDGET SUMMARY - STATEMENT OF OPERATIONS — *Schedule 1A*

($ thousands)

	2009-2010 Estimate	2009-2010 Forecast	2010-2011 Estimate
Consolidated Fund			
Revenues			
Ordinary Revenues	7,295,210	7,315,163	**7,623,118**
Fees and Other Charges	61,235	63,280	**62,537**
Ordinary Recoveries	606,895	619,180	**616,284**
Sinking Fund Earnings	91,623	90,838	**89,092**
	8,054,963	**8,088,461**	**8,391,031**
Expenses			
Departmental Expenses	8,115,994	8,045,182	**8,021,916**
Tax Credits and Rebates	---	---	**54,800**
Pension Valuation Adjustment	88,990	93,123	**8,448**
Debt Servicing Costs	889,076	872,287	**959,197**
	9,094,060	**9,010,592**	**9,044,361**
	(1,039,097)	**(922,131)**	**(653,330)**
Consolidation and Accounting Adjustments for Government Units			
Consolidated Fund Consolidation Adjustments	85,919	73,901	**92,803**
Health and Hospital Boards Operations	1,267	476	**---**
School Boards Operations	---	187	**(6,035)**
Special Purpose Funds	1,055	2,053	**(2,870)**
Other Organizations	1,966	(566)	**(1,224)**
	90,207	**76,051**	**82,674**
Net Income from Government Business Enterprises			
Nova Scotia Gaming Corporation	128,100	129,800	**116,400**
Nova Scotia Liquor Corporation	217,000	217,009	**223,459**
Other Enterprises	11,697	10,838	**8,714**
	356,797	**357,647**	**348,573**
Provincial Surplus (Deficit)	**(592,093)**	**(488,433)**	**(222,083)**

NOVA SCOTIA

Fiscal Projections
2010–2011 to 2013–2014

Supplementary to the 2010–2011 Budget

FISCAL PROJECTIONS 2010–2011 to 2013–2014

Schedule 1B

($millions)

	ESTIMATE *2009–2010*	**FORECAST** *2009–2010*	**ESTIMATE** *2010–2011*	**ESTIMATE** *2011–2012*	**ESTIMATE** *2012–2013*	**ESTIMATE** *2013–2014*
Consolidated Fund						
Revenues						
Total Before Budget Measures	8,055.0	8,088.5	8,165.5	8,095.0	8,295.3	8,393.0
HST Measures	—	—	214.8	307.5	316.3	324.6
PIT Measures	—	—	31.4	33.1	34.9	36.9
Less:						
Children's clothing and footwear rebate	—	—	(6.1)	(8.7)	(9.0)	(9.2)
Feminine hygiene and diapers rebate	—	—	(1.6)	(2.3)	(2.4)	(2.4)
Remove Tax for Low Income Seniors	—	—	(12.5)	(12.6)	(12.7)	(12.8)
Reduce Small Business Tax	—	—	(0.5)	(5.9)	(6.5)	(7.5)
Total Revenue	**8,055.0**	**8,088.5**	**8,391.0**	**8,406.0**	**8,615.9**	**8,722.6**
Expenses						
Departmental Expenses	8,116.0	8,045.2	8,075.9	8,337.5	8,522.1	8,690.7
Expenditure Management – YR 1	—	—	(54.0)	(54.0)	(54.0)	(54.0)
YR 2	—	—	—	(198.0)	(198.0)	(198.0)
YR 3	—	—	—	—	(247.0)	(247.0)
YR 4	—	—	—	—	—	(273.0)
Total	—	—	(54.0)	(252.0)	(499.0)	(772.0)
Total Departmental Expenses	8,116.00	8,045.2	8,021.9	8,085.5	8,023.1	7,918.7
Affordable Living Tax Credit	—	—	52.5	70.0	70.0	70.0
Poverty Reduction Credit	—	—	2.3	3.0	3.0	3.0
Pension Valuation Adjustment	89.0	93.1	8.5	31.8	65.4	87.7
Debt Servicing Costs	889.1	872.3	959.2	973.6	1,043.5	1,060.5
Total expense	9,094.1	9,010.6	9,044.4	9,163.9	9,205.1	9,140.0
	(1,039.1)	(922.1)	(653.3)	(757.8)	(589.2)	(417.4)
Consolidation Adjustments	90.2	76.1	82.7	31.4	31.4	31.4
Net Income Government Business Enterprises	356.8	357.6	348.6	356.5	371.1	386.3
Provincial Surplus (Deficit)	(592.1)	(488.4)	(222.1)	(370.0)	(186.6)	0.3
Net Debt	13,492.7	13,319.3	14,002.2	14,603.2	14,897.0	14,877.7
Nominal GDP	34,833.0	33,831.0	35,335.0	36,304.0	37,232.0	38,213.0
Debt to GDP Ratio	38.7%	39.4%	39.6%	40.2%	40.0%	38.90%

Four-Year Fiscal Plan

The Province of Nova Scotia faces significant financial challenges in the years ahead. Revenues will be growing at a slower rate and expenses will continue to rise steadily. Studies have shown that if nothing is done, annual deficits are likely to increase to as much as $1.4 billion by 2012–2013.

Government held extensive public consultations from January to March 2010 to educate Nova Scotians on the province's fiscal challenges and seek input on possible solutions. More than 1,500 people participated in the "Back to Balance" dialogue, and hundreds more submitted written suggestions.

This and much other feedback were used in the formation of a fiscal plan for Nova Scotia in the medium term. Budget 2010–2011 sets out government's plan to get the province to a surplus position by 2013–2014.

Overview—Fiscal Trends

In the face of the economic downturn, Nova Scotia's total revenues have remained relatively flat, compared to growth of close to 5 per cent annually over the past decade. In the medium term, revenues are not projected to recover to pre-downturn growth rates.

Much of Nova Scotia's strong revenue growth over the past decade resulted from offshore resources. For example, petroleum royalty revenues have peaked and are now declining—from $452 million in 2008–2009 to an estimated $174 million in 2010–2011.

In addition, revenues from federal sources—such as equalization and other transfers—are expected to remain flat or to decline over the medium term as the federal government struggles to contain a significant deficit. Transfer payments to the provinces make up a significant portion of the federal budget.

New government programs and services introduced over the past few years are now reaching full capacity and cost, while the revenues that originally supported the programs are diminishing.

The imbalance between spending and revenue projections was confirmed by a review of the province's finances by Deloitte, released in August 2009, and a report of the Premier's Economic Advisory Panel, released in November 2009, called "Addressing Nova Scotia's Fiscal Challenge."

The reports noted that Nova Scotia is facing a structural deficit in the years ahead and that government must consider a combination of fiscal measures to eliminate deficits. These include increasing revenues, reducing spending, and promoting economic growth over time.

In the Back to Balance dialogue, the Minister of Finance sought advice from Nova Scotians on the type of measures that would be suitable—and on the question of how soon these measures should be implemented.

He also noted that the 2010–2011 budget would contain a plan to ensure government lives within its means.

Four-Year Fiscal Plan

The Government of Nova Scotia has a plan to return the province's operating budget to a surplus position by 2013–2014. The deficit will decline from $488.4 million in 2009–2010 to $222.1 million in 2010–2011, $370 million in 2011–2012, $186.6 million in 2012–2013, and then to balance in 2013–2014.

The medium-term fiscal plan includes significant measures in the areas of spending, revenues, and economic growth:

1 Revenue measures

- restore the Harmonized Sales Tax rate to 15 per cent
- introduce a new income tax bracket for high-income earners

These will generate approximately $246.2 million in 2010–2011 and $361.5 by $2013–2014.

To shelter low-income Nova Scotians from the impact of these changes, new point-of-sale HST rebates, tax credits, and reductions will be implemented, at an estimated cost of $20.2 million in 2010–2011 and $24.4 million in 2013–2014. Other new tax credits and rebates total $54.8 million in 2010–2011 and $73 million in 2013–2014.

2 Spending measures

- contain increases in program spending—through the implementation of the Expenditure Management plan, overall total spending growth will be held to approximately 0.4 per cent per year, growing in total from $9.04 billion in 2010–2011 to $9.14 billion in 2013–2014.

- reduce pension expenses—changes to The Public Service Superannuation Plans will reduce the long-term liability.

3 Economic development measures

- continue with year two of an economic stimulus plan, maximizing federal funding that will flow in 2010–2011—the budget includes a $710.6 million capital spending plan that will improve infrastructure across the province and create or maintain jobs.

Medium-Term Revenue Outlook

With the implementation of the Four-Year Fiscal Plan, provincial own-source revenues are expected to improve.

Total revenues, including net income from Government Business Enterprises, are expected to grow modestly—from $8.74 billion in 2010–2011 to $9.11 billion in 2013–2014—averaging 1.9 per cent growth per year.

Following the economic downturn, corporations are returning to positions of profitability and national corporate taxable income is forecast to grow by more than 10 per cent a year over the next three to four years. The increased cost of the small business rate and corporate income tax credits will partially offset the growth.

Improving labour market conditions are expected to contribute to steady growth in personal income tax revenues. Revenues from a fifth tax bracket for high-income earners will be partially offset by the removal of the surtax, increased costs of personal income tax credits, and adjustments to the Low Income Tax Reduction for Guaranteed Income Supplement recipients.

The restoration of the Harmonized Sales Tax (HST) rate is a key factor in the province's improved revenue picture, generating more than $300 million per year upon full implementation. Growth in consumer spending is expected to decline by 2013–2014 as growth in the provincial economy slows.

Government has included a number of measures to offset the impact of revenue changes on low-income Nova Scotians. These include the new Affordable Living Tax Credit, point-of-sale rebates, and increases to existing HST rebates (e.g., Your Energy Rebate).

Offshore natural resource royalty revenues have peaked and are on the decline over the medium term. The low world market price for natural gas and the relative strength of the

Canadian dollar have led to revenues being substantially less than the recent experience. Natural gas reserves are finite and declining in the absence of any new discoveries. Deep Panuke production is scheduled to start in 2011, but revenues from that project will be insufficient to replace the revenue stream from the Sable Offshore Energy Project.

Other provincial sources of revenue are expected to remain relatively stable in the medium term. Tobacco tax revenues have recovered as a result of a $0.05/unit tax increase in 2009, but are projected to gradually decline over the next few years. Motive fuel tax has been free of volatile fluctuations; however, the risk of increasing world oil prices must be considered.

Equalization payments are expected to remain relatively constant over the next few years due in large part to the province's successful negotiation of a Cumulative Best-of Guarantee in 2007. This is expected to provide the province with additional revenue to offset projected declines in Equalization payments. The Government of Canada has committed to containing the growth of the Equalization program.

Like offshore natural resource revenues, Nova Scotia's Offshore Accord payments have also peaked and will start to decline over the next few years as lower natural resource revenues are included in the Equalization formula. The first eight-year phase of the 2005 Offshore Accord will end in 2011–2012, but it is expected that the province will qualify for the second phase of the accord, which runs a further eight years until March 31, 2020.

The national pool of cash available for the Canada Health Transfer (CHT) is legislated to grow by 6 per cent a year until March 31, 2014. The calculation of the province's payment is based upon a combination of tax points and share of national population, and is expected to grow by approximately 4 per cent a year until the program is renewed.

Two factors that offset the legislated increase are Nova Scotia's declining share of national population and the federal government's commitment to provide Ontario with the same per capita cash transfer as other Equalization-receiving provinces.

Similar to the CHT, the national pool of cash available for the Canada Social Transfer (CST) is also legislated to increase on an annual basis until March 31, 2014—at a rate of 3 per cent a year. The CST is based upon a province's share of the national population. Although Nova Scotia's share of national population is declining the province will still see annual growth in CST payments until the program is renewed.

Over the past few years the province has benefitted from the establishment of federal trusts to assist with specific purposes (e.g., infrastructure, patient wait times guarantee, community development). Budgeted revenue lines have shown increases in these areas as a result of the federal recoveries.

These trusts will have reached the end of their term in the next year or so. It is unlikely that additional federal funding will replace these trusts, since the federal government is facing significant fiscal challenges similar to those faced by Nova Scotia.

Medium-Term Spending Outlook

Government plans to reduce the rate of spending growth in the medium term.

In recent years government has introduced new programs and services that are growing steadily, while the revenues that originally supported the programs are flat.

Total spending grew at over 5 per year since 2000–2001, but departmental spending grew at over 6 per cent during that time period. This high rate of growth was financed by a strong economy both provincially and nationally, which has since diminished.

Department of Health expenses alone went up from $2.89 billion in 2006 to $3.63 billion in 2010—with increases of 4 per cent in 2006–2007, 5 per cent in 2007–2008, and 7 per cent in both 2008–2009 and 2009–2010. The overall increase was driven by increased utilization of health services, significantly higher wage and salary costs for medical professionals, higher costs of pharmaceuticals, and expanded long-term care services. Health capital grants were increased as part of the stimulus program.

Government also sharpened its focus on preventive health through an enhanced budget for Health Promotion and Protection.

Education and university costs have also increased considerably in recent years, as funding was added to budgets for universities, the Nova Scotia Community College, and the public school system, including Learning for Life I and II.

The cost of providing Community Services—such as income assistance and housing—has also gone up from $818 million 4 years ago to $971 million in 2010, or on average 4 per cent per year.

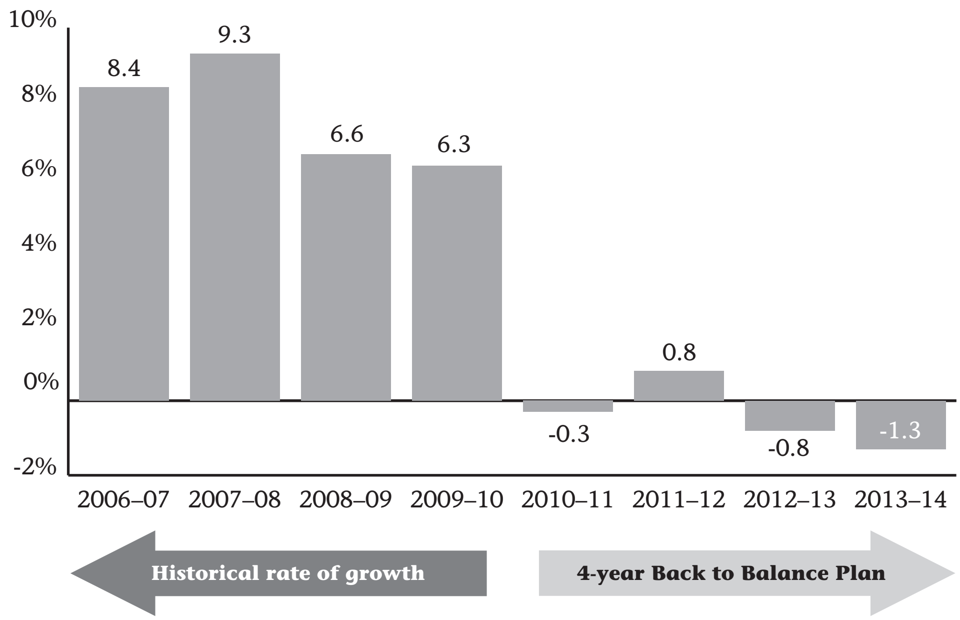
Other department budgets were increased—with the help of federal recoveries—when the province took on responsibilities for the federal-provincial labour market activities and added over 180 police officers and other law enforcement positions to enhance public safety across the province.

As well, the Service Nova Scotia and Municipal Relations budget was augmented to cover additional funding for municipalities from federal programs such as the Building Canada Fund, the Municipal Rural Infrastructure Fund, and the Gas Tax Fund.

The cost of funding public sector pensions has also been going up. Funding levels for both the Public Service Superannuation Plan and the Teachers' Pension Plan have declined steeply in the last two years due to demographic trends as well as negative market performance for pension investments. Government is taking steps to stabilize finances of these plans.

As part of government's efforts to support the economy through the economic downturn, significant stimulus expenditures were made. As a result, net debt and debt servicing costs are both growing.

Annual Percentage Growth in Expenses



Expenditure Management

Government made significant efforts to contain spending during fiscal 2009–2010. A projected deficit of $592.1 million in the September 26, 2009, budget was down to an estimated $488.4 million, mainly because spending was lower than budgeted.

Growth in total expenses will remain relatively flat in 2010–2011 down from an annual average of 5 per cent or higher in recent years. Departmental spending will be stable for the next four fiscal years.

Government will rely heavily on the Expenditure Management Initiative (EMI) to help achieve savings in a variety of areas in the medium term. A central EMI team will assist departments and agencies with their efforts to reduce or eliminate expenses.

EMI has developed a multi-year approach for identifying cost-control and cost-savings opportunities, including a comprehensive analysis of all department, agency, and third-party spending. Hundreds of government programs are being evaluated for cost effectiveness, usefulness, and alignment with current priorities and service delivery requirements.

Government will rely on attrition through retirements and voluntary departures—as well as measures to ensure more effective and efficient program and service delivery—to make the civil service smaller. We expect the total number of civil servants to be 10 per cent lower by 2013.

Government has introduced several measures to contain the cost of public sector salaries and wages, given that every 1 per cent increase adds approximately $40 million to the government's wage bill. Salaries of MLAs and senior officials have been frozen, and government will maintain a target to keep any other wage increases to under 1 per cent.

More than 60 per cent of government expenditures are payments to third parties, such as municipalities, universities, school boards, and health authorities. Government has already begun discussions with some of these parties to work cooperatively in identifying opportunities to achieve costs savings and ensure maximum value from their budgets.

In the health sector we will investigate opportunities to reduce costs in areas such as

- health authorities shared efficiencies
- streamlining health care services
- drug costs

In the education sector we will investigate cost savings through

• the modernization of the school system

• opportunities tied to student enrollment decline

Government will consider rationalizing services, sharing administration costs, and using technology to improve service and the bottom line. The budget includes a $15 million Innovation Fund to encourage departments to find innovative ways of achieving their business and service delivery objectives.

The 2010–2011 budget contains administrative savings of $54.4 million from the first year of the EMI, from a 1 per cent reduction in departmental spending, savings from a grants review, and a reduction in MLA expenses.

In addition, controls will be put in place to reduce professional services expenses by $10 million in 2010–2011. These include many programs and services contracted externally.

In combination, this multi-staged approach to addressing the fiscal challenge is expected to result in a drop in the projected deficit level of the province by 86 per cent in 2012–2013 compared to increases estimated in the 2009 Economic Advisory Panel report and continue through to 2013–2014 to bring us to balance.

NOVA SCOTIA

Deficit Reconciliation

($millions)	2012–2013	
Deficit as per Economic Advisory Panel Report	**1,368.8**	
Less: Revenue measures		
Tax changes, net of credits	247.6	18%
Revised balance after revenue measures	1,121.2	
Less: Expenditure measures		
Change compensation mandate from 2.9 per cent to 1 per cent.	246.5	18%
Changes to pension plan indexing and financing	168.0	12%
Expenditure Management Targets	499.0	36%
Revised balance after expenditure measures	207.7	
Less: Miscellaneous differences	21.1	2%
Deficit per 2012–2013 Fiscal Plan	**186.6**	14%

Medium-Term Debt Servicing Costs

It is very important to regain financial control to slow the growth in Nova Scotia's debt and debt servicing costs.

Combined budgetary deficits from 2009–2010 to 2013–2014 are expected to increase net debt by $1,558 million. Nova Scotia's net debt will grow from a forecast of $13.3 billion at year ended 2009–2010 to $14.9 billion by 2013–2014.

