BUDGET 2014 2015

ASSUMPTIONS AND SCHEDULES

NOVA SCOTIA

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Supplementary to the 2014–2015 Budget

BUDGET SUMMARY - STATEMENT OF OPERATIONS

Schedule 1A

($ thousands)

	2013-2014 Estimate	2013-2014 Forecast	2014-2015 Estimate
General Revenue Fund			
Revenues			
Ordinary Revenue	8,637,984	8,314,662	**8,703,762**
Ordinary Recoveries	492,876	563,162	**521,983**
Net Income from Government Business Enterprises	350,313	344,402	**340,391**
	9,481,173	**9,222,226**	**9,566,136**
Expenses			
Departmental Expenses	8,395,151	8,463,416	**8,851,640**
Refundable Tax Credits	129,356	114,227	**115,566**
Pension Valuation Adjustment	110,793	391,045	**90,505**
Debt Servicing Costs	888,891	856,218	**877,983**
	9,524,191	**9,824,906**	**9,935,694**
Consolidation and Accounting Adjustments for Government Units			
General Revenue Fund Consolidation Adjustments	61,637	40,211	**93,858**
Special Purpose Funds	(1,062)	541	**(720)**
Other Organizations	(1,168)	(210)	**(2,536)**
	59,407	**40,542**	**90,602**
Provincial Surplus (Deficit)	**16,389**	**(562,138)**	**(278,956)**

FISCAL PROJECTIONS 2013-2014 to 2017-2018 **Schedule 1B**
($ millions)

	2013-2014 Estimate	2013-2014 Forecast	2014-2015 Estimate	2015-2016 Estimate	2016-2017 Estimate	2017-2018 Estimate
General Revenue Fund						
Revenue						
Ordinary Revenue	8,638.0	8,314.7	8,703.7	9,033.7	9,297.7	9,641.0
Ordinary Recoveries	492.9	563.1	522.0	516.5	518.3	519.0
Net Income Government Business Enterprises	350.3	344.4	340.4	339.0	337.2	332.9
	9,481.2	9,222.2	9,566.1	9,889.2	10,153.2	10,492.9
Expenses						
Departmental Expenses	8,395.1	8,463.4	8,851.6	9,028.7	9,209.2	9,393.3
Refundable Tax Credits	129.4	114.2	115.6	117.8	121.3	123.9
Pension Valuation Adjustment	110.8	391.0	90.5	92.2	106.4	117.6
Debt Servicing Costs	888.9	856.2	878.0	890.6	911.8	918.6
	9,524.2	9,824.8	9,935.7	10,129.3	10,348.7	10,553.4
Consolidation and Accounting Adjustments for Governmental Units	59.4	40.5	90.6	74.1	74.1	74.1
Provincial Surplus (Deficit)	16.4	(562.1)	(279.0)	(166.0)	(121.4)	13.6
Net Debt	13,989	14,609	15,005	15,433	15,640	15,701
Nominal GDP	39,099	38,971	40,112	41,819	43,815	45,877
Debt to GDP Ratio	35.8%	37.5%	37.4%	36.9%	35.7%	34.2%

Overview

The province is estimating a deficit of $279.0 million in 2014–2015.

The deficit for 2013–2014 is forecast to be $562.1 million. This change in the forecast from the original budget estimate is primarily due to a softening of revenues, including a prior years' adjustment of $148.8 million and a one-time charge to reflect the change in the province's responsibility for the Public Service Superannuation pension plan.

The province avoided recession in 2009 with real GDP growth of 0.4 per cent, followed by 3.0 per cent growth in 2010. However, provincial economic growth slowed to 0.6 per cent in 2011 and receded slightly by 0.1 per cent in 2012. In 2013, the Department of Finance and Treasury Board estimates that real GDP grew by 0.3 per cent.

With slower growth in both nominal and real terms in the period 2011 through 2013, future economic growth will start from a lower level, which has adverse effects on provincial revenues. All of these factors contributed to slower revenue growth than expected in 2013–2014 and in the 2014–2015 estimate.

While the Nova Scotia economic outlook for 2013 to 2015 features more stable external conditions than in previous outlooks, economic growth is expected to be limited by the residual impacts of recent shocks in the manufacturing and public administration sectors in the province.

For 2014, Nova Scotia's real GDP is expected to grow by 1.4 per cent, while nominal GDP is expected to rise by 2.9 per cent. In 2015, Nova Scotia's economic prospects are expected to improve, with real GDP expected to grow by 2.1 per cent and nominal GDP growth at 4.3 per cent. Nova Scotia's recovery is expected to be supported by improving conditions in the global economy and investment activities in major provincial projects.

For 2014–2015, revenue is estimated to grow by 3.7 per cent compared to the 2013–2014 forecast, by 0.9 per cent compared to the 2013–2014 estimate, reflecting the softening of revenues over the period. Prospects for revenue growth are related mainly to three sources—personal income tax, corporate income tax, and sales tax (HST). All three are heavily dependent upon an improving economy. Growth in federal transfer revenues will remain relatively flat for the foreseeable future, primarily as a result of the province's declining share of the national population and lower revenues for the offshore accord and cumulative best-of guarantee payments.