Gross debt servicing costs are expected to rise to $959 million in 2010–2011 from $889 million in 2009–2010. These costs will go from 10.6 per cent of total revenue in 2009–2010 to 11.6 per cent in 2013–2014.

The debt-to-GDP ratio will grow from 39.4 per cent to a peak of 40.2 per cent in 2011–2012, then decline again to 38.9 per cent by 2013–2014.

This debt will be financed by borrowing monies in capital markets. The most significant items are the net acquisition of tangible capital assets and the incurring of deficits. The province has to borrow the monies for these capital expenditures and will incur interest costs on this debt.

By provincial standards, Nova Scotia has relatively low exposure to short-term interest rates. The province also has exposure to long-term interest rates as term debt borrowing is expected to be about $2 billion for each of the next two fiscal years, $1.3 billion in the following year, and $665 million in the year after that.

The Bank of Canada has indicated that it will maintain administered interest rates at low levels until the second half of 2010, but is then expected to return those rates to normal levels. As such, the province will likely experience higher interest rates on both short-term and long-term borrowing, thereby further increasing debt servicing costs.

Somewhat offsetting the increased interest costs due to rising interest rates is a limited amount of high coupon debt maturing over the next four years.

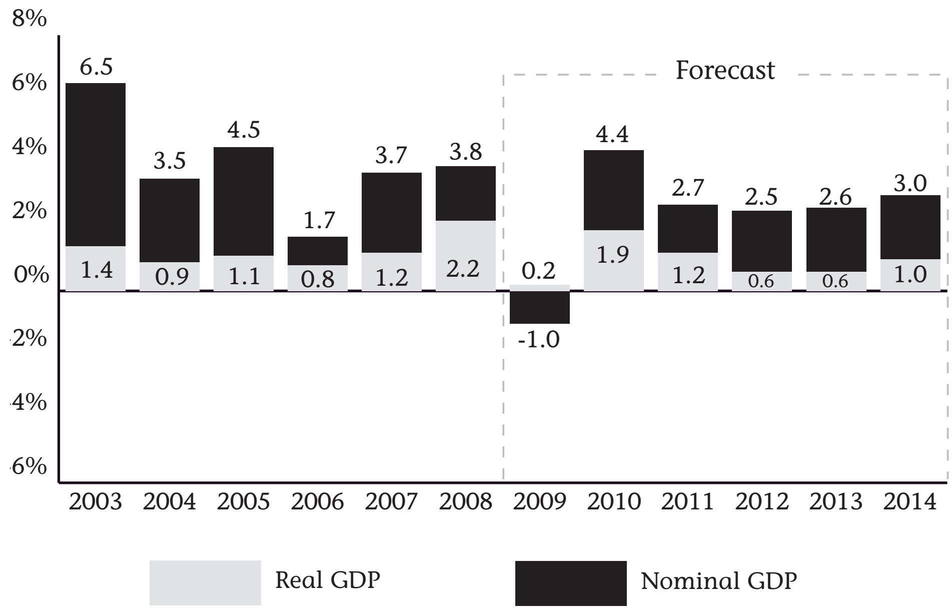
Medium-Term Economic Outlook

Real GDP growth is expected to slow dramatically—growing by only 0.6 per cent in each of 2012 and 2013.

This slow growth outlook reflects several influences, including population decline, tighter monetary policy, and fiscal policy choices to bring government budgets back to balance.

Nova Scotia's recent economic growth demonstrates that in the absence of major project expenditures, the province's economic output grew by 0.8–1.4 per cent per year.

Nova Scotia: Economic Growth Medium Term



The medium-term economic outlook is presented to inform fiscal planning, but it is highly uncertain and susceptible to a number of positive and negative risks. These include currency volatility, commodity price fluctuations, monetary policy decisions, unforeseen major project investments, and productivity improvements.

Before 2014, many of these conditions are likely to change and lead to material adjustments to the medium-term outlook. If some of these risks materialize, the government's fiscal planning may be affected.

NOVA SCOTIA

Financial Statistics

Supplementary to the 2010–2011 Budget

REVENUES BY SOURCE — *Schedule 1C*

($ thousands)

	ACTUAL 2006-2007 (Restated)	ACTUAL 2007-2008 (Restated)	ACTUAL 2008-2009	FORECAST 2009-2010	ESTIMATE 2010-2011
Consolidated Fund Revenues					
Provincial Sources					
Corporate Income Tax	392,585	389,473	352,476	305,033	343,620
Harmonized Sales Tax	1,090,758	1,074,875	1,174,966	1,180,442	1,413,115
Individual Income Tax	1,678,995	1,778,395	1,818,415	1,829,578	1,896,905
Interest Revenues	81,888	87,900	84,780	88,101	93,461
Motive Fuel Taxes	245,577	249,189	243,379	247,859	248,594
Offshore Licenses Forfeitures	4,227	107,059	2,063	14,789	---
Registry of Motor Vehicles	91,997	99,107	112,594	108,552	108,720
Royalties - Petroleum	269,100	399,679	451,795	110,838	173,640
Tobacco Tax	145,091	145,573	147,654	196,446	193,847
Other Provincial Sources	277,140	303,994	290,596	278,796	264,569
TCA Cost Shared Revenue	---	4,461	2,999	12,027	9,650
Prior Years' Adjustments - Provincial Sources	13,032	85,779	53,904	7,017	---
Fees and Other Charges	64,682	56,410	61,980	63,280	62,537
Ordinary Recoveries - Provincial Sources	247,327	261,443	274,032	299,630	293,347
Sinking Fund Earnings	121,591	112,834	116,384	90,838	89,092
Total - Provincial Sources	**4,723,990**	**5,156,171**	**5,188,017**	**4,833,226**	**5,191,097**
Federal Sources					
Canada Health Transfer	610,477	638,954	668,683	700,137	724,564
Canada Social Transfer	264,304	280,413	297,114	301,978	307,575
C48 Infrastructure Trust Funds	2,468	43,090	29,913	9,945	---
C52 Trust Funds	---	2,669	5,992	39,695	3,415
Crown Share	---	234,400	95,114	79,352	33,498
Equalization Payments	1,385,539	1,464,528	1,464,935	1,464,935	1,360,722
Knowledge Infrastructure Program	---	---	---	9,939	38,003
Offshore Oil and Gas Payments	57,421	68,238	105,884	180,072	227,225
Other Federal Sources	36,985	40,134	50,411	40,105	65,904
TCA Cost Shared Revenue	22,546	31,206	36,366	115,358	116,091
Prior Years' Adjustments - Federal Sources	6,722	12,277	7,630	(5,831)	---
Ordinary Recoveries - Federal Sources	183,081	207,142	184,723	319,550	322,937
Total - Federal Sources	**2,569,543**	**3,023,051**	**2,946,765**	**3,255,235**	**3,199,934**
Total - Revenues	**7,293,533**	**8,179,222**	**8,134,782**	**8,088,461**	**8,391,031**
Net Income from Government Business Enterprises					
Nova Scotia Gaming Corporation	141,717	134,198	133,394	129,800	116,400
Nova Scotia Liquor Corporation	188,241	198,671	212,613	217,009	223,459
Other Enterprises	10,683	11,289	13,573	10,838	8,714
	340,641	**344,158**	**359,580**	**357,647**	**348,573**
Total - Revenues	**7,634,174**	**8,523,380**	**8,494,362**	**8,446,108**	**8,739,604**

REVENUES BY SOURCE

(as a percentage of Total Revenue)

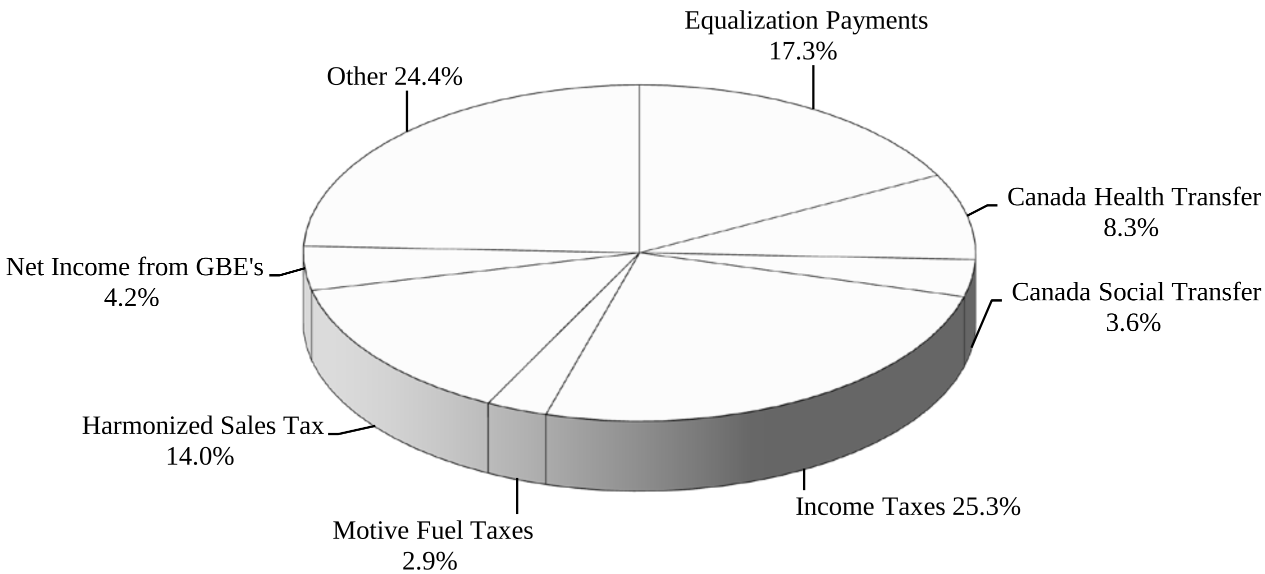
Schedule 1C
(continued)

	ACTUAL 2006-2007 (Restated)	ACTUAL 2007-2008 (Restated)	ACTUAL 2008-2009	FORECAST 2009-2010	ESTIMATE 2010-2011
Consolidated Fund Revenues					
Provincial Sources					
Corporate Income Tax	5.1%	4.6%	4.1%	3.6%	3.9%
Harmonized Sales Tax	14.3%	12.6%	13.8%	14.0%	16.2%
Individual Income Tax	22.0%	20.9%	21.4%	21.7%	21.7%
Interest Revenues	1.1%	1.0%	1.0%	1.0%	1.1%
Motive Fuel Taxes	3.2%	2.9%	2.9%	2.9%	2.8%
Offshore Licenses Forfeitures	0.1%	1.3%	0.0%	0.2%	---
Registry of Motor Vehicles	1.2%	1.2%	1.3%	1.3%	1.2%
Royalties - Petroleum	3.5%	4.7%	5.3%	1.3%	2.0%
Tobacco Tax	1.9%	1.7%	1.7%	2.3%	2.2%
Other Provincial Sources	3.6%	3.6%	3.4%	3.3%	3.0%
TCA Cost Shared Revenue	---	0.1%	0.0%	0.1%	0.1%
Prior Years' Adjustments - Provincial Sources	0.2%	1.0%	0.6%	0.1%	---
Fees and Other Charges	0.8%	0.7%	0.7%	0.7%	0.7%
Ordinary Recoveries - Provincial Sources	3.2%	3.1%	3.2%	3.5%	3.4%
Sinking Fund Earnings	1.6%	1.3%	1.4%	1.1%	1.0%
Total - Provincial Sources	**61.9%**	**60.5%**	**61.1%**	**57.2%**	**59.4%**
Federal Sources					
Canada Health Transfer	8.0%	7.5%	7.9%	8.3%	8.3%
Canada Social Transfer	3.5%	3.3%	3.5%	3.6%	3.5%
C48 Infrastructure Trust Funds	0.0%	0.5%	0.4%	0.1%	---
C52 Trust Funds	---	0.0%	0.1%	0.5%	0.0%
Crown Share	---	2.8%	1.1%	0.9%	0.4%
Equalization Payments	18.1%	17.2%	17.2%	17.3%	15.6%
Knowledge Infrastructure Program	---	---	---	0.1%	0.4%
Offshore Oil and Gas Payments	0.8%	0.8%	1.2%	2.1%	2.6%
Other Federal Sources	0.5%	0.5%	0.6%	0.5%	0.8%
TCA Cost Shared Revenue	0.3%	0.4%	0.4%	1.4%	1.3%
Prior Years' Adjustments - Federal Sources	0.1%	0.1%	0.1%	-0.1%	---
Ordinary Recoveries - Federal Sources	2.4%	2.4%	2.2%	3.8%	3.7%
Total - Federal Sources	**33.7%**	**35.5%**	**34.7%**	**38.6%**	**36.6%**
Total - Revenues	**95.5%**	**96.0%**	**95.8%**	**95.8%**	**96.0%**
Net Income from Government Business Enterprises					
Nova Scotia Gaming Corporation	1.9%	1.6%	1.6%	1.5%	1.3%
Nova Scotia Liquor Corporation	2.5%	2.3%	2.5%	2.6%	2.6%
Other Enterprises	0.1%	0.1%	0.2%	0.1%	0.1%
	4.5%	**4.0%**	**4.2%**	**4.2%**	**4.0%**
Total - Revenues	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

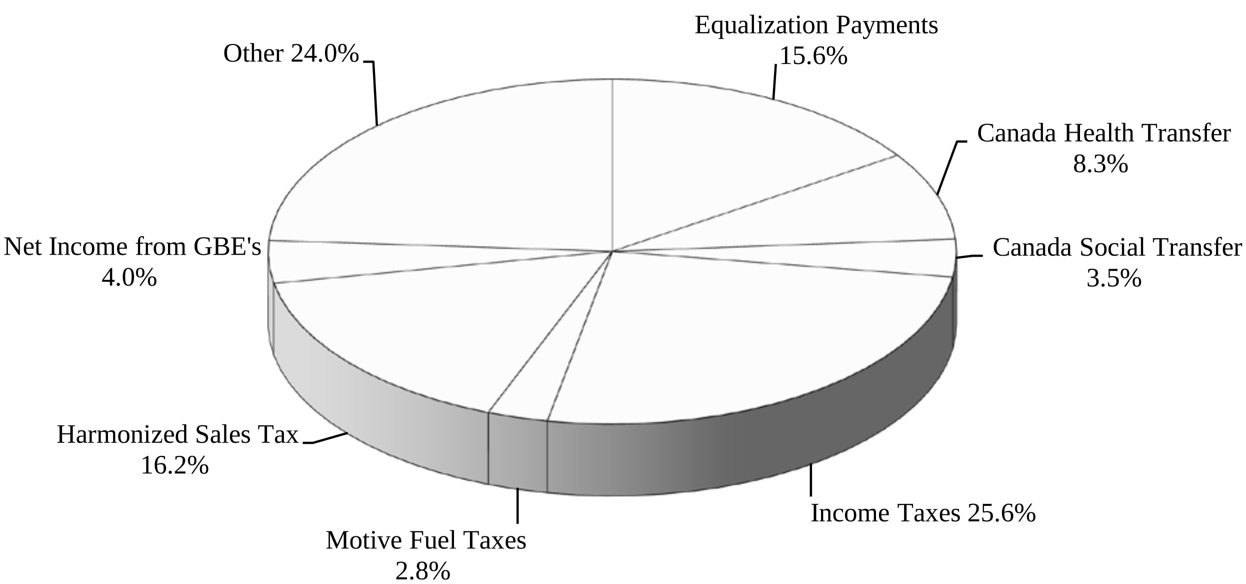
REVENUES BY SOURCE

Chart 1A

2009-2010 FORECAST



2010-2011 ESTIMATE



EXPENSES BY DEPARTMENT

Schedule 1D

($ thousands)

	ACTUAL 2006-2007 (Restated)	ACTUAL 2007-2008 (Restated)	ACTUAL 2008-2009	FORECAST 2009-2010	ESTIMATE 2010-2011
Agriculture	54,652	76,071	65,984	67,207	60,879
Community Services	817,962	870,324	890,631	939,287	971,562
Economic and Rural Development	71,730	99,713	91,012	76,538	107,978
Education	1,186,958	1,230,048	1,267,460	1,289,496	1,315,365
Assistance to Universities	268,710	422,589	485,468	449,647	60,643
Energy	17,003	44,282	35,881	40,448	35,943
Environment	---	---	27,907	39,435	52,777
Environment and Labour	40,940	71,968	---	---	---
Finance	20,066	28,016	27,085	27,875	33,870
Fisheries and Aquaculture	6,168	6,934	7,311	9,074	13,231
Health	2,898,393	3,013,902	3,165,806	3,399,069	3,634,935
Health Promotion and Protection	50,290	68,192	87,666	86,152	88,383
Justice	215,487	235,029	262,071	278,761	289,487
Labour and Workforce Development	---	---	67,410	155,772	182,918
Natural Resources	69,107	87,489	86,829	92,838	95,441
Public Service	117,130	132,770	157,602	186,605	194,467
Seniors	---	---	1,693	1,862	1,902
Service Nova Scotia and Municipal Relations	194,661	237,046	244,388	287,958	312,304
Tourism, Culture and Heritage	54,717	57,400	61,356	63,341	61,065
Transportation and Infrastructure Renewal	297,361	366,289	381,343	378,000	397,343
Restructuring Costs	116,017	56,727	154,861	175,817	111,423
Gain (Loss) on the Disposal of Assets	(1,963)	(4,169)	(1,076)	---	---
Total Program Expenses	**6,495,389**	**7,100,620**	**7,568,688**	**8,045,182**	**8,021,916**
Tax Credits and Rebates	---	---	---	---	54,800
Pension Valuation Adjustment	83,137	107,504	85,066	93,123	8,448
Debt Servicing Costs	929,828	924,889	867,338	872,287	959,197
Total Expenses	**7,508,354**	**8,133,013**	**8,521,092**	**9,010,592**	**9,044,361**

EXPENSES BY DEPARTMENT

Schedule 1D

(as a percentage of Total Expenses)

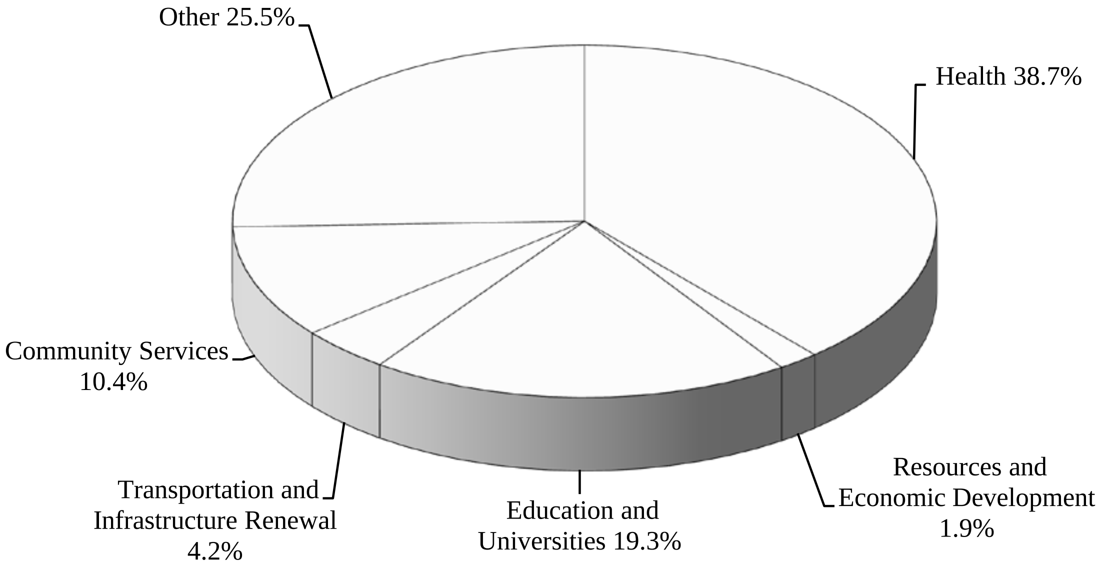
(continued)

	ACTUAL *2006-2007* (Restated)	***ACTUAL*** *2007-2008* (Restated)	***ACTUAL*** *2008-2009*	***FORECAST*** *2009-2010*	***ESTIMATE*** *2010-2011*
Agriculture	0.7%	0.9%	0.8%	0.7%	0.7%
Community Services	10.9%	10.7%	10.5%	10.4%	10.7%
Economic and Rural Development	1.0%	1.2%	1.1%	0.8%	1.2%
Education	15.8%	15.1%	14.9%	14.3%	14.5%
Assistance to Universities	3.6%	5.2%	5.7%	5.0%	0.7%
Energy	0.2%	0.5%	0.4%	0.4%	0.4%
Environment	---	---	0.3%	0.4%	0.6%
Environment and Labour	0.5%	0.9%	---	---	---
Finance	0.3%	0.3%	0.3%	0.3%	0.4%
Fisheries and Aquaculture	0.1%	0.1%	0.1%	0.1%	0.1%
Health	38.6%	37.1%	37.2%	37.7%	40.2%
Health Promotion and Protection	0.7%	0.8%	1.0%	1.0%	1.0%
Justice	2.9%	2.9%	3.1%	3.1%	3.2%
Labour and Workforce Development	---	---	0.8%	1.7%	2.0%
Natural Resources	0.9%	1.1%	1.0%	1.0%	1.1%
Public Service	1.6%	1.6%	1.8%	2.1%	2.2%
Seniors	---	---	0.0%	0.0%	0.0%
Service Nova Scotia and Municipal Relations	2.6%	2.9%	2.9%	3.2%	3.5%
Tourism, Culture and Heritage	0.7%	0.7%	0.7%	0.7%	0.7%
Transportation and Infrastructure Renewal	4.0%	4.5%	4.5%	4.2%	4.4%
Restructuring Costs	1.5%	0.7%	1.8%	2.0%	1.2%
Gain (Loss) on the Disposal of Assets	0.0%	-0.1%	0.0%	---	---
Total Program Expenses	**86.5%**	**87.3%**	**88.8%**	**89.3%**	**88.7%**
Tax Credits and Rebates	0.0%	0.0%	0.0%	0.0%	0.6%
Pension Valuation Adjustment	1.1%	1.3%	1.0%	1.0%	0.1%
Debt Servicing Costs	12.4%	11.4%	10.2%	9.7%	10.6%
Total Expenses	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

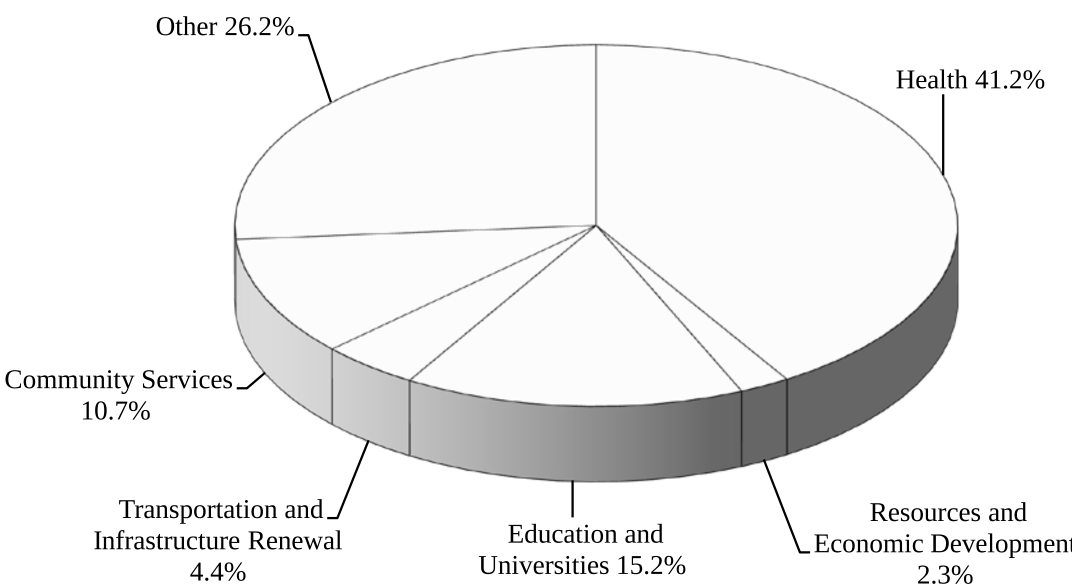
TOTAL EXPENSES BY DEPARTMENT

Chart 1B

2009-2010 FORECAST



2010-2011 ESTIMATE



Estimated Value of Tax Credits, Rebates and Tax Expenditures (By Fiscal Year)
($ thousands)

	2009–2010	2010–2011
Personal Income Tax:		
Political Tax Credit	832	599
Volunteer Firefighter & GSAR	3,431	3,431
Labour Sponsored Venture Capital Corporation	220	220
Equity Tax Credit	6,059	6,767
Graduate Retention Rebate	9,238	17,031
Affordable Living Tax Credit	—	52,500
Poverty Reduction Credit	—	2,300
Healthy Living Tax Credit	3,300	3,300
Total	**23,080**	**86,148**
Corporate Income Tax:		
Political Tax Credit	107	55
Scientific Research Experimental Development	11,335	13,195
New Small Business	241	176
Digital Media	1,864	1,864
Film Industry	22,781	23,469
Manufacturing and Processing	11,340	—
Small Business Rate	105,121	114,232
Total	**152,789**	**152,991**
Harmonized Sales Tax:		
Public Sector Rebates	99,141	112,197
Printed Book Rebate	9,475	10,911
First-time Homebuyers Rebate	1,182	1,335
Disability Rebates	86	91
Volunteer Fire Equipment Rebate	49	53
Your Energy Rebate	58,691	83,607
Children's Clothing Rebate	—	5,309
Children's Footwear Rebate	—	778
Children's Diapers Rebate	—	362
Feminine Hygiene Rebate	—	1,241
Total	**168,624**	**215,884**

NOVA SCOTIA

Report of the Auditor General

on Estimates of Revenue

2010–2011

NOVA SCOTIA

Office of the Auditor General

1888 Brunswick Street, Suite 302
Halifax, Nova Scotia
B3J 3J8 Canada

902•424•5907 tel
902•424•4350 fax
www.oag-ns.ca

Report of the Auditor General to the House of Assembly on the Estimates of Revenue for the fiscal year ending March 31, 2011 used in the preparation of the April 6, 2010 Budget.

I am required by section 9B of the Auditor General Act to provide an opinion on the reasonableness of the estimates of revenue used in the preparation of the annual budget address of the Minister of Finance to the House of Assembly.

The estimates of revenue for the fiscal year ending March 31, 2011 are the responsibility of the Department of Finance and have been prepared by departmental management using assumptions with an effective date of March 12, 2010 or earlier. I have examined the support provided by departmental management for the assumptions and the preparation and presentation of the revenue estimates in the amount of $8,739,604,000 as described in the financial forecast of Revenues By Source (Schedule 2A of the Nova Scotia Budget Assumptions and Schedules) (the 2010-11 revenue estimates). My examination did not include, and my opinion does not cover, the budget speech or the 2010-11 expense estimates. My opinion also does not cover prior years' forecast or actual information provided for comparative purposes. Except as explained in the following paragraph, my examination was made in accordance with the applicable Assurance and Related Services Guideline issued by the Canadian Institute of Chartered Accountants. I have no responsibility to update this report for events and circumstances occurring after the date of my report.

Third party revenues of certain government units are excluded from the 2010-11 revenue estimates. These revenues are included elsewhere in the budget as offsets against expenditures of the respective government units rather than as part of the revenue estimates. As a result, the revenue estimates are not presented on a basis consistent with the consolidated financial statements, a requirement of generally accepted accounting principles in such circumstances. To the extent of these exclusions, the 2010-11 revenue estimates are not presented in accordance with generally accepted accounting principles. In addition, management was unable to provide support for these third party revenues and therefore I was unable to complete my review of them or determine the amount of these revenues.

In my opinion, except that certain third party revenues have been excluded from the revenue estimates as noted in the preceding paragraph:

- as at the date of this report, the assumptions used by departmental management are suitably supported and consistent with the plans of the government, as described to us by departmental management, and provide a reasonable basis for the 2010-11 revenue estimates; and
- the 2010-11 revenue estimates as presented reflect fairly such assumptions; and
- the 2010-11 revenue estimates comply with presentation and disclosure standards established by the Canadian Institute of Chartered Accountants.

Since the 2010-11 revenue estimates are based on assumptions regarding future events, actual results will vary from the information presented and the variance may be material. Accordingly I express no opinion as to whether the revenue estimates will be achieved.

JR Lapointe

Jacques R. Lapointe, CA
Auditor General

Halifax, Nova Scotia
April 3, 2010

REVENUES BY SOURCE Schedule 2A

($ thousands)

	ESTIMATE *2010-2011*
Consolidated Fund Revenues	
Provincial Sources	
Corporate Income Tax	343,620
Harmonized Sales Tax	1,413,115
Individual Income Tax	1,896,905
Interest Revenues	93,461
Motive Fuel Taxes	248,594
Registry of Motor Vehicles	108,720
Royalties - Petroleum	173,640
Tobacco Tax	193,847
Other Provincial Sources	264,569
TCA Cost Shared Revenue	9,650
Fees and Other Charges	62,537
Ordinary Recoveries - Provincial Sources	293,347
Sinking Fund Earnings	89,092
Total - Provincial Sources	**5,191,097**
Federal Sources	
Canada Health Transfer	724,564
Canada Social Transfer	307,575
C52 Trust Funds	3,415
Crown Share	33,498
Equalization Payments	1,360,722
Knowledge Infrastructure Program	38,003
Offshore Oil and Gas Payments	227,225
Other Federal Sources	65,904
TCA Cost Shared Revenue	116,091
Ordinary Recoveries - Federal Sources	322,937
Total - Federal Sources	**3,199,934**
Total - Revenues	**8,391,031**
Net Income from Government Business Enterprises	
Nova Scotia Gaming Corporation	116,400
Nova Scotia Liquor Corporation	223,459
Other Enterprises	8,714
	348,573
Total - Revenues	**8,739,604**

NOVA SCOTIA

BUDGET ASSUMPTIONS —
April 6, 2010

Revenue Outlook

In 2010–2011, Nova Scotia's total Consolidated Fund revenues are estimated to be $8,739.6 million, an increase of $327.8 million or 3.9 per cent compared to the 2009–2010 budget estimate.

Provincial own-source revenues are expected to increase by $421.4 million or 8.8 per cent from the 2009–2010 budget estimate to $ 5,191.1 million in 2010–2011.

Federal source revenues will decrease by $ 85.3 million or 2.6 per cent, from the 2009–2010 budget estimate to $ 3,199.9 million in 2010–2011.

Provincial Own Source Revenues

Personal Income Tax (PIT)

Nova Scotia's 2010–2011 estimate for personal income tax is $1,896.9 million, up $115.8 million, or 6.5 per cent, from the 2009–2010 budget estimate.

National personal taxable income is projected to increase by 3.5 per cent from 2009 levels. The increase is being driven by stronger growth in salaries and wages as a result of labour market conditions improving following last year's global recession.

The addition of a fifth income tax bracket of 21 per cent on taxable income over $150,000 provides an additional $58.6 million in revenues for 2010–2011. This is partially offset by the removal of the high-income surtax and the elimination of the Guaranteed Income Supplement (GIS) in the calculation of the Low Income Tax Reduction, both effective January 1, 2010. Previously announced increases to the Basic Personal Exemption and non-refundable tax credits, and enhancements to the Equity Tax Credit and Graduate Retention Rebate also contribute to offsetting an increase in revenues.

Nova Scotia's share of national personal taxable income is projected to be 2.44 per cent in 2010–2011. The province's yield of national personal taxable income is forecasted to be 8.24 per cent. The 2010–2011 estimate is based upon Finance Canada's March 2010 forecast for national personal taxable income and the 2008 tax year Final Payment Books received from the federal government in March 2010.

Corporate Income Tax (CIT)

Nova Scotia's 2010–2011 estimate for corporate income tax is $343.6 million, up $21.3 million, or 6.6 per cent, from the 2009–2010 budget estimate.

The increase largely reflects the improvement in corporate taxable income, at both the provincial and national level, as a result of the current recovery and lower losses being carried forward by corporations. The increase is partially offset by a reduction in the small business rate, an increase in the expected cost of the scientific research and experimental development credit (SRED), and the elimination of the manufacturing and processing investment tax credit on December 31, 2009. The cost of the film industry and digital media tax credits are expected to increase over 2009–2010 levels.

Nova Scotia's share of national corporate taxable income is projected to be 1.79 per cent in 2010–2011.

Harmonized Sales Tax (HST)

Gross HST is estimated to total $1,413.1 million in 2010–2011, up $231.6 million, or 19.6 per cent, from the 2009–2010 budget estimate, primarily as a result of a restoration of the Harmonized Sales Tax rate from 13 per cent to 15 per cent on July 1, 2010.

HST rebates for public sector bodies, first-time homebuyers, printed books, volunteer fire departments, persons with disabilities, and Your Energy Rebate are also projected to increase as a result of the rate change. The full-year impact of the decision to re-implement the provincial portion of the HST rebate for basic residential electricity under Your Energy Rebate Program is reflected in the 2010–2011 estimate.

New point-of-sale (POS) rebates on children's clothing, children's footwear, children's diapers, and feminine hygiene products will be implemented on July 1, 2010, at a cost of $7.7 million in 2010–2011 and growing to over $11 million based upon a full-year implementation.

Consumer expenditures are projected to grow 3.0 per cent in 2010 compared to 1.6 per cent in 2009, but are forecast to return to a growth rate of 1.6 per cent in 2011.

Tobacco Tax

Tobacco tax revenues are projected to total $193.8 million in 2010–2011, an increase of $24.8 million, or 14.7 per cent, over the 2009–2010 budget estimate.

The full-year impact of a $0.05/unit increase in the tobacco tax rate effective June 23, 2009, is one factor contributing to higher revenues. Cigarette consumption accounts for 92 per cent of revenues and consumption is forecasted to rise by 4.1 per cent over the 2009–2010 budget estimate, while consumption of loose and fine cut tobacco is forecasted to rise 43 per cent over the 2009–2010 budget estimate. The rate of increase in consumption reflects the fact that the 2009–2010 budget estimate anticipated an immediate negative impact on consumption levels as a result of the tax increase that was not as severe as forecasted.

Motive Fuel Taxes

Motive fuel taxes are projected to total $248.6 million in 2010–2011, an increase of $1.1 million, or 0.3 per cent, from the 2009–2010 budget estimate.

Gasoline and diesel consumption are forecasted to be marginally higher in 2010–2011, due to labour income growth. This is partially offset by higher gasoline and diesel oil prices, on average, than estimated in 2009–2010.

Offshore Petroleum Royalties

Offshore petroleum royalties are estimated to be $173.6 million in 2010–2011, an increase of $22.6 million, or 15.0 per cent, from the 2009–2010 budget estimate.

While the world market prices for natural gas and oil are forecasted to be higher in 2010–2011 than in 2009–2010, production volume is projected to decline and a stronger Canadian dollar places downward pressure on the offshore royalty revenues as the contracts are denominated in US dollars.

Other Provincial Sources

Other Provincial Sources are estimated to be $476.4 million, a decrease of $7.3 million, or 1.5 per cent, from the 2009–2010 budget estimate.

This revenue source includes such items as corporate capital taxes, tax on insurance premiums, seniors' pharmacare premiums, the Casino Win Tax, Registry of Motor Vehicles revenue, and interest revenue.

The increase is the result of higher revenues from the Registry of Motor Vehicles and an increase in revenues from the tax on used vehicles associated with a tax rate increase to match the HST rate increase. These increases are offset by the scheduled reduction in the Large Corporation Capital Tax, reduced interest revenues, lower Casino Win Tax, and a decline in Tangible Capital Asset (TCA) cost-shared revenue.

Federal Transfers

Equalization

Equalization revenues are estimated to be $1,360.7 million in 2010–2011, a decline of $104.2 million, or 7.1 per cent, from the 2009–2010 budget estimate.

The Equalization estimate reflects the province's adoption of the Expert Panel formula for equalization. In December 2009 the federal government announced a change in the calculation of the 2010–2011 payments. One year transitional protection is being provided so that no province receives less in total major federal transfers (Equalization, Canada Health Transfer, Canada Social Transfer) than they received in 2009–2010. Any payments made under the transitional protection are deemed to be fiscal equalization payments.

In the absence of any transitional protection, Nova Scotia would have received $1,110.3 million in Equalization under the Expert Panel formula.

As part of an agreement reached with the Government of Canada on October 10, 2007, Nova Scotia receives an additional payment from the federal government if the cumulative value of the equalization formula in effect at the time the Offshore Accord was signed (the Interim approach) exceeds the cumulative value of the Expert Panel approach.

In 2010–2011 the cumulative value of the Expert Panel exceeds the cumulative value of the Interim approach for the years 2008–2009 to 2010–2011. As a result no additional payment will be forthcoming. The arrangement is in effect until 2019–2020 to coincide with the term of the Offshore Accord.

Offshore Offset payments are estimated to be $227.2 million in 2010–2011, an increase of $47.2 million or 26.2 per cent over the 2009–2010 budget estimate. The increase reflects the inclusion of higher offshore royalties from recent years in the equalization formula. These payments are recorded on a notional basis until the payments reach the $830 million advance payment made to the province in 2005.

The Canada Health Transfer (CHT)

In 2010–2011 the total provincial entitlement for CHT consists of the provincial allocation of a fixed national entitlement. The 2010–2011 national CHT amount that is available in cash and tax points is estimated to be $38.5 billion. The fixed national pool of cash to be distributed to provinces is $25.4 billion. Under an agreement reached in September 2004 the cash portion of CHT is legislated to grow by 6.0 per cent each year.

The CHT cash entitlement for Nova Scotia is estimated to be $724.6 million in 2010–2011, an increase of $24.4 million, or 3.5 per cent higher than the 2009–2010 budget estimate. The estimate of the province's cash entitlement reflects the federal government's calculation on the levels of population, and personal and corporate income tax provided in December 2009.

The Canada Social Transfer (CST)

Nova Scotia's 2010–2011 cash entitlement for CST is estimated to be $307.6 million, an increase of $3.5 million, or 1.1 per cent higher than the 2009–2010 budget estimate.

The provincial entitlement is based on a per capita cash provincial allocation of a fixed national entitlement, which stands at $11.2 billion. Effective with the 2007 federal budget, the CST no longer contains a tax point transfer component.