Nova Scotia's net debt is projected to be $14.6 billion at March 31, 2014, up from $14.0 billion at March 31, 2013. The debt has increased as a result of the budgetary deficit and net capital spending. In the fiscal plan, the ratio of net debt to gross domestic product peaked at 37.5 per cent on March 31, 2014. This ratio, regarded as the most comprehensive indicator of the province's financial position, is expected to decline throughout the multi year fiscal plan.

Going forward, government will maintain the harmonized sales tax at current levels, a tax review will be implemented, labour costs will be examined, and programs and services will be reviewed. The announced merger of the district health authorities will streamline administration and facilitate the implementation of shared services within the health sector, reducing costs for the future. Changes in government procurement of goods and services resulted in savings of over $20 million annually, and this work will continue over the next year, with an emphasis in the health sector. The creation of an Internal Services Department will facilitate the use of shared services within government itself providing additional efficiencies. Recruitment, training, and retention of the provincial labour force will be a priority.

Financial Statistics

Supplementary to the 2014–2015 Budget

REVENUES BY SOURCE

Schedule 1C

($ thousands)

	ACTUAL 2010-2011 (as restated)	ACTUAL 2011-2012 (as restated)	ACTUAL 2012-2013	FORECAST 2013-2014	ESTIMATE 2014-2015
General Revenue Fund: Revenues					
Ordinary Revenue - Provincial Sources					
Tax Revenue:					
Personal Income Tax	1,960,540	2,057,592	2,142,547	2,189,035	2,342,580
Corporate Income Tax	408,687	416,665	429,493	424,840	441,387
Harmonized Sales Tax	1,487,146	1,598,236	1,648,664	1,669,315	1,710,776
Motive Fuel Tax	255,395	250,186	243,446	246,585	247,617
Tobacco Tax	211,856	208,631	206,287	224,377	226,722
Other Tax Revenue	176,288	179,064	154,477	157,468	154,993
	4,499,912	4,710,374	4,824,914	4,911,620	5,124,075
Other Provincial Revenue:					
Registry of Motor Vehicles	112,281	117,084	113,434	122,057	121,458
Royalties - Petroleum	172,683	117,955	22,748	22,632	31,775
Other Provincial Sources	135,822	129,155	131,422	140,618	138,184
Offshore Licenses Forfeitures	433	---	100	---	---
TCA Cost Shared Revenue - Provincial Sources	11,462	3,433	9,131	16,971	3,320
Other Fees and Charges	70,103	70,842	68,679	61,755	62,894
Prior Years' Adjustments - Provincial Sources	219,271	(63,589)	57,667	(148,825)	---
Gain on Disposal of Crown Assets	---	2,144	15,389	---	---
	722,055	377,024	418,570	215,208	357,631
Investment Income:					
Interest Revenues	73,472	82,011	76,251	67,813	69,305
Sinking Fund Earnings	102,234	106,768	111,146	109,367	106,197
	175,706	188,779	187,397	177,180	175,502
Total - Provincial Sources	**5,397,673**	**5,276,177**	**5,430,881**	**5,304,008**	**5,657,208**
Ordinary Revenue - Federal Sources					
Equalization Payments	1,360,723	1,407,242	1,578,829	1,718,183	1,757,744
Canada Health Transfer	728,602	759,934	795,017	829,861	846,774
Canada Social Transfer	309,233	315,916	322,957	327,379	331,895
Offshore Accord Offset Payments	227,225	167,755	146,059	89,461	64,481
Crown Share	29,717	30,053	12,916	6,257	13,762
Other Federal Sources	103,913	22,932	18,262	15,309	7,917
TCA Cost Shared Revenue - Federal Sources	95,002	38,995	24,470	20,992	23,981
Prior Years' Adjustments - Federal Sources	(1,710)	(436)	(840)	3,212	---
Total - Federal Sources	**2,852,705**	**2,742,391**	**2,897,670**	**3,010,654**	**3,046,554**
Total - Ordinary Revenue	**8,250,378**	**8,018,568**	**8,328,551**	**8,314,662**	**8,703,762**
Ordinary Recoveries -					
Provincial Sources	304,649	293,886	303,963	308,034	311,412
Federal Sources	302,699	306,963	247,434	255,128	210,571
Total - Ordinary Recoveries	**607,348**	**600,849**	**551,397**	**563,162**	**521,983**
Net Income from Government Business Enterprises					
Nova Scotia Liquor Corporation	223,159	221,454	226,386	225,772	223,503
Nova Scotia Provincial Lotteries and Casino Corporation	127,094	134,501	111,160	104,700	103,100
Halifax-Dartmouth Bridge Commission	7,260	11,615	11,640	12,030	12,143
Highway 104 Western Alignment Corporation	446	1,800	1,956	1,900	1,645
	357,959	**369,370**	**351,142**	**344,402**	**340,391**
Total - Revenues	**9,215,685**	**8,988,787**	**9,231,090**	**9,222,226**	**9,566,136**