The national pool of cash is legislated to grow by 3.0 per cent a year in 2010–2011 through to 2013–2014.

Crown Share Adjustment Payment

The Crown Share Adjustment Payment is estimated to be $33.5 million in 2010–2011, a decrease of $45.9 million, or 57.8 per cent, from the 2009–2010 budget estimate. The decrease reflects declining offshore natural resource royalty revenues.

Other Federal Sources

Other Federal Sources are estimated to be $225.7 million in 2010–2011, a decrease of $4.7 million, or 2.0 per cent, from the 2009–2010 budget estimate.

There is a decrease of $9.1 million in Tangible Capital Asset (TCA) cost-shared revenue from the federal government compared to the 2009–2010 budget estimate, largely as a result of a $13.0 million reduction in Department of Education projects, offset by increased funding for highway projects as part of the federal stimulus package announced in the 2009 Federal Budget.

The province will draw down $10.3 million more in funding from the Build Canada Fund made available by the federal government and $19.9 million more in from the Knowledge Infrastructure Trust to address infrastructure funding for post-secondary institutions.

Offsets to these increases result from $1.5 million less in draw downs from Bill C-48 Infrastructure trusts, $18.5 million less in draw downs from Bill C-52 trusts, and $6.3 million less in draw downs for Bill C-50 trusts and the Community Development trust. These reductions reflect the completion of draw downs for Off-Reserve Aboriginal Housing, ecoTrust for Clean Air and Climate Change, and Public Transit Capital Trust.

Other Federal Sources also includes the federal Wait Times Reduction transfer. This transfer is an equal per capita allocation based upon the province's share of national population. Nova Scotia's share of the $250.0 million national entitlement in 2010–2011 is $6.9 million compared to funding of $7.0 million in the 2009–2010 budget estimate.

Other

Recoveries

Recoveries are projected to total $616.3 million in 2010–2011, an increase of $9.4 million, or 1.5 per cent higher than the 2009–2010 budget estimate.

Fees and Other Charges

Fees and Other Charges are projected to total $62.5 million in 2010–2011, an increase of $1.3 million, or 2.1 per cent higher than the 2009–2010 budget estimate.

Sinking Fund Earnings

Sinking Fund Earnings are projected to total $89.1 million in 2010–2011, a decrease of $2.5 million, or 2.8 per cent, from the 2009–2010 budget estimate.

Key Tax Measures—Personal Income Taxes

Removal of GIS from Low-Income Tax Reduction

Beginning January 1, 2010, an adjusted family income calculation will be introduced to exclude income from the Guaranteed Income Supplement (GIS) in calculating the Low-Income Tax Reduction (LITR). The GIS is an income transfer paid by the federal government to low-income seniors who meet certain eligibility criteria. The LITR is a provincial tax reduction for low-income individuals and families. This measure will save seniors more than $12 million in taxes in 2010.

Elimination of the Personal Income Tax Surtax

Effective January 1, 2010, the 10 per cent surtax applied to Nova Scotia residents with provincial personal income taxes payable of more than $10,000 will be eliminated. Over 25,000 individuals will benefit from this measure, saving more than $27 million in taxes in 2010.

Addition of 5th Tax Bracket for Personal Income Tax

Effective January 1, 2010, a 5th personal income tax bracket of 21 per cent will be applicable to taxable income exceeding $150,000. The 4th bracket rate of 17.5 per cent will apply to taxable incomes between $93,001 and $150,000. The new bracket makes Nova Scotia's personal income tax system more progressive.

Basic Personal Amount and Other Non-refundable Credits

As announced in the 2006–2007 budget, the province is increasing the basic personal amount exempted from personal income taxes by $250 per year over a four-year period. This represents an increase of $1,000 or 13.83 per cent. The province's other non-refundable credits will also grow by

13.83 per cent over this period. The basic personal amount increased from $7,981 to $8,231 effective January 1, 2010. This is the fourth and final year of the measure announced in 2006.

Equity Tax Credit and Labour-Sponsored Venture Capital Tax Credit

Effective January 1, 2010, the Equity Tax Credit was increased from a rate of 30 per cent to 35 per cent. The maximum annual credit also increased from $15,000 to $17,500 to reflect the rate increase.

The Equity Tax Credit and the Labour-Sponsored Venture Capital Tax Credit were scheduled to expire on December 31, 2009. These credits were extended by two years to December 31, 2011.

Key Tax Measures—Business Taxes

Small Business Corporate Income Tax

On January 1, 2011, the government will reduce the rate of corporate income tax for small businesses from 5 per cent to 4.5 per cent. Small businesses are eligible for this rate on the first $400,000 of taxable income, if they are a Canadian Controlled Private Corporation with taxable capital of $10 million or less.

The rate reduction will cost $0.5 million in 2010–2011, increasing to more than $6 million per year upon full implementation. The measure will assist more than 10,000 Nova Scotia small businesses. Small businesses currently save over $100 million per year in taxes relative to the general corporate tax rate of 16 per cent.

Large Corporations Tax

As announced in the 2006–2007 budget, the province's Large Corporations Tax (LCT) on capital of non-financial institutions will decline from 0.15 per cent to 0.10 per cent on July 1, 2010. That tax rate will continue to decline by 0.05 per cent on an annual basis until its elimination in 2012.

Key Tax Measures—Consumption Taxes

Restoration of Harmonized Sales Tax

On July 1, 2010, the government will restore the Harmonized Sales Tax (HST) to 15.0 per cent, by increasing the provincial portion of the HST from 8.0 per cent to 10.0 per cent. The combined HST (federal and provincial) will increase from 13.0 per cent to 15.0 per cent.

Transitional rules will be put in place to assist in determining the HST rate applicable to transactions that straddle the July 1, 2010, implementation date for the rate increase.

Affordable Living Tax Credit

Commencing July 1, 2010, the government will offer an HST credit to households earning less than $34,800 per year. For the average low-income household the new credit will more than offset the impact of the HST rate increase.

The credit will be paid quarterly in July, October, January, and April of each year. The maximum rebate is $240 per household plus $57 per dependant child for households earning less than $30,000 per year. Above $30,000 the credit will be reduced by $0.05 per $1.00 of income and will be completely phased out at a household income of $34,800. Similar to the federal government's Goods and Services Tax credit, individuals will need to file an income tax return to be eligible to receive the HST credit.

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Poverty Reduction Credit

To make life better for those Nova Scotians living in poverty and who we consider our most vulnerable, we are introducing the Nova Scotia Poverty Reduction Credit. Effective this July, the Poverty Reduction Credit will provide tax-free payments to help about 15,000 low-income Nova Scotians offset the Harmonized Sales Tax increase.

Individuals or couples will receive $200 per year. To qualify, applicants must be 19 years of age with no dependents, receiving Social Assistance through the Income Assistance program as their main source of income, with a total annual income of $12,000 or less for the previous tax year.

Payments will be made quarterly, beginning in July 2010. Social Assistance clients will not have to apply for this allowance, as the Department of Community Services' can determine eligibility through the Income Assistance Program. The Poverty Reduction Credit will provide $2.3 million to low-income families in Nova Scotia in 2010–2011, growing to $3 million in 2011–2012.

Point-of-Sale (POS) Rebates of HST

Effective July 1, 2010, the government will provide point-of-sale rebates of the provincial portion of the HST on the following products:

- children's clothing
- children's footwear
- children's diapers
- feminine hygiene products

These rebates are in addition to rebates currently in effect for books and residential energy (Your Energy Rebate Program).

Tax on Sales of Used Vehicles and Designated Tangible Personal Property

On July 1, 2010, the government will change the tax on the sale of used motor vehicles or other designated tangible personal property, such as boats, aircraft, and boat trailers from 13 per cent to 15 per cent. The increase is being made in concert with the 2 per cent increase in the HST to maintain the same relative tax between new and used motor vehicles and property.

Sensitivity

Revenue estimates, which are in the form of a forecast, are based on a number of economic, financial, tax assessment, and statistical values and assumptions. All of these reflect the province's planned course of action for the forecast period and judgment as to the most probable set of economic conditions.

As these variables change throughout the year and as more information becomes available, they may have an impact, either negatively or positively, on the revenue forecasts, and these impacts could be material. The province intends to update the forecast periodically throughout the forecast period. It is also important to note that the above referenced variables can move quite independently of each other and may have offsetting effects.

The following table lists the specific key economic assumptions and key variables that directly affect the calculation of provincial revenue estimate and forecast figures as included in this Revenue Outlook section and reflects assumptions developed by the province as at March 12, 2010.

Revenue Source	Key Variables
Personal Income Taxes	• national level of personal taxable income as provided by Finance Canada • Nova Scotia share of national levels of taxable income • provincial taxable income yield • tax credits uptake
Corporate Income Taxes	• national level of corporate taxable income level as provided by Finance Canada • Nova Scotia share of national taxable income • tax credit uptake • national and provincial corporate profit levels
HST	• personal consumer expenditure levels • provincial gross domestic product • spending by exempt industries • rebate levels • housing investment
Tobacco, Gasoline and Diesel Taxes	• personal consumer expenditure levels • tobacco and fuel consumption patterns • tobacco and fuel prices • labour income
Petroleum Royalties	• foreign exchange rates • production levels • capital and operating costs of interest holders • world price of natural gas, subject to current market conditions
Equalization	• one-estimate one-payment approach
CHT/CST	• annual increases in the national base amount • changes in personal and corporate income taxes • changes in population • changes in tax point values

Additional Information

In addition to the key economic and fiscal assumptions contained in the 2010–2011 revenue estimates, the following information should also be taken into account when interpreting the revenue estimates.

The revenue estimates for 2010–2011 are considered to have been prepared on a basis consistent with accounting policies currently used by the province to record and/or recognize revenue for purposes of its Consolidated Fund. As a result, revenues for certain government service organizations that are consolidated for financial statement purposes are not included in the province's revenue estimates.

The Department of Finance and other departments or agencies of the province have prepared their specific revenue estimates for 2010–2011 using a combination of current internal and external models and other information available. Every effort has been made to ensure the integrity of the results of the models and other information. As actual or more current information becomes available, adjustments may be necessary to the projection of revenues.

The revenue forecasted to be received through federal transfer payment programs pursuant to the Federal-Provincial Fiscal Arrangements Act incorporates official information released by the federal government as of December 17, 2009. In addition, CHT and CST revenue estimate are, in part, based on Canadian national and provincial population estimates supplied by Statistics Canada.

As with past population estimates, there is a forecast risk that the data will be revised by Statistics Canada. Prior years' adjustments (PYAs) are normally made to federal transfers and to income tax revenues. All PYAs known to date have been included in the final revenues for 2009–2010.

Offshore Forfeiture Revenue

The risk of a deposit forfeiture is inherent in the offshore exploration industry. While a forfeiture is not unusual given the unpredictable nature of this industry, any revenue projection based on past trends would be inappropriate. The province's accounting recognition policy is to record forfeiture revenue when a notice of forfeiture is given. As of today's date, no notice has been provided for 2010–2011.

To be consistent with our revenue recognition policy and to reflect the uncertainty of this revenue, no offshore forfeiture revenue is included in the 2010–2011 estimates. If, subsequent to the budget, forfeiture notice is provided, the amount will be reflected in future quarterly forecast updates and the Public Accounts for 2010–2011.

Government Business Enterprises—Net Income

Nova Scotia Liquor Corporation Net Income

The Nova Scotia Liquor Corporation (NSLC) returns all of its net income to the Government of Nova Scotia as shareholder. The NSLC is budgeting net income of $223.5 million in 2010–2011. This is an increase of 3.0 per cent compared to the 2009–2010 estimate of net income. The net income is projected on net sales of $593.3 million for 2010–2011 as compared to $573.5 million for 2009–2010. The increase in net income is primarily attributable to the following factors:

- net sales increase of 3.5 per cent attributable to a combination of price and volume increases
- benefits that continue to be realized from investment in enhancing the retail customer shopping experience and IT infrastructure
- ongoing efforts to continually refresh and serve the wholesale and licensee community more effectively
- strong category management, enhanced product promotion, and marketing programs that continue to drive vibrant sales
- a strong customer experience in-store that is supplemented by outreach programs such as community outreach and cause marketing programs
- continued focus on driving operating performance and expense management throughout the organization

Nova Scotia Gaming Corporation Net Income

Nova Scotia Gaming Corporation's (NSGC) net income is budgeted to be $116.4 million in 2010–2011, $11.7 million lower than the 2009–2010 estimate. Budgeted revenue will decline, primarily due to the maturity of the ticket lottery business line, continued decreases in the video lottery business line, and increased competition for the casinos due to the opening of the Moncton Casino. Certain budgeted expenses are lower, corresponding with the decline in revenue, but are impacted by the costs associated with the Video Lottery My-Play System as well increased depreciation expense due to replacement of ticket lottery retail terminals.

Net Income from Other Enterprises

Net income from other enterprises is estimated at $8.7 million for 2010–2011. This includes $6.6 million from the Halifax-Dartmouth Bridge Commission and $2.1 million from the Highway 104 Western Alignment Corporation.

The 2010–2011 Halifax-Dartmouth Bridge Commission estimate is $0.1 million lower than 2009–2010, with $3 million in increased revenue from Government of Canada Infrastructure investment initiative, offset by increased spending on the MacKay bridge.

Highway 104 Western Alignment Corporation's budget estimate for 2010–2011 is $2.9 million lower than 2009–2010, mostly as a result of increased interest expense needed to retire a senior bond issue.

Overview of Treasury Management

The Department of Finance serves as the treasury function for most of the government entity, including managing daily banking functions (bank transfers, short-term investing and borrowing, and banking relationships) and short-term investments of special funds—sinking funds, Public Debt Management Fund (PDMF), and miscellaneous trust funds.

The Department of Finance is responsible for managing Nova Scotia's gross financial market debt portfolio, which is estimated to have stood at $13.4 billion as of March 31, 2010. Against this gross financial market debt are financial assets held in mandatory and discretionary sinking funds plus holdings of Nova Scotia Municipal Finance Corporation debt. These assets total $2.9 billion, resulting in a net financial market debt of $10.5 billion. The management of this net financial market debt position consists of executing the borrowing program, investing sinking funds and the PDMF, and where cost-effective to do so, executing derivative transactions.

The government's budgetary policy sets the context for treasury management operations. The province's annual four-year fiscal plan sets the context for debt management. The 2010–2011 budget shows that the government intends to incur a budgetary deficit for the fiscal years 2010–2011, 2011–2012, and 2012–2013, followed by balanced budgets thereafter. In recognition of the need to table a budget deficit in 2009–2010, the Provincial Finance Act was amended in the 2009 fall session of the Legislature to remove the requirement for balanced budgets.

The management of the debt portfolio and borrowing program also must consider the external financial and economic environment. Over the past three years, the global economic situation and global financial markets deteriorated starting with the challenges encountered by Bear Stearns, a US investment bank. Financial market conditions deteriorated further with the bankruptcy of Lehman Brothers in September

2008. The economic and financial fallout from these events have resulted in a sharp deterioration in the fiscal positions of many countries, particularly in the United Kingdom, the United States and the southern parts of the Eurozone. In response, governments of the major industrialized countries introduced measures to stabilize their economies and restore public confidence in financial institutions. These countries are now in the process of addressing their fiscal situations and removing various support measures for financial markets. The Bank of Canada has stated they will maintain administered interest rates at very low levels until the second half of 2010 in order to achieve the inflation target, yet this commitment is expressly conditional on the outlook for inflation.

The budget and Public Accounts, collectively referred to as financial statements or "books" of the province, are presented on a full accrual basis. In contrast, Treasury Management is the cash side of government operations, and in this context, the borrowing requirements are a cash flow measure, representing actual cash transactions related to the current, past, and future budgetary transactions, as well as the cash flow implications of non-budgetary transactions, such as capital advances to governmental units and net acquisition of tangible capital assets.

In 2009–2010, the province had a $1,195 million increase in net debt outstanding in financial markets primarily due to the net acquisition of tangible capital assets, the budgetary deficit, and on-lending activities of the Consolidated Fund. The province estimates that net debt in financial markets will increase by about $1.8 billion in 2010–2011 due to the budgetary deficit, provincial infrastructure spending plans, and on-lending to Crown corporations.

Nova Scotia's ratio of net debt to nominal gross domestic product at market prices is estimated to have stood at 39.4 per cent at March 31, 2010, up from 36 per cent a year earlier.

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Nova Scotia Credit Ratings

Nova Scotia continues to communicate its economic and fiscal position both to investors and to bond-rating agencies. Nova Scotia's budgetary surpluses over the past number of years and the improved fiscal outlook have been recognized by the credit rating agencies. In 2009 all three rating agencies confirmed the province's credit rating. The following table shows current provincial credit ratings.

Canadian Provincial Ratings April 2010

	DBRS	S&P	Moody's
British Columbia	AA(high)	AAA	Aaa
Alberta	AAA	AAA	Aaa
Saskatchewan	AA	AA+	Aa1
Manitoba	A(high)	AA	Aa1
Ontario	AA(low)	AA-	Aa1
Quebec	A(high)	A+	Aa2
New Brunswick	A(high)	AA-	Aa2
Nova Scotia	**A**	**A+**	**Aa2**
Prince Edward Island	A(low)	A	Aa2
Newfoundland and Labrador	A	A	Aa2

Nova Scotia files a Form 18-K Annual Report and other required documents with the Securities and Exchange Commission (SEC), which provides information to investors and the general public on the economic, fiscal, and debt situation of the province. The most recent submission can be viewed on the Department of Finance website.

Structure of the Debt Portfolio

The structure of the debt portfolio has been evolving over the past number of years with the intent of protecting the province's fiscal situation from unanticipated increases in interest rates and managing the province's refinancing requirements for the long-term.

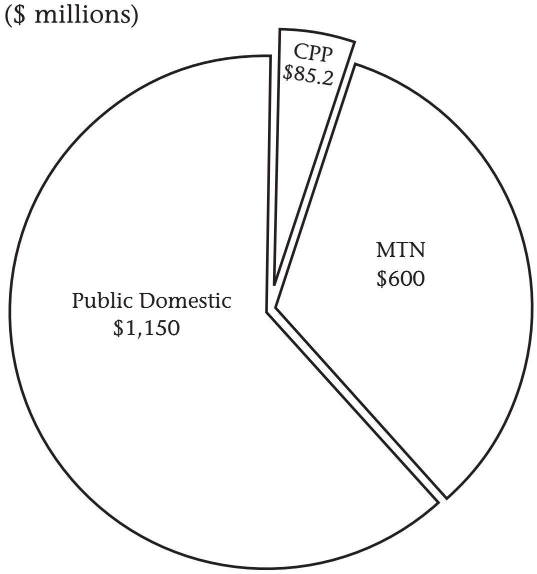
The following five profiles are provided to describe the overall structure and risk profile of the province's debt portfolio: (1) primary issuance market activities, (2) the debt maturity schedule, (3) foreign currency exposure, (4) interest rate mix, and (5) derivative counterparty exposure.

1. Primary Issuance Market

The Province of Nova Scotia expects to incur a budgetary deficit of $222.1 million in 2010–2011, monies that will be borrowed in capital markets. In addition to this amount, the province borrows further monies on an ongoing basis to refinance existing debt, and fund the acquisition of tangible capital assets.

The management of the debt maturities is enhanced by the use of discretionary sinking fund reserves held by the province. These discretionary funds represent an integral component of the Treasury Management strategy of the province.

Chart 3A: Consolidated Fund Debt Portfolio— Issuance Profile, 2009–2010
($ millions)



In the fiscal year 2009–2010, the province borrowed $1,835.2 million compared to borrowing requirements of $1,968 million estimated in the budget. The decrease in the borrowing program was due to the lower than expected budgetary deficit, less capital advances to Crown corporations, and lower net TCA requirements. The province met its borrowing requirements in fiscal year 2009–2010 by raising $1,150 million in the domestic public market, $600 million under the Medium Term Note program, and the rollover of $85.2 million Canada Pension Plan issue for a 30-year term. The last issue is part of the Canada Pension Plan Investment Board's assets that are invested in the provincial bond market and are transacted at market rates of interest.

Certain Crown agencies of the Province of Nova Scotia invest monies with the provincial consolidated fund on a short-term basis. This activity is an efficient use of funds that provides both security and market returns to Crown agencies while providing the consolidated fund with funding at market cost of funds.

At March 31, 2010, Nova Scotia Business Inc., Resource Recovery Fund Board, Strategic Opportunities Fund, Nova Scotia Municipal Finance Corporation, and Nova Scotia Crop and Livestock Insurance Commission invested a total of $60.2 million with the Consolidated Fund.

There were also entities that are not part of the Consolidated Entity that invested $64.9 million with the Consolidated Fund. Those entities are the Nova Scotia Research and Innovation Trust, and Nova Scotia Crown Land Legacy Trust.

Projected term debt borrowing requirements for fiscal year 2010–2011 are expected to be $2.0 billion, and the province expects to raise a further $500 million in short-term debt, for total borrowing requirements of $2.5 billion. Over the past number of years, the province has been aggressively borrowing monies at long-term fixed interest rates to take advantage of the low interest rates observed during that period and to protect the budgetary position from rising interest rates. As a consequence of that long-term strategy, the province has maintained a low level of short-term debt. The increase in short-term debt in 2010–2011 will return the short-term debt position to normal levels. Schedule 3B also shows the projected borrowing program for 2011–2012 to 2013–2014. The borrowing program starts with the provincial budgetary deficit that increases requirements or a surplus that reduces requirements. There are numerous cash versus accrual adjustments (non-budgetary items) that need to be made to determine the actual cash requirements of the Consolidated Fund. Each year there are requirements for the excess of capital expenditure over capital amortization, referred to as the net acquisition of tangible capital assets; those requirements in 2010–2011 are $461 million. The remaining adjustments are primarily related to non-cash interest charges on unfunded pension liabilities and post-employment benefits and the non-cash expense of the pension valuation adjustment.

The province demonstrated access to capital markets in fiscal year 2009–2010 by efficiently raising the monies required to complete the borrowing program in the domestic market and in Canadian dollars. The province continues to maintain access to a diversity of borrowing sources, both domestically and in foreign markets. This access is a key factor in achieving lower financing costs and maintaining a broad demand for Nova Scotia debt issues.

The province maintains documentation with the Securities and Exchange Commission (SEC) in the United States to provide access to the US and global bond markets. Although Nova Scotia maintains documentation to borrow in foreign markets, the domestic Canadian debt market is expected to be the primary source of funding for the province's borrowing program in 2010–2011. The province attempts to maintain a presence in the domestic public debt markets with liquid benchmark issues. The domestic Medium Term Note (MTN) program is maintained to add flexibility to the domestic borrowing programs.

2. Maturity Schedule

The Province of Nova Scotia's gross financial market debt consists of Canadian fixed-coupon marketable bonds, foreign currency denominated fixed-coupon marketable bonds, Canada Pension Plan non-marketable bonds, capital leases, and short-term promissory notes. Chart 3B, titled Consolidated Fund Debt Portfolio—Maturity Schedule, displays the maturity profile of the province's gross financial market debt portfolio. The province's currency exposures are shown prior to the effect of derivative transactions. For example, the US Global issue that was completed in January 2007 and matures in 2017 was swapped to Canadian dollars (CAD). The province has no debt issues outstanding with either call or put options.

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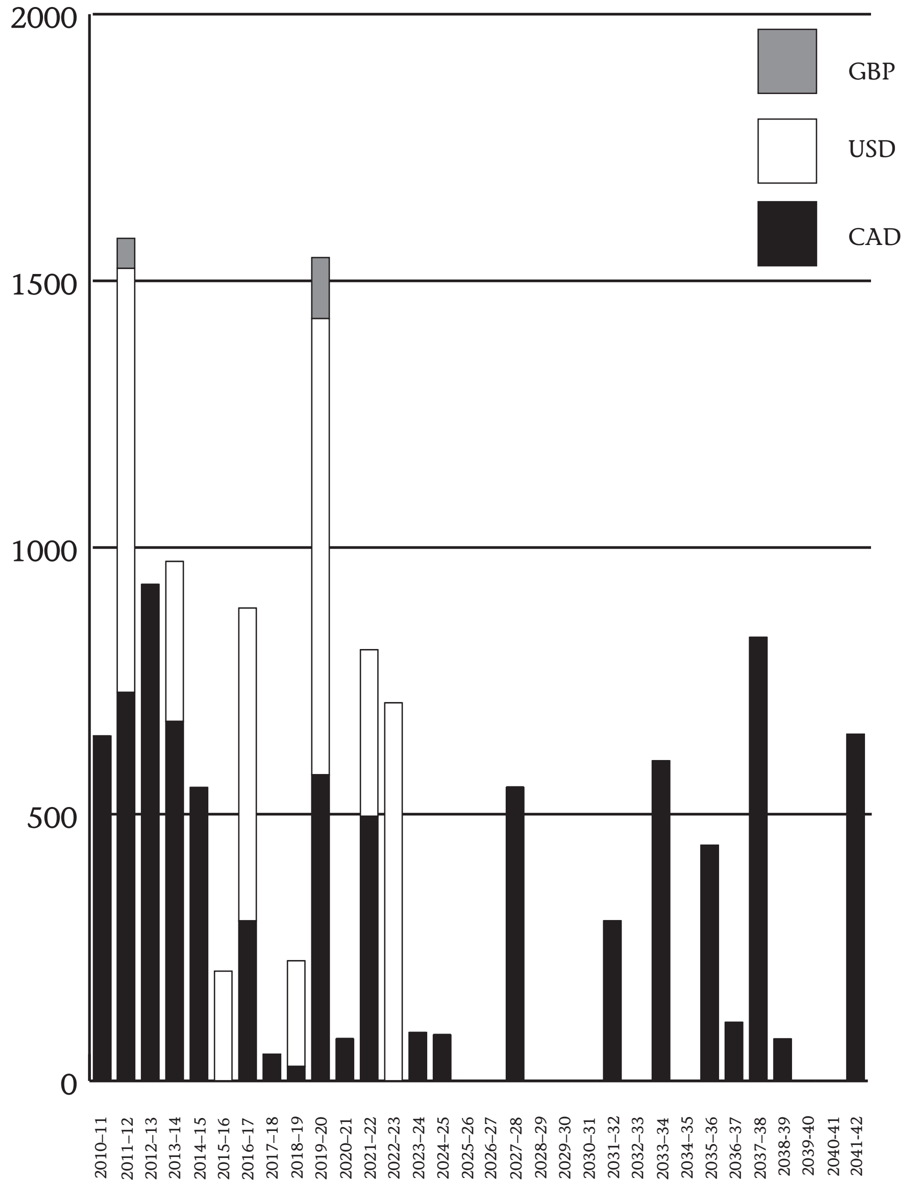
Chart 3B: Consolidated Debt Portfolio Maturity Schedule
($ millions)



As at March 31, 2010, the average term to maturity of the gross debt portfolio was 11.4 years.

The Province of Nova Scotia has accumulated and actively manages a large offsetting asset position in discretionary sinking funds, primarily the Sinking Fund General and the Public Debt Management Fund (PDMF). These funds are available to smooth the maturity schedule by reducing the necessity to borrow in financial markets in any given year.

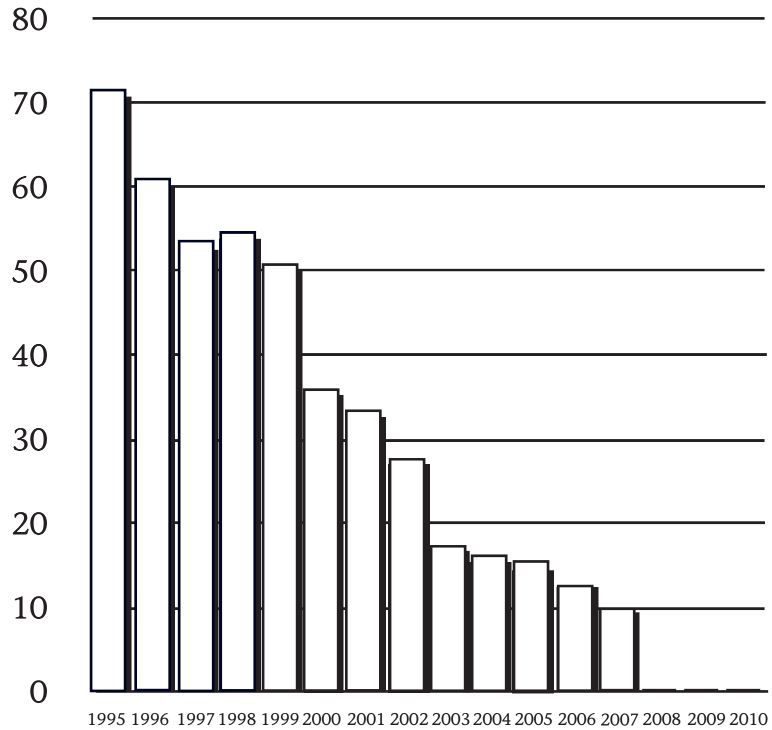
Debt maturities over the next two years are $671 million in the fiscal year 2010–2011 and $1,604 million in the fiscal year 2011–2012 (see Schedule 3B).

There are sizable maturities in US dollars in the fiscal years 2014 to 2023 that, by bond covenant, are fully funded with sinking funds at maturity. The province is required to contribute to the sinking fund of each such issue annually until such time as the full principal value of the bonds is accumulated. As such, the refinancing of these issues is spread over the entire life of each bond, and it is not necessary to refinance these issues in the year of maturity.

3. Foreign Currency Exposure

The Canadian dollar payable debt now represents 100 per cent of the debt portfolio. In 2007, the Canadian dollar rose above par for the first time in 31 years. At that time the Department of Finance decided to eliminate the remaining foreign currency exposure on United States debt by hedging this USD exposure. These transactions were executed at levels of the Canadian dollar at parity with the USD.

Chart 3C: Foreign Currency Exposure
1995 to 2010
(per cent)



By way of background, the province historically carried large foreign currency exposures. Foreign currency exposure peaked at 72 per cent at March 31, 1995. The province enacted legislation in 1996 to address the foreign currency challenge: "Until the amount of public debt of the province represented by securities or obligations in currencies other than Canada is twenty per cent or less of the total public debt, (a) no financial transaction or series of financial transactions directly affecting the public debt of the Province shall be completed that increases the percentage of the public debt of the Province represented by securities or obligations in currencies other than Canada," Section 52A, Provincial Finance Act. The province met the requirements of the Provincial Finance Act in 2003 and continued beyond that requirement with the complete elimination of the province's foreign currency exposure.

4. Interest Rate Mix

The debt portfolio's exposure to floating interest rates was reduced over the past year, and ended the year at 10.6 per cent on March 31, 2010. The province includes fixed interest rate term debt and fixed income assets maturing in less than one year in its measure of floating interest rate debt to more accurately reflect exposure to resetting interest rates. In the past the province has been able to exercise tight control of this variable in the portfolio by maintaining access to capital markets and through its extensive derivative capabilities.

The current level of floating interest rate debt is temporarily below the province's floating interest rate exposure policy, and the Department of Finance intends to raise the level of floating interest rate debt in 2010–2011. The interest rate exposure policy sets the dollar volatility of debt-servicing costs, and the implied floating interest rate exposure is in the range of 10 to 30 per cent of total debt outstanding. The Department of Finance targets the mid-point of the policy range, and at present the province has some protection from unexpected increases in interest rates.

5. Derivative Exposure

Derivative is a broadly used term for any financial contract where future cash flows (and thus its value) are derived from a specific benchmark, for example, interest rate, foreign currency rate, financial asset, index, forward, future, or any other agreed upon reference point. Derivatives allow the Province of Nova Scotia to identify, isolate, and manage separately the market risks in financial instruments for the purpose of hedging, risk transfer, arbitraging interest rate differences, and adjusting portfolio risks. These transactions can be more effective and done at a lower cost than would be possible in the cash market.

At March 31, 2010, the province's use of derivatives was for two purposes: (1) the hedging of foreign currency debt issues to Canadian dollars, and (2) asset-liability management purposes. The latter derivative transactions are designed to protect the provincial budgetary surplus from changes in interest rates associated with the Department of Finance's on-lending program to Crown corporations.

Currently, the province is party to approximately $5.8 billion notional face value of derivative transactions, unchanged from a year earlier. The Department of Finance credit policy states that it executes derivative transactions only with well-rated counterparties. The Liability Management and Treasury Services Division actively manages the credit risks of the derivative portfolio. The Debt Management Committee reviews all counterparty exposure and limits. When the counterparty has a split credit rating, the province considers the most conservative among the ratings.

Structure of Debt Management and Sinking Funds

Until March 31, 2002, the province provided sinking fund installments for all its term debt issues including Canada Pension Plan (CPP) and Medium Term Notes (MTN) issues. These funds were held against each specific bond for the bond's principal repayment at maturity. The province ceased sinking fund contributions to these debt maturities in 2002–2003 and reassigned the existing sinking funds held to the Sinking Fund General. The latter is available to retire debt at the discretion of the Minister of Finance.

As of March 31, 2003, funds held for public issues without a sinking fund bond covenant were also moved to the Sinking Fund General. The province continues to make sinking fund installments for those debentures that contain sinking fund bond covenants. On those issues, annual sinking fund installments generally range from 1 to 3 per cent of the original issue, but may vary slightly from year to year, based on actual and anticipated rates of return on sinking fund assets. Sinking fund payments relating to debentures payable in foreign currency are adjusted each year, as necessary, to reflect exchange rate movements since the date of issuance of the debentures. Sinking funds required by bond covenant are treated as restricted assets and are used solely for the retirement of specific debt issues.

At March 31, 2010, the estimated book value of the sinking funds was $2.2 billion, of which $1,440 million was held in covenanted sinking funds, and $763 million in the discretionary sinking funds. The policy objectives of both discretionary funds (the Sinking Fund General and the PDMF) are to manage interest rates, manage short-term liquidity, and assist in the refunding of maturing debt, while at the same time providing an appropriate level of investment return to the Consolidated Fund.

The assets of the sinking funds and PDMF are invested in high-quality investments. Those investment guidelines are subject to approval by the Debt Management Committee. The Sinking Fund General also holds the debt of the Halifax-Dartmouth Bridge Commission. The PDMF is typically invested in Government of Canada and provincial bonds. At March 31, 2010, cash and equivalents in the sinking fund and PDMF were negligible.

The Nova Scotia Municipal Finance Corporation (NSMFC), a provincial Crown corporation, acts as a central borrowing agency for municipalities and municipal enterprises in Nova Scotia. Under the incorporating legislation, municipalities and municipal enterprises are required to raise their long-term capital requirements through the NSMFC except for borrowings from the federal government, the province, another municipality, or their agencies. The NSMFC issues serial debentures to fund these cash requirements. There has never been a default by the NSMFC on any of its obligations.

In recent years, the province has purchased all NSMFC issues in their entirety and at March 31, 2010, held a portfolio of $726 million NSMFC debentures in the provincial Consolidated Fund. The NSMFC asset portfolio held by the Department of Finance, along with sinking funds and Public Debt Management Fund, are netted against the gross financial market debt of the province to arrive at net financial market debt.

Debt-Servicing Costs

Gross debt-servicing costs comprise the following items: (1) interest on existing long- term debenture and capital lease debt and the estimated interest cost of incremental borrowing; (2) general interest that provides for bank charges, bond issue expense, amortization of debenture discounts/premiums, and short-term interest costs; and (3) the accrual of interest of the province’s unfunded pension and post-retirement benefit obligations.

Schedule 3A: Projected Debt-Servicing Costs ($ thousands)

	Estimate 2009–10	Forecast 2009–10	Estimate 2010–11	Estimate 2011–12	Estimate 2012–13	Estimate 2013–14
Interest on Long-term Debt	693.3	671.8	759.7	816.0	861.8	856.4
General Interest	34.3	40.2	34.5	29.8	29.3	34.1
Interest on Pension, Retirement and Other Obligations	161.5	160.3	165.0	127.8	152.4	170.0
Gross Debt Servicing Costs	889.1	872.3	959.2	973.6	1,043.5	1,060.5
Less: Sinking Fund Earnings	91.6	90.8	89.1	86.7	86.2	84.0
Net Debt-Servicing Costs	797.5	781.5	870.1	886.9	957.3	976.5

In 2010–2011, the province will incur $165 million in debt-servicing costs related to the accrual of interest on pension, retirement, and other obligations. The province accounts for its pension obligations and related expenses on an accrual basis in accordance with PSAB Section 3250. In accordance with this section, the province uses a smoothed market value to value the plan assets of the pension plans and determine the expected return on plan assets. Asset smoothing involves using market-related values instead of market values to calculate the expected return on pension plan assets. Using market-related values entails recognizing changes in the actual fair value of the plan assets in a rational and systematic manner over a period of five years. This approach impacts the pension expense in terms of the net debt-servicing costs and the amortization of actuarial gains and losses of the plan. Given the long-term nature of pension and pension accounting, this is a more fiscally responsible approach and alleviates the effects of huge market fluctuations, both positive and negative, and assists to maintain stability and predictably to the budget process.

As noted above, the province has established mandatory sinking funds on some debt issues and maintains discretionary sinking funds for liability management purposes. The interest on those sinking funds is often netted against gross debt-servicing costs to arrive at net debt-servicing costs.

In addition, gross debt servicing costs also supports the Consolidated Fund's on-lending activities to Crown corporations. That is, the Consolidated Fund incurs interest charges on long-term debt obligations that have been borrowed on behalf of Crown corporations such as the Nova Scotia Municipal Finance Corporation and the Farm Loan Board. The Consolidated Fund earns interest on those monies lent to Crown corporations in amounts of $88.1 million in the 2009–2010 forecast and $93.5 million in the 2010–2011 Budget Estimate. Unlike the earnings on sinking fund assets, the income from the on-lending activity is not typically shown as netted against debt servicing costs.

Debt-Servicing Costs—Assumptions and Sensitivity Analysis

Actual debt-servicing costs will vary from estimated amounts due to the dependence of debt-servicing costs on certain financial market variables and changes in the amount borrowed.

With the elimination of the province's foreign currency exposure, the main factor in debt-servicing cost sensitivity is the overall level of Canadian short-term interest rates and ten-year Canada bond yields during the fiscal year. Sensitivity to these variables (how much debt-servicing costs would change if a variable changed from the assumed level for a full year) is $15 million if Canada Treasury Bills were a full percentage point higher relative to the assumed level, and $8 million if ten-year Canada bond yields rose by one percentage point.

Risk Management

The Debt Management Committee (DMC), an advisory committee to the Minister of Finance, carries out the governance and oversight function for the debt management of the Province of Nova Scotia. The committee ensures that the province's treasury management is based on sound financial principles and is conducted in a prudent manner, balancing the costs and risks within acceptable control standards. The committee has responsibilities for the following key governance roles: strategic planning, risk management, internal control, and communications. These functions ensure that the governance and oversight roles of treasury management operations are independent of operational staff.

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Schedule 3B: Projected Borrowing Requirements ($ millions)

	Estimate 2009–10	Forecast 2009–10	Estimate 2010–11	Estimate 2011–12	Estimate 2012–13	Estimate 2013–14
Budgetary (surplus)/deficit	592.1	488.4	222.1	370.0	186.6	(0.3)
Net Capital Advances	459.0	340.6	457.1	66.7	65.1	64.5
NSMFC Repayments	(25.0)	18.9	(90.5)	(85.7)	(81.7)	(66.6)
Tangible Capital Assets: Net Cash	577.1	507.4	460.8	231.0	107.2	(19.0)
Other Non-Budgetary Transactions[1]	33.1	(190.9)	691.9	110.1	(111.2)	(168.2)
Cash Operating Requirements	**1,636.3**	**1,164.4**	**1,741.4**	**692.1**	**166.0**	**(189.6)**
Cash Debt Retirement	679.6	679.6	670.7	1,603.9	955.6	999.7
Mandatory SF Income	55.2	72.2	60.4	61.4	73.4	71.7
Mandatory SF Contributions	95.3	95.1	88.1	88.1	88.1	71.0
Mandatory SF Withdrawals	—	—	—	—	—	(299.9)
Net Mandatory SF Requirements	150.5	167.3	148.5	149.5	161.5	(157.1)
Discretionary Fund Income	36.4	18.6	28.7	25.3	12.8	12.3
Discretionary Fund Contributions	—	—	—	—	—	—
Discretionary Fund Withdrawals	(195.0)	(195.0)	(93.9)	(401.9)	—	—
Net Discretionary Fund Requirements	(158.6)	(176.4)	(65.2)	(376.6)	12.8	12.3
Total Requirements	2,307.8	1,835.2	2,495.4	2,068.9	1,295.9	665.3
Change in ST Borrowing (inc)/dec	(340.0)	—	(500.0)	—	—	—
Total Borrowing Requirements	1,967.8	1,835.2	1,995.4	2,068.9	1,295.9	665.3

1. Non-Budgetary Transactions consists of the following items: foreign currency amortization, amortization of debenture discounts, pension valuation adjustment, offshore accord offset monies, Sysco pension and environmental costs.

Schedule 3C: Projected Gross and Net Financial Market Debt ($ millions)

	Estimate 2009–10	Forecast 2009–10	Estimate 2010–11	Estimate 2011–12	Estimate 2012–13	Estimate 2013–14
Gross Financial Market Debt						
Opening Balance	12,218.1	12,218.1	13,423.5	15,248.3	15,713.4	16,053.7
Borrowing Program	1,967.8	1,835.2	1,995.5	2,069.0	1,295.9	665.5
Debt Retirement	(679.6)	(679.6)	(670.7)	(1,603.9)	(955.6)	(999.7)
Foreign Exchange (Gain)/Loss	—		—	—	—	—
Change in Other Unfunded Debt1	340.0	49.8	500.0	—	—	—
Closing Balance	13,846.3	13,423.5	15,248.3	15,713.3	16,053.7	15,719.5
Mandatory Sinking Funds						
Opening Balance	1,272.7	1,272.7	1,440.2	1,588.7	1,738.2	1,899.7
Installments	95.3	95.3	88.1	88.1	88.1	71.0
Earnings	55.2	72.2	60.4	61.4	73.4	71.7
Foreign Exchange Gain / (Loss)	—		—	—	—	—
Sinking Fund Withdrawals	—	—	—	—	—	(299.9)
Closing Balance	1,423.2	1,440.2	1,588.7	1,738.2	1,899.7	1,742.5
Discretionary Funds						
Opening Balance	939.0	939.0	762.6	697.4	320.8	333.6
Installments	—	—	—	—	—	—
Earnings	36.4	18.6	28.7	25.3	12.8	12.3
Fund Withdrawals	(195.0)	(195.0)	(93.9)	(401.9)	—	—
Closing Balance	780.4	762.6	697.4	320.8	333.6	345.9
NSMFC Assets						
Opening Balance	707.1	707.1	726.1	635.6	549.9	468.2
Repayments	(95.2)	(95.2)	(90.5)	(85.7)	(81.7)	(66.6)
Advances	70.2	114.2	—	—	—	—
Closing Balance	682.1	726.1	635.6	549.9	468.2	401.6
Net Financial Market Debt	10,960.6	10,494.6	12,326.6	13,104.5	13,352.1	13,229.3

1. The Change in Other Unfunded Debt arises due to the province's use of accrual accounting for budgetary purposes, and net debt is a cash debt concept. As such, balance sheet items such as accounts payable and accounts receivable have an impact on the level of Consolidated Fund cash.

NOVA SCOTIA

Schedule 3D: Net Debt ($ millions)

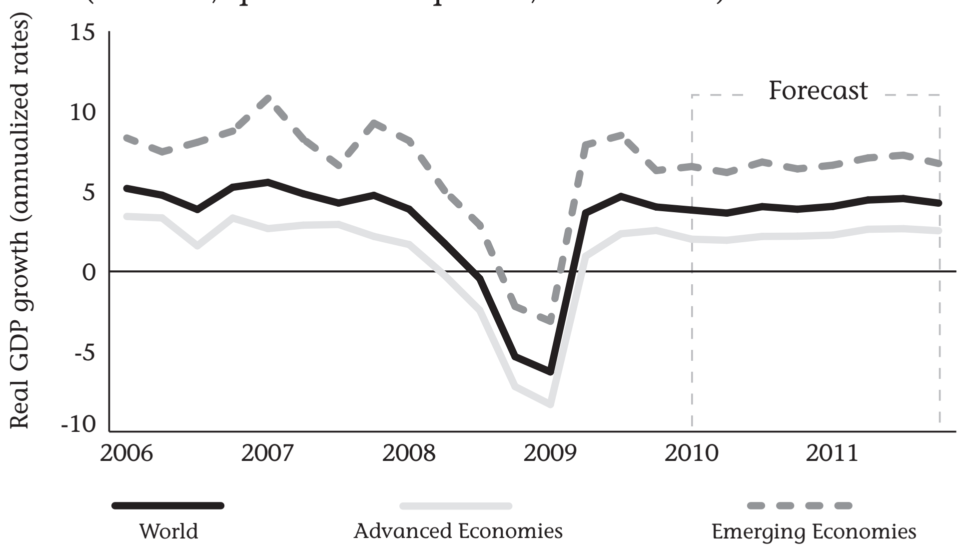
	Estimate 2009–10	Forecast 2009–10	Estimate 2010–11	Estimate 2011–12	Estimate 2012–13	Estimate 2013–14
Net Debt – Opening Balance	12,323.5	12,323.5	13,319.3	14,002.2	14,603.2	14,897.0
Add (Deduct):						
Provincial Surplus on an Expense basis	592.1	488.4	222.1	370.0	186.6	(0.3)
Increase in the Net Book Value of Tangible Capital Assets	577.1	507.4	460.8	231.0	107.2	(19.0)
Other	—	—	—	—	—	—
Change in Net Debt	1,169.2	995.8	682.9	601.0	293.8	(19.3)
Net Debt—Closing Balance	13,492.7	13,319.3	14,002.2	14,603.2	14,897.0	14,877.7

Global Economic Environment

The International Monetary Fund reported in January that the global economy returned to positive growth in the second half of 2009. Trade and industrial production recovered after precipitous declines in late 2008. In 2010, global economic growth is expected to stabilize at 4 per cent, somewhat slower than pre-recession growth in 2006 and 2007.

The pace of recovery throughout the world is expected to vary by region. The so-called "LUV recovery" features very slow recovery in Europe (L-shaped), modest recovery in North America (U-shaped), and fast recovery in the developing world, notably Asia (V-shaped: 6 per cent growth in 2010).

Figure 1 ***Global GDP Growth***
(Per cent; quarter-over-quarter, annualized)



Source: International Monetary Fund

Financial Market Conditions

The economic slow down of 2008 and 2009 was precipitated by asset revaluations and drying up of liquidity among financial institutions. Unprecedented government intervention in financial markets and extraordinary monetary easing appears to have been successful in sustaining credit markets. Key credit spreads have returned closer to historic levels. This is an indication that credit market constraints have eased for both wholesale funding within the financial sector itself as well as for corporate borrowers.

The prospect of stricter regulations and fears of a repeat of the liquidity crisis of 2008–2009 may constitute a structural change in financial markets. Credit spreads may not ever return to the levels observed before the financial crisis.

Figure 2 ***Short-term Financing***
Interest spread: Eurodollar deposit minus US Treasuries (3-month)

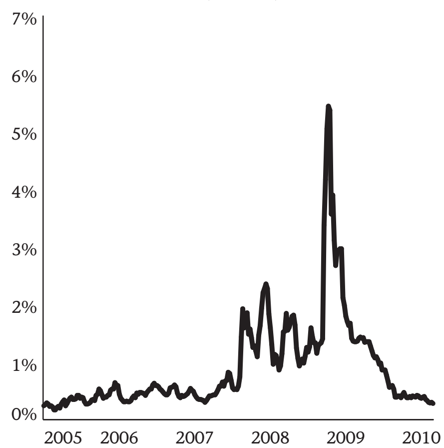
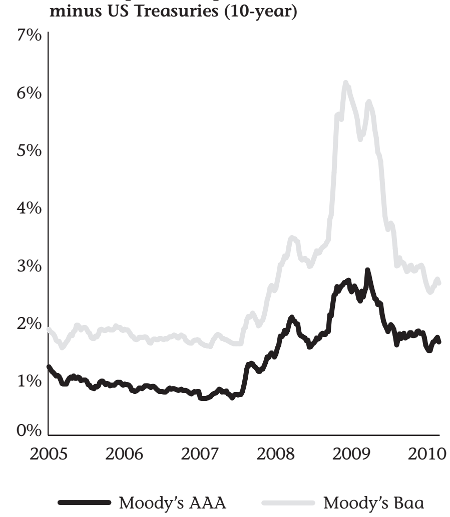


Figure 3 ***Corporate Financing***
Interest spread: Corporate Bonds minus US Treasuries (10-year)



Source: US Federal Reserve Board

Despite recovery in money and equity markets, there is growing risk that sovereign debt could come under pressure for countries with large budget deficits. Fortunately, Canada's relative fiscal strength may position the country to benefit from increasing differentiation of Canada from other sovereign debt.

US Economic Performance and Outlook

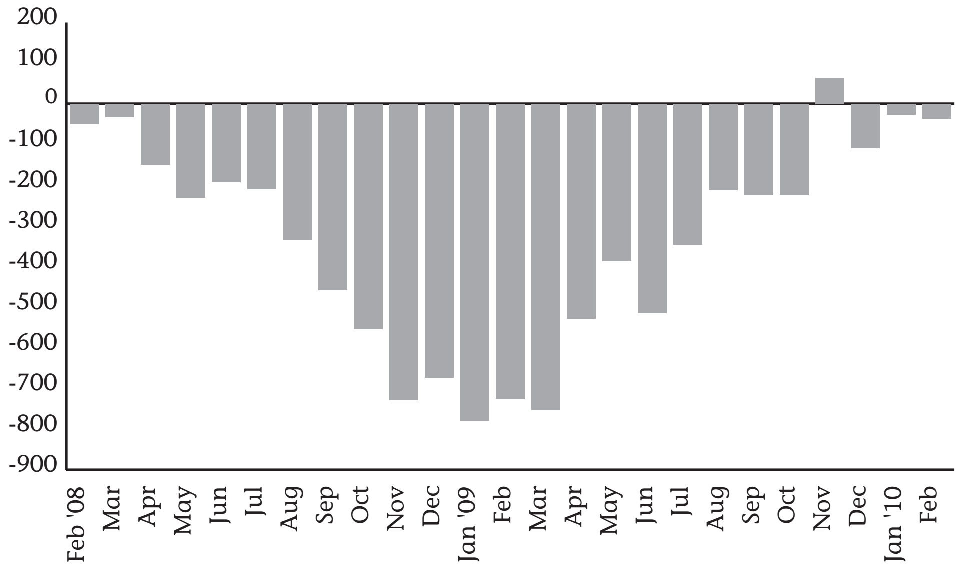
The US economy is particularly important for the performance of Canadian and Nova Scotian trade sectors. The latest (third) estimate indicates that US real GDP increased at an annualized rate of +2.2 per cent in the 3rd quarter and +5.6 per cent in the 4th quarter of 2009. Positive growth after four quarters of consecutive contractions indicates that the US economy appears to be emerging from recession.

Employment growth usually lags behind economic growth, and US employment has yet to show signs of recovery. Employment was little changed in February. February's US unemployment rate was unchanged from January at 9.7 per cent. Although the pace of employment decline appears to be slowing, there have been no additional job gains since November 2009.

After a decline of -2.4 per cent in 2009 (Third estimate as of March 26, 2010), US real GDP is expected to recover by +2.7 per cent in 2010, followed by stronger growth of +3.1 per cent in 2011. This forecast assumption is based on a consensus of private sector forecasting agencies as well as the Bank of Canada and the US Congressional Budget Office.

US economic growth in 2010 is still expected to be strongly influenced by fiscal expansion. Although it is forecast to be stronger in 2011, real GDP growth has some uncertainty. US economic recovery hinges critically on whether private sector consumption resumes its leading role in domestic demand as government stimulus winds down. Removing unprecedented levels of fiscal expansion in the US pose a serious risk to short-term economic growth, as does the potential for high fiscal deficits to constrain consumer spending and investment.

Figure 4 ***US nonfarm payroll employment***
Change from Feb. 2008 (seasonally adjusted, ‘000s)



Source: US Bureau of Labor Statistics

It is uncertain how US monetary authorities will respond should inflationary pressures build as fiscal deficits grow. Recent statements from US monetary authorities suggest continued low inflation expectations; however, this perspective appears to be sensitive to new data releases.

Commodity, Interest, and Currency Assumptions

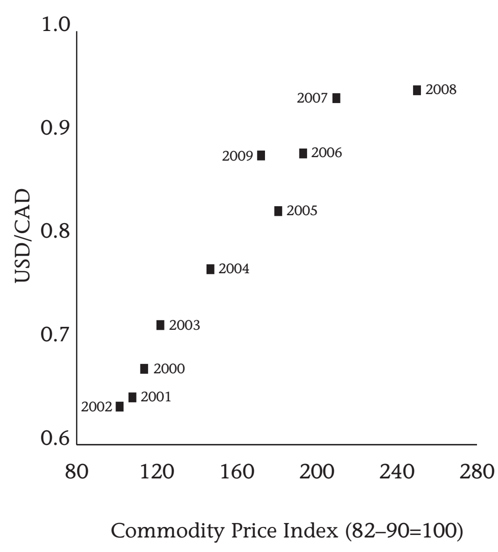
In both the US and Canada, synchronous tightening of monetary and fiscal policy poses a serious risk to economic recovery, particularly for smaller economies like Nova Scotia’s that are less sensitive to cyclical swings in “real” (non-financial) sectors. The most significant risks lie south of the border, as both US fiscal and monetary expansions have been more dramatic (as a share of GDP) than similar interventions in Canada.

The Nova Scotia Budget economic outlook anticipates that consumer prices and broader measures of inflation will remain contained through 2010 before rising in 2011. Unlike US authorities, the Bank of Canada has identified potential for price escalation in core CPI, signalling possible monetary tightening. Consequently, the Nova Scotia Budget economic outlook assumes that monetary policy will begin to tighten somewhat in 2010 and more substantially in 2011. Prime lending rates are assumed to rise from an annual average of 2.4 per cent in 2009 to 5.5 per cent by 2011.

Currency movements may offset some inflationary pressures and keep Canada's monetary policy looser than would otherwise be necessary to maintain the Bank of Canada's inflation target. The US dollar (USD) has depreciated relative to the Canadian dollar (CAD)—reaching a 12-month high of $0.9926 USD/CAD on April 1, 2010.

Figure 5 ***Exchange Rate***
$USD/$CAD (noon rate)

Figure 6 ***Commodity Prices and Exchange Rate***



Source: Bank of Canada, Statistics Canada

For the purposes of the budget economic outlook, the USD-CAD exchange rate is assumed to average $0.98 over the next two years.

There have been suggestions that the US Department of the Treasury may label China a currency manipulator. This, along with commodity price volatility, strong demand for Canadian assets, and the US exit path from expansionary monetary policy, all add significant uncertainty around the outlook for the exchange rate.

Commodity prices continue to exhibit a strong link with exchange rates for resource-intensive economies. However, in the past two years, this relationship may have deteriorated as demand for Canadian assets grows relative to demand for Canadian products. The Nova Scotia Budget economic forecast assumes that world oil prices will rebound from $62 per barrel (USD, WTI) in 2009 to $80 per barrel in 2010 and to $84 per barrel in 2011. Natural gas prices are assumed to rise from $3.99/mmBTU (USD, Henry Hub) in 2009 to $5.50/mmBTU in 2010 and to $6.00/mmBTU in 2011.

NS Budget Economic Assumptions

	2009	2010	2011
USD/CAD exchange rate	.876	.980	.980
Natural Gas (USD/mmBTU, Henry Hub)	3.99	5.50	6.00
Crude Oil (USD/bbl, WTI)	62	80	84
Canadian Prime Lending Rate (%)	2.4	2.5	5.5
5-Year Conventional Mortgage (%)	5.6	5.9	7.4
US – Real GDP, $2002 (% change)	-2.5*	2.7	3.1

* The Budget assumption for US GDP in 2009 was based on an earlier private sector consensus. The Bureau of Economic Analysis has subsequently released new (third) esimates. The third estimate of US GDP growth for 2009 was issued on March 26, 2010: -2.4 per cent.

Canadian Economic Performance and Outlook

The Nova Scotia Budget's Canadian economic forecast is based on data and information available up to March 5, 2010.

Canada apparently reached the trough of the recession over the summer of last year and is now recovering. Canada's real GDP declined -2.6 per cent in 2009. Real GDP grew at an annualized rate of +5.0 per cent in the fourth quarter of 2009 after increasing +0.9 per cent in the third quarter. Canada's employment decreased by -1.6 per cent in 2009 compared to 2008. The average unemployment rate for 2009 was 8.3 per cent compared to 6.1 per cent for 2008.

Figure 7 ***Canada: Economy***
Real GDP growth (annualized rates)

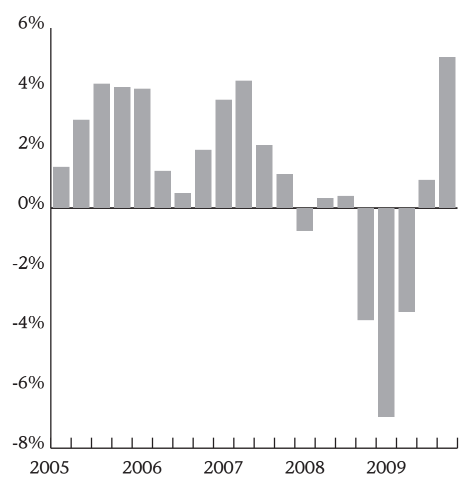
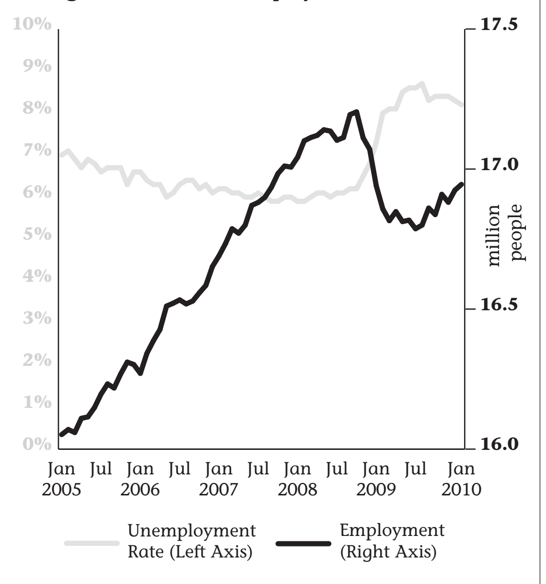


Figure 8 ***Canada: Employment***



Source: Statistics Canada

In the first two months of 2010 employment has posted a slight recovery (+0.2 per cent) over the same period in 2009. At the same time, Canada's labour supply grew by +0.9 per cent. The net result of labour supply growing at a faster pace than labour demand was a rise in the unemployment rate by +0.6 percentage points to 8.3 per cent.

Although economic growth has resumed, early positive signs should still be viewed with caution as there are significant risks and uncertainties to the Canadian economic forecast. Financial market instability, further appreciation of the Canadian dollar, and a slower US recovery than expected continue to pose potential risks for Canada's economic recovery. Some of these risks are not independent of each other.

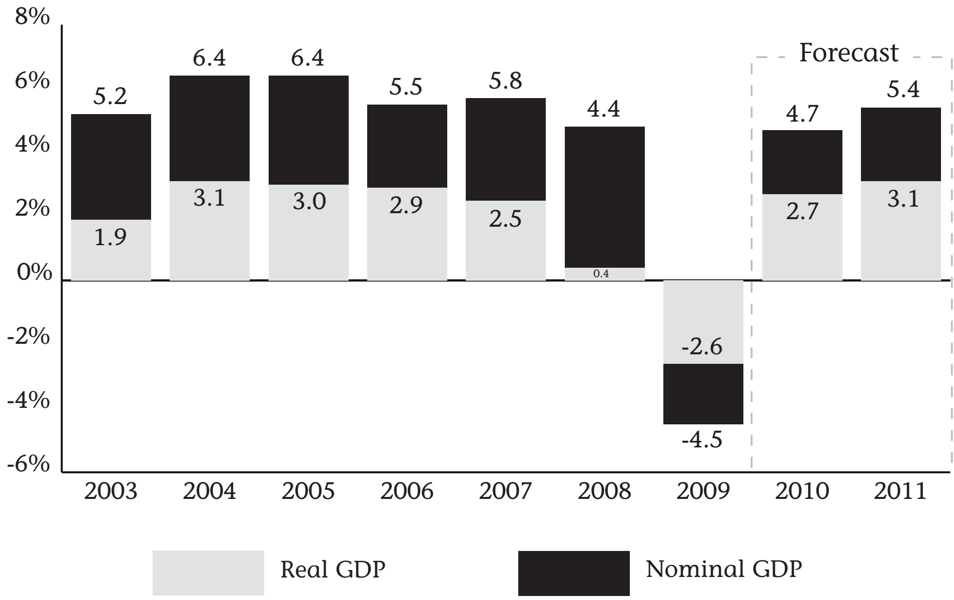
Private-Sector Forecasts
Canadian Real GDP (per cent growth)

	2010	**2011**
High	+3.3	+3.9
Average	**+2.8**	**+3.2**
Low	+2.0	+2.2

Private sector forecasts as of March 5, 2010

The consensus outlook from private sector forecasters calls for Canadian real GDP to increase by +2.8 per cent in 2010. In 2011, the consensus outlook for real GDP growth is +3.2 per cent. In its recent budget, the federal government projected national economic growth of +2.6 per cent in 2010, followed by growth of +3.2 per cent in 2011. The Nova Scotia Budget economic forecast assumes that Canadian economic growth will be +2.7 per cent in 2010, followed by growth of +3.1 per cent in 2011.

Figure 9 ***Canada: Economic Growth***



Source: Statistics Canada, NS Department of Finance Forecast

Fiscal stimulus continues to be the dominant driver of domestic demand in Canada through 2010, with +18.2 per cent nominal growth in government capital investment expected to offset weak consumer expenditure growth. In 2011, growth in government investment will slow to +10.1 per cent as the last significant stimulus projects are completed.

Based on the recent federal budget, current public spending is expected to begin a long period of deceleration as governments across the country resolve recession-induced deficits. This deceleration is expected to result in nominal government expenditure growth of +4.8 per cent in 2010, followed by +4.5 per cent in 2011. The projected deceleration in current government expenditures follows a longer trend that began as nominal growth in government spending peaked at +6.6 per cent in 2006.

Government revenue growth is expected to remain weak throughout the forecast period, foretelling a prolonged period of fiscal contraction instead of previously enjoyed growth in public expenditures.

Consumer expenditures are projected to grow by +2.8 per cent in 2010. By 2011, national consumer expenditure is forecast to return to growth of +4.5 per cent, more consistent with historical trends. This growth in consumer expenditures is consistent with expected growth in personal income for households after accounting for somewhat higher personal savings behaviour.

Although interest rates are expected to begin growing in 2010, Canada's residential construction investments are expected to rebound after declining -7.8 per cent in 2009. However, Canada's residential construction is expected to be only +4.2 per cent in 2010 and +3.8 per cent in 2011, well below its pre-recession average growth of +6.9 per cent from 2004–2008.

Business investment in non-residential structures as well as machinery and equipment is also projected to recover from its nominal decline of -14.3 per cent in 2009. However, the forecasts of +2.8 per cent growth in 2010 and +4.4 per cent growth in 2011 fall short of the average pre-recession pace of +8.2 per cent from 2004–2008.

National corporate profits exhibited a sharp decline of -33.2 per cent in 2009 and are expected to post a recovery of +21.9 per cent in 2010, followed by further growth of +9.7 per cent in 2011. This suggests that the national level of corporate profits will be slow to return to its pre-recession peak.

The Nova Scotia Budget economic forecast projects that Canada's economic growth will be moderated by the continued strength of the Canadian dollar. Although exports are projected to recover from their steep decline of -22.1 per cent in 2009, nominal export values will continue to fall short of imports throughout the forecast period.

As Canada's economy recovers, employment growth will begin to return. At first, modest employment growth of +0.8 per cent in 2010 will not keep pace with growth in the labour supply—boosting Canada's unemployment rate to an average of 8.7 per cent for the year. By 2011, employment growth will quicken to +1.9 per cent, bringing the unemployment rate back down to 8.1 per cent.

Canada Economic Outlook

	2009a	2010	2011
Real GDP, 2002$ (% change)	-2.6	2.7	3.1
Nominal Gross Domestic Product	-4.5	4.7	5.4
Employment (% change)	-1.6	0.8	1.9
Unemployment Rate (%)	8.3	8.7	8.1
Personal Income (% change)	0.5	2.9	4.6
Consumer Price Index (% change)	0.3	1.8	2.4
Retail Sales (% change)	-3.0	3.9	4.9
Corporation Profits before Taxes (% change)	-33.2	21.9	9.7
Exports of Goods and Services (% change)	-22.1	3.8	6.3

a = actual

Nova Scotia Economic Performance and Outlook

The Nova Scotia Budget's provincial economic forecast is based on data and information available up to March 12, 2010.

Figure 10 ***Nova Scotia: Employment***

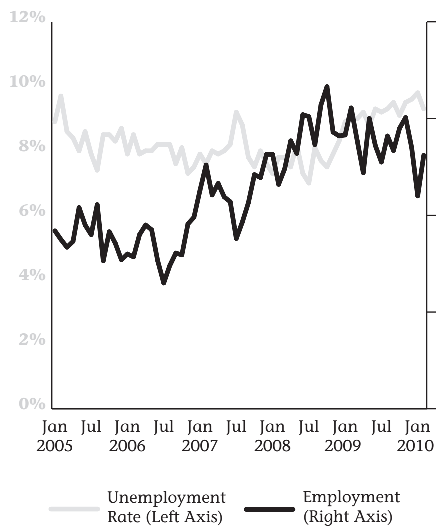
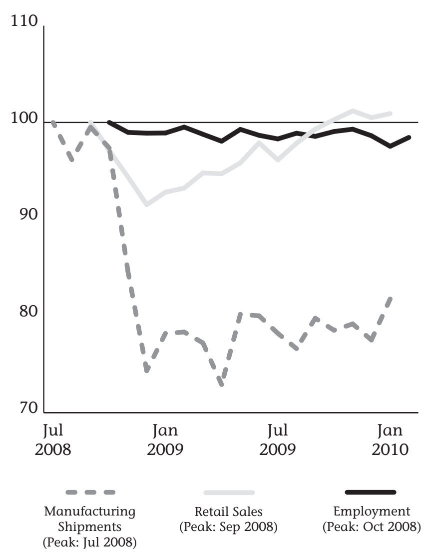


Figure 11 ***Nova Scotia: Economic Indicators***
Index (Peak=100, Seasonally Adjusted)



Source: Statistics Canada

Nova Scotia's economy has not escaped the recession but to date it has not been hit as hard as some of the other provinces in Canada. Ontario, British Columbia, Alberta, and Quebec have experienced the brunt of employment losses.

Despite some monthly volatility, Nova Scotia's average for employment in 2009 was steady with a marginal -0.1 per cent decline over last year. Within labour market flows, full-time employment exhibited growth. Similarly, service industries jobs (which were less exposed to the global recession) as well as employment in the Halifax Regional Municipality grew in 2009, despite the global recession.

In 2009, the unemployment rate rose as labour supply grew faster than the labour demand. Although the employment level was relatively unchanged in 2009, the size of the labour force increased +1.6 per cent. This lead to an unemployment rate for 2009 of 9.2 per cent compared to 7.7 per cent in 2008. It appears that employers are waiting for recovery to build greater momentum before rehiring: during the first two months of 2010, employment fell 1.2 per cent and the unemployment rate in Nova Scotia increased to 9.6 per cent.

Although Nova Scotia has benefited from a large concentration of non-cyclical industries through the recession, this may mute the pace of growth during a global recovery. Over the last 5 years (2004–2008) Nova Scotia has experienced real GDP growth averaging +1.3 per cent per year.

There are early signs that Nova Scotia has successfully weathered the recession. Retail sales have already recovered to the pre-recession peak observed in September 2008. In January 2010, retail sales were up +8.8 per cent over January 2009 (seasonally adjusted). Nova Scotia was one of the few provinces to experience positive growth in retail sales in 2009 (+0.4 per cent over 2008). From the start of the recession in October 2008 through to January 2010, retail sales in Nova Scotia have increased by 3.9 per cent compared to -0.3 per cent for Canada.

Employment has not fully recovered back to its pre-recession peak observed in October 2008, but the declines have been limited to 1.5 per cent of peak employment by February 2010. Wages and salaries grew by +1.7 per cent in 2009 as growth in service-sector income outpaced reductions in goods-producing sectors.

Nova Scotia's investment in non-residential building construction was up +8.3 per cent in 2009, primarily due to government and institutional spending, including stimulus-related investments. Nova Scotia has committed over

$700 million in incremental stimulus for capital investments in cooperation with the federal and municipal governments. Through 2012 these investments are expected to boost economic performance through higher employment of 7,000 person-years as well as $300 million in income.

Among higher-frequency indicators of Nova Scotia's economic performance, only manufacturing shipments appear to languish well below their pre-recession peak, remaining over 18 per cent below July 2008 levels. Through 2009, manufacturing shipments were down -15.1 per cent over the previous year. This is consistent with general deterioration in manufacturing shipments and manufacturing sector employment across the country. However, there are even some positive signals in Nova Scotia's manufacturing shipments in January 2010: up +4.5 per cent over January 2009 (seasonally adjusted). December 2009 and January 2010 saw the first year over year increase in manufacturing shipments since October 2008.

The resilience of Nova Scotia's economic performance in 2009 relies crucially on stable service sectors. Over the last 5 years, service sectors are responsible for an average of 75 per cent of Nova Scotia's real economic output and 80 per cent of its employment. Many of these sectors are less sensitive to global cycles of production and trade. While this insulates the province from economic dislocation during recession, it can also limit the opportunities for growth during global expansions.

There have been several instances of job losses amongst medium-sized industrial facilities and business support centres throughout the province last year. These closures create dislocation for employees around the province. Many industries have negotiated challenging economic circumstances with reasonable stability for suppliers and employees:

• Paper operations are returning to normal after some market related downtime at AbitibiBowater's Mersey operation in Liverpool. Capacity closures have been concentrated in other locations.

• Declines in major export sectors have been universal, but particularly concentrated in natural gas and forestry.

• Tourism statistics indicate that 2009 posted a slight recovery in visits after a decline in 2008—visitor entries were up by 13,000 to 2.093 million.

Nova Scotia: Key Domestic Exports

Figure 12 ***Agriculture/Fish Products***
(millions)

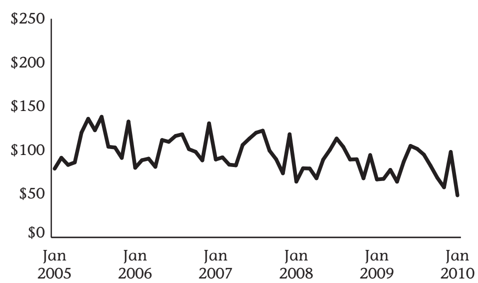


Figure 13 ***Energy Products***
(millions)

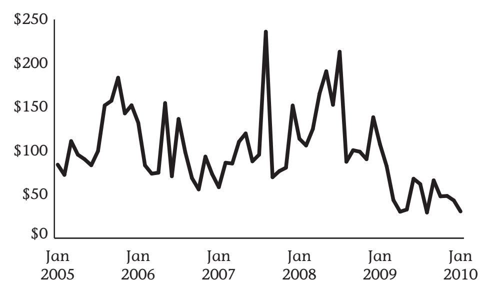


Figure 14 ***Forest Products***
(millions)

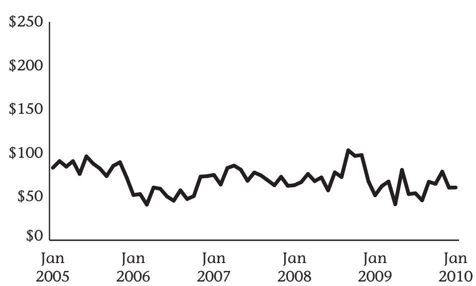
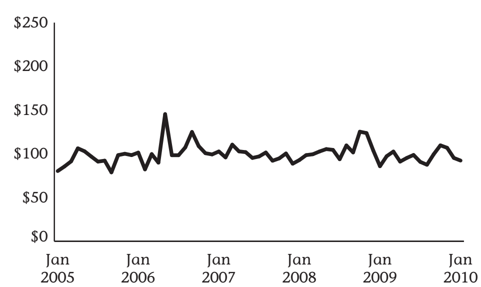


Figure 15 ***Machinery/Equipment***
(millions)



Source: Statistics Canada, balance of payments basis

Nova Scotia's manufacturing shipments remain below pre-recession peaks. The province has made several announcements of support for major industrial facilities in Nova Scotia, including Halifax Shipyard, Shelburne Ship Repair, Daewoo (TrentonWorks), and Northern Pulp. In addition, the province has initiated a Manufacturing and Processing Investment Credit program to support capital accumulation in Nova Scotia.

Nova Scotia's industrial anchors appear committed to their operations in the province, taking downtime instead of facility closures to deal with falling demand for their commodities.

Many firms appear to have taken advantage of programs offered through Employment Insurance to maintain workforces despite falling revenues.

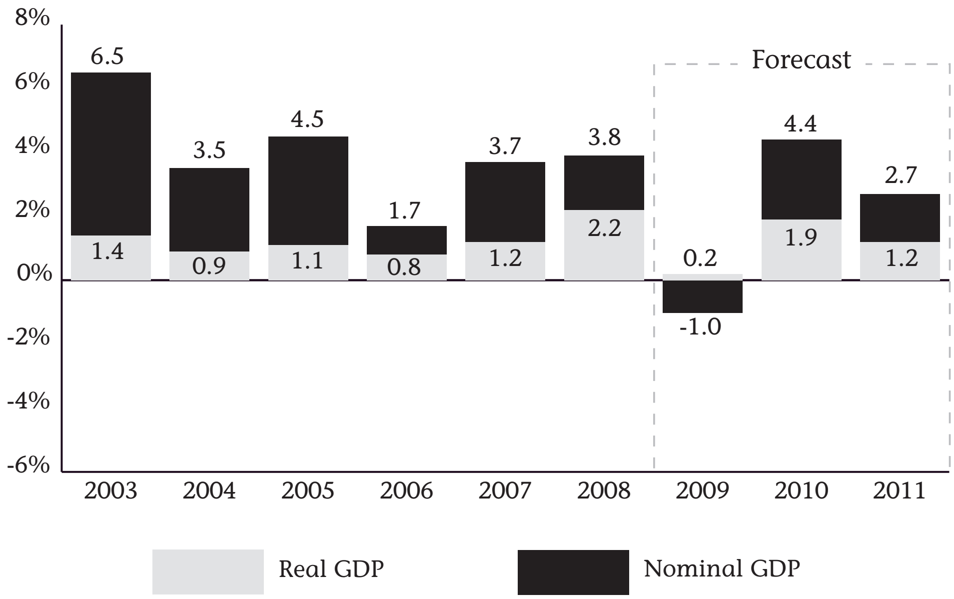
These recent signals support the 2009–2010 budget projection that Nova Scotia's real economic output rose in 2009. The Nova Scotia Budget economic forecast expects that the province's real economic output rose slightly in 2009: +0.2 per cent. However, falling consumer prices and natural gas prices will reduce the level of nominal GDP by -1.0 per cent.

Private-Sector Forecasts
Nova Scotia Real GDP (per cent growth)

	2009	2010	2011
High	+0.5	+2.8	+3.8
Average	-0.6	+2.1	+2.7
Low	-2.2	+1.7	+2.0

Private sector consensus as of March 5, 2010.
Although National Economic Accounts have been published for 2009, Provincial data has not been released by Statistics Canada

Figure 16 ***Nova Scotia: Economic Growth***



Source: Statistics Canada, NS Department of Finance Forecast

There is considerable uncertainty about Nova Scotia's economic performance in 2009: private sector forecasts of real GDP growth for Nova Scotia range from -2.2 per cent to +0.5 per cent with an average of -0.6 per cent. Much of the broad uncertainty about Nova Scotia's economic performance in 2009 may stem from the effect of natural gas price volatility on estimates of the GDP deflator. The consensus forecast for real GDP growth in 2010 is much narrower, ranging from a low of +1.7 per cent, to a high of +2.8 per cent, with an average of +2.1 per cent. By 2011, private sector forecasters anticipate significant growth in Nova Scotia: from a minimum of +2.0 per cent to a maximum of +3.8 per cent with an average of +2.7 per cent.

The Nova Scotia Budget economic outlook for 2010 is largely consistent with the private sector consensus. However, the outlook for 2011 is distinctly lower than private sector projections. There are several reasons for this deviation from the consensus, but the most significant causes are population projections and fiscal policy changes.

Rather than relying on Statistics Canada projections (as many private sector forecasters do), the Nova Scotia Department of Finance carries out its own forecast of provincial population growth. Unlike many of Statistics Canada's projections for the forecast period, the Department of Finance anticipates that net inter-provincial migration will diminish Nova Scotia's population. The Department of Finance expects that population will fall to 937,200 in 2010 and to 934,400 in 2011.

The Nova Scotia Budget economic forecast also incorporates the fiscal plans represented in both federal and provincial budgets for 2010–2011. Many of these fiscal plans had not yet been revealed at the time the private sector consensus was gathered.

Although the Nova Scotia Budget economic forecast may appear conservative, it is consistent with the recent history of growth prior to the recession: compound average real GDP growth of +1.1 per cent from 2002–2006 versus an average of +1.4 per cent for the 2007–2011 period. In previous budget assumptions, the private sector consensus has consistently over-estimated Nova Scotia's economic growth (see Schedule 3E).

In the Nova Scotia Budget economic forecast, the effects of government stimulus investments will continue to boost domestic demand while consumer expenditure growth remains well below historic trends. However, unlike the Canadian economic outlook, fiscal policy measures have an immediate and significant effect on growth in 2010 and 2011.

After growing by +7.7 per cent in 2008 and a projected pace of +8.8 per cent in 2009, current government expenditures (at all levels) are expected to slow to less than one per cent growth in each of 2010 and 2011. This reflects federal and provincial measures to restrain expenditures and return to balanced budgets. Government capital expenditures will continue to grow in 2010—rising by a further +17.0 per cent after an expected increase of +35.1 per cent in 2010. However, by 2011 government capital expenditures are expected to slow dramatically, declining by -19.1 per cent as major stimulus investments are completed.

During 2010–2011, tax policy changes are expected to have a significant impact on consumer expenditures as real disposable income is reduced through income and sales tax changes. Consumer expenditure growth is projected to rise from +1.6 per cent growth in 2009 to +3.0 per cent growth in 2010. However, this reflects some of the income growth associated with stimulus expenditures as well as lower interest rates in 2010. When these additional investments are completed and interest rates rise, consumer expenditure growth is forecast to fall to +1.6 per cent in 2011. These projections for consumer expenditure growth are well below historic trends.

Normally volatile business investments in non-residential structures and machinery and equipment are actually projected to be a steadier source of economic growth in both 2010 and 2011. Non-residential structures plus machinery and equipment investments are anticipated to grow by +5.2 per cent in 2010 and by +3.7 per cent in 2011. During the forecast period, there are no new capital major projects assumed to increase capital spending. However, recent announcements about the former TrentonWorks site and the Donkin coal mine may be upside risks to the investment outlook.

Investments in residential structures are expected to grow slowly, only +0.2 per cent in 2010 and +2.1 per cent in 2011. This new home construction outlook does not even match the modest expectations for the rest of Canada.

In 2010, provincial corporate profits are expected to rebound along with national profits, particularly as exports recover from the sharp decline expected for 2009. Nova Scotia companies are expected to post profit growth of +17.2 per cent in 2010 and +9.0 per cent in 2011. However, these gains do not offset the decline of -29.5 per cent of corporate profits expected for 2009.

Even with Sable offshore energy production returning to trend levels and Deep Panuke assumed to come on stream largely in 2011, exports should still recover from abnormally low levels in 2009. After a sharp deterioration of -24.4 per cent for 2009, Nova Scotia's exports are expected to post a partial recovery growing by +8.3 per cent in 2010 and by +9.4 per cent in 2011. Much of the recent decline is associated with shutdowns in the oil and gas sector (April and August 2009). However, there have also been significant reductions in export price indices for natural gas, agriculture/fishing, newsprint, and lumber. By 2011, imports will almost recover to the pre-recession peak observed in 2009.

After marginal employment losses observed for 2009, Nova Scotia's job market is expected to recover in 2010 with employment growth of +1.2 per cent. However, this growth will stall in 2011 with employment growth limited to +0.3 per cent. As stimulus investments prop up domestic demand in 2010, the unemployment rate is projected to fall to 8.6 per cent. When stimulus projects wind up in 2011, Nova Scotia's unemployment rate is expected to rise again to 9.0 per cent. Despite short-run employment volatility, labour market tightness and slower income growth is expected to stimulate higher labour force participation in Nova Scotia—rising to 64.7 per cent in 2010 and 65.2 per cent in 2011. Although these participation rates would be historic highs, they are still well below the Canadian average.

Nova Scotia Economic Outlook

	2009	2010	2011
Real Gross Domestic Product, 2002$ (% change)	0.2	1.9	1.2
Nominal Gross Domestic Product (% change)	-1.0	4.4	2.7
Employment (% change)	-0.1a	1.2	0.3
Unemployment Rate (%)	9.2a	8.6	9.0
Personal Income (% change)	1.3	2.1	1.7
Consumer Price Index (% change)	-0.2a	1.6	1.8
Retail Sales (% change)	0.4a	3.1	1.8
Corporation Profits before Taxes (% change)	-29.5	17.2	9.0
Exports of Goods and Services (% change)	-24.4	8.3	9.4

a = actual

Risks and Uncertainties

There are inter-connected external risks throughout the Nova Scotia Budget economic forecast. The current policy environment is unstable and may change depending on the interactions between commodity prices, exchange rates, and domestic inflation. Some volatility in these external risks may be offsetting while others may compound on each other.

Unless Canadian manufacturers and exporters can reorient business plans to accommodate a higher exchange rate, there is a significant risk that the Canadian and Nova Scotia economic outlooks could be reduced. Canada has long faced the risk that commodity price inflation could further erode manufacturing competitiveness through currency appreciation. Now, Canada's strong fiscal position relative to other countries may generate high demand for Canadian financial assets. These capital inflows could put upward pressure on the exchange rate, potentially offset by easier credit conditions. These risks could be compounded by the effects of fiscal- and monetary-policy changes on US domestic demand.

The willingness of corporate decision-makers to take advantage of high currency values to import productivity-enhancing capital, training, and technology will determine the nature of risks posed by appreciation.

Although global sovereign debt risks have risen, financial-market risks of further home price devaluation in the US appears to have faded. However, US financial institutions now face the risk of increasing commercial property defaults. Further instability could reignite household and corporate credit problems as well as risk further extraordinary interventions to inject liquidity into the financial system.

Nova Scotia's outlook incorporates a synchronized tightening of monetary and fiscal policy. This leads to growth projections that appear below the private sector consensus. If monetary and/or fiscal authorities refrain from tightening in the face of currency appreciation, the Nova Scotia economic outlook may be too pessimistic.

Nova Scotia's economic outlook also refrains from incorporating potential major investment projects such as the Donkin coal mine. As these projects become more certain, they may constitute a positive risk to the provincial forecast.

NOVA SCOTIA

Economic Performance and Outlook – Key Indicators

Supplementary to the 2010–2011 Budget

Schedule 3E

Nova Scotia's Economic Performance and Outlook – Key Indicators

	2002	2003	2004	2005	2006
Nominal Gross Domestic Product at Market Prices ($ millions)	27,082	28,851	29,853	31,199	31,743
Growth rate	*4.5%*	*6.5%*	*3.5%*	*4.5%*	*1.7%*
Real Gross Domestic Product at Market Prices (chained 2002 $ millions)	27,082	27,464	27,710	28,016	28,254
Growth rate	*4.0%*	*1.4%*	*0.9%*	*1.1%*	*0.8%*
Personal Income ($ millions)	23,773	24,437	25,394	26,638	27,656
Growth rate	*2.9%*	*2.8%*	*3.9%*	*4.9%*	*3.8%*
Personal Expenditure on Consumer Goods and Services ($ millions)	18,086	18,998	19,786	20,649	21,555
Growth rate	*5.8%*	*5.0%*	*4.1%*	*4.4%*	*4.4%*
Retail Sales ($ millions)	9,840	10,015	10,297	10,527	11,163
Growth rate	*6.1%*	*1.8%*	*2.8%*	*2.2%*	*6.0%*
Residential Investment ($ millions)	1,497	1,712	1,897	2,027	2,175
Growth rate	*11.5%*	*14.4%*	*10.8%*	*6.9%*	*7.3%*
Consumer Price Index (2002=100)	100.0	103.4	105.3	108.2	110.4
Growth rate	*3.0%*	*3.4%*	*1.8%*	*2.8%*	*2.0%*
Corporation Profits Before Taxes ($ millions)	2,420	2,796	3,093	3,248	2,895
Growth rate	*-0.5%*	*15.5%*	*10.6%*	*5.0%*	*-10.9%*
Business Investment ($ millions, excluding residential)	3,474	3,236	3,101	3,132	3,112
Growth rate	*4.5%*	*-6.9%*	*-4.2%*	*1.0%*	*-0.6%*
Exports of goods and services ($ millions)	13,330	13,818	14,454	14,798	14,156
Growth rate	*3.5%*	*3.7%*	*4.6%*	*2.4%*	*-4.3%*
Imports of goods and services ($ millions)	18,246	18,329	19,062	19,835	20,125
Growth rate	*6.0%*	*0.5%*	*4.0%*	*4.1%*	*1.5%*
Population ('000s July 1)	935.0	937.5	939.4	937.9	938.0
Growth rate	*0.3%*	*0.3%*	*0.2%*	*-0.2%*	*0.0%*
Labour Force ('000s annual average)	467.7	474.6	485.0	483.9	480.0
Growth rate	*1.7%*	*1.5%*	*2.2%*	*-0.2%*	*-0.8%*
Participation Rate (per cent, annual average)	62.6%	63.1%	64.1%	63.6%	62.9%
Percentage change	*0.7%*	*0.5%*	*1.0%*	*-0.5%*	*-0.7%*
Employment ('000s, annual average)	422.9	431.2	442.2	443.1	441.8
Growth rate	*1.9%*	*2.0%*	*2.6%*	*0.2%*	*-0.3%*
Unemployment Rate (per cent, annual average)	9.6%	9.1%	8.8%	8.4%	7.9%
Percentage change	*-0.1%*	*-0.5%*	*-0.3%*	*-0.4%*	*-0.5%*

NOVA SCOTIA

		Forecast				
2007	2008	2009	2010	2011	CAGR 2002–2006	CAGR 2007–2011
32,933	34,188	33,831	35,335	36,304	4.0%	2.5%
3.7%	*3.8%*	*-1.0%*	*4.4%*	*2.7%*		
28,598	29,215	29,261	29,816	30,181	1.1%	1.4%
1.2%	*2.2%*	*0.2%*	*1.9%*	*1.2%*		
28,941	30,021	30,184	30,828	31,344	3.9%	2.0%
4.6%	*3.7%*	*0.5%**	*2.1%*	*1.7%*		
22,548	23,783	24,170	24,892	25,291	4.5%	2.9%
4.6%	*5.5%*	*1.6%*	*3.0%*	*1.6%*		
11,636	12,129	12,173	12,546	12,772	3.2%	2.4%
4.2%	*4.2%*	*0.4%*	*3.1%*	*1.8%*		
2,335	2,379	2,155	2,160	2,205	9.8%	-1.4%
7.4%	*1.9%*	*-9.4%*	*0.2%*	*2.1%*		
112.5	115.9	115.7	117.6	119.7	2.5%	1.6%
1.9%	*3.0%*	*-0.2%*	*1.6%*	*1.8%*		
3,020	3,188	2,248	2,634	2,870	4.6%	-1.3%
4.3%	*5.6%*	*-29.5%*	*17.2%*	*9.0%*		
3,306	3,133	3,361	3,536	3,666	-2.7%	2.6%
6.2%	*-5.2%*	*7.3%*	*5.2%*	*3.7%*		
14,500	15,365	11,610	12,579	13,763	1.5%	-1.3%
2.4%	*6.0%*	*-24.4%*	*8.3%*	*9.4%*		
20,944	22,509	20,780	21,826	22,431	2.5%	1.7%
4.1%	*7.5%*	*-7.7%*	*5.0%*	*2.8%*		
935.9	936.6	938.2	937.2	934.4	0.1%	0.0%
-0.2%	*0.1%*	*0.2%*	*-0.1%*	*-0.3%*		
486.7	491.0	498.8	501.3	504.9	0.7%	0.9%
1.4%	*0.9%*	*1.6%*	*0.5%*	*0.7%*		
63.7%	63.9%	64.6%	64.7%	65.2%	63.2% (average)	64.4% (average)
0.8%	*0.2%*	*0.7%*	*0.2%*	*0.5%*		
447.6	453.2	452.8	458.0	459.4	1.1%	0.7%
1.3%	*1.3%*	*-0.1%*	*1.2%*	*0.3%*		
8.0%	7.7%	9.2%	8.6%	9.0%	8.8% (average)	8.5% (average)
0.1%	*-0.3%*	*1.5%*	*-0.6%*	*0.4%*		

CAGR – Compound Annual Growth Rate

* 2009 growth rate in Nova Scotia Economic Outlook (+1.3%) reflects earlier estimate of 2008 personal income.

Schedule 3F

Canada's Economic Performance and Outlook – Key Indicators

	2002	2003	2004	2005	2006
Nominal Gross Domestic Product at Market Prices ($ millions)	1,152,905	1,213,175	1,290,906	1,373,845	1,449,215
Growth rate	*4.0%*	*5.2%*	*6.4%*	*6.4%*	*5.5%*
Real Gross Domestic Product at Market Prices (chained 2002 $ millions)	1,152,905	1,174,592	1,211,239	1,247,807	1,283,419
Growth rate	*2.9%*	*1.9%*	*3.1%*	*3.0%*	*2.9%*
Personal Income ($ millions)	898,843	931,773	984,164	1,035,586	1,106,195
Growth rate	*2.6%*	*3.7%*	*5.6%*	*5.2%*	*6.8%*
Personal Expenditure on Consumer Goods and Services ($ millions)	655,722	686,552	719,917	758,966	801,211
Growth rate	*5.7%*	*4.7%*	*4.9%*	*5.4%*	*5.6%*
Retail Sales ($ millions)	319,525	331,143	346,721	366,171	389,485
Growth rate	*6.3%*	*3.6%*	*4.7%*	*5.6%*	*6.4%*
Residential Investment ($ millions)	65,651	72,714	82,965	89,604	98,099
Growth rate	*19.1%*	*10.8%*	*14.1%*	*8.0%*	*9.5%*
Consumer Price Index (2002=100)	100.0	102.8	104.7	107.0	109.1
Growth rate	*2.2%*	*2.8%*	*1.8%*	*2.2%*	*2.0%*
Corporation Profits Before Taxes ($ millions)	135,229	144,501	168,219	186,585	196,130
Growth rate	*6.4%*	*6.9%*	*16.4%*	*10.9%*	*5.1%*
Business Investment ($ millions, excluding residential)	130,934	135,376	146,790	165,992	185,294
Growth rate	*-2.9%*	*3.4%*	*8.4%*	*13.1%*	*11.6%*
Exports of goods and services ($ millions)	479,185	462,473	495,980	519,435	524,358
Growth rate	*-0.7%*	*-3.5%*	*7.2%*	*4.7%*	*0.9%*
Imports of goods and services ($ millions)	428,301	416,856	440,314	468,270	487,757
Growth rate	*2.3%*	*-2.7%*	*5.6%*	*6.3%*	*4.2%*
Population ('000s July 1)	31,353.7	31,639.7	31,940.7	32,245.2	32,576.1
Growth rate	*1.1%*	*0.9%*	*1.0%*	*1.0%*	*1.0%*
Labour Force ('000s annual average)	16,579.3	16,958.5	17,182.3	17,342.6	17,592.8
Growth rate	*2.9%*	*2.3%*	*1.3%*	*0.9%*	*1.4%*
Participation Rate (per cent, annual average)	66.9%	67.5%	67.5%	67.2%	67.2%
Percentage change	*1.0%*	*0.6%*	*0.0%*	*-0.3%*	*0.0%*
Employment ('000s, annual average)	15,310.4	15,672.3	15,947.0	16,169.7	16,484.3
Growth rate	*2.4%*	*2.4%*	*1.8%*	*1.4%*	*1.9%*
Unemployment Rate (per cent, annual average)	7.7%	7.6%	7.2%	6.8%	6.3%
Percentage change	*0.5%*	*-0.1%*	*-0.4%*	*-0.4%*	*-0.5%*

2007	2008	2009	Forecast 2010	2011	CAGR 2002–2006	CAGR 2007–2011
1,532,944	1,600,081	1,527,670	1,599,259	1,684,911	5.9%	2.4%
5.8%	*4.4%*	*-4.5%*	*4.7%*	*5.4%*		
1,315,907	1,321,360	1,286,431	1,321,077	1,361,869	2.7%	0.9%
2.5%	*0.4%*	*-2.6%*	*2.7%*	*3.1%*		
1,170,715	1,226,585	1,232,403	1,268,209	1,326,911	5.3%	3.2%
5.8%	*4.8%*	*0.5%*	*2.9%*	*4.6%*		
850,921	891,197	896,737	921,846	963,329	5.1%	3.2%
6.2%	*4.7%*	*0.6%*	*2.8%*	*4.5%*		
412,037	426,047	413,290	429,119	450,356	5.1%	2.2%
5.8%	*3.4%*	*-3.0%*	*3.9%*	*4.9%*		
108,050	108,175	99,734	103,923	107,872	10.6%	0.0%
10.1%	*0.1%*	*-7.8%*	*4.2%*	*3.8%*		
111.5	114.1	114.4	116.5	119.3	2.2%	1.7%
2.2%	*2.3%*	*0.3%*	*1.8%*	*2.4%*		
2 04,131	215,799	144,213	175,796	192,848	9.7%	-1.4%
4.1%	*5.7%*	*-33.2%*	*21.9%*	*9.7%*		
194,196	200,998	172,271	177,121	184,903	9.1%	-1.2%
4.8%	*3.5%*	*-14.3%*	*2.8%*	*4.4%*		
534,557	562,174	438,162	454,675	483,533	2.3%	-2.5%
1.9%	*5.2%*	*-22.1%*	*3.8%*	*6.3%*		
504,618	536,792	464,015	479,701	499,462	3.3%	-0.3%
3.5%	*6.4%*	*-13.6%*	*3.4%*	*4.1%*		
32,932.0	33,327.3	33,739.9	33,640.1	33,910.7	1.0%	0.7%
1.1%	*1.2%*	*1.2%*	*-0.3%*	*0.8%*		
17,945.8	18,245.1	18,369.0	18,607.8	18,831.1	1.5%	1.2%
2.0%	*1.7%*	*0.7%*	*1.3%*	*1.2%*		
67.6%	67.8%	67.3%	67.3%	67.3%	67.3% (average)	67.5% (average)
0.4%	*0.2%*	*-0.5%*	*0.0%*	*0.0%*		
16,866.4	17,125.8	16,848.9	16,983.8	17,306.5	1.9%	0.6%
2.3%	*1.5%*	*-1.6%*	*0.8%*	*1.9%*		
6.0%	6.1%	8.3%	8.7%	8.1%	7.1% (average)	7.4% (average)
-0.3%	*0.1%*	*2.2%*	*0.4%*	*-0.6%*		

CAGR – Compound Annual Growth Rate