REVENUES BY SOURCE

(as a percentage of Total Revenue)

Schedule 1C

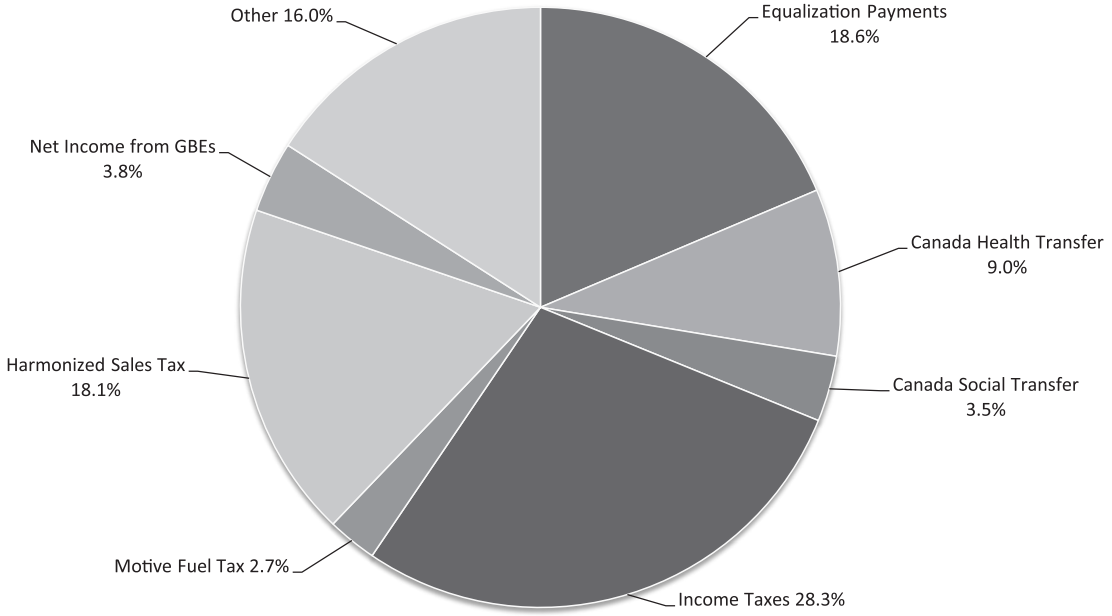
(continued)

	ACTUAL 2010-2011 (as restated)	ACTUAL 2011-2012 (as restated)	ACTUAL 2012-2013	FORECAST 2013-2014	ESTIMATE 2014-2015
General Revenue Fund: Revenues					
Ordinary Revenue - Provincial Sources					
Tax Revenue:					
Personal Income Tax	21.3%	22.9%	23.2%	23.7%	24.5%
Corporate Income Tax	4.4%	4.6%	4.7%	4.6%	4.6%
Harmonized Sales Tax	16.0%	17.8%	17.9%	18.1%	17.9%
Motive Fuel Tax	2.8%	2.8%	2.6%	2.7%	2.6%
Tobacco Tax	2.3%	2.3%	2.3%	2.4%	2.4%
Other Tax Revenue	1.9%	2.0%	1.7%	1.7%	1.6%
	48.7%	52.4%	52.4%	53.3%	53.6%
Other Provincial Revenue:					
Registry of Motor Vehicles	1.2%	1.3%	1.2%	1.3%	1.3%
Royalties - Petroleum	1.9%	1.3%	0.2%	0.2%	0.3%
Other Provincial Sources	1.5%	1.4%	1.5%	1.5%	1.4%
Offshore Licenses Forfeitures	0.0%	---	0.0%	---	---
TCA Cost Shared Revenue - Provincial Sources	0.1%	0.0%	0.1%	0.2%	0.0%
Other Fees and Charges	0.8%	0.8%	0.7%	0.7%	0.7%
Prior Years' Adjustments - Provincial Sources	2.4%	-0.7%	0.6%	-1.6%	---
Gain on Disposal of Crown Assets	---	0.0%	0.2%	---	---
	7.8%	4.2%	4.6%	2.3%	3.7%
Investment Income:					
Interest Revenues	0.8%	0.9%	0.8%	0.7%	0.7%
Sinking Fund Earnings	1.1%	1.2%	1.2%	1.2%	1.1%
	1.9%	2.1%	2.0%	1.9%	1.8%
Total - Provincial Sources	**58.5%**	**58.7%**	**59.0%**	**57.5%**	**59.1%**
Ordinary Revenue - Federal Sources					
Equalization Payments	14.8%	15.7%	17.1%	18.6%	18.4%
Canada Health Transfer	7.9%	8.5%	8.6%	9.0%	8.9%
Canada Social Transfer	3.4%	3.5%	3.5%	3.5%	3.5%
Offshore Accord Offset Payments	2.5%	1.9%	1.6%	1.0%	0.7%
Crown Share	0.3%	0.3%	0.1%	0.1%	0.1%
Other Federal Sources	1.1%	0.3%	0.2%	0.2%	0.1%
TCA Cost Shared Revenue - Federal Sources	1.0%	0.4%	0.3%	0.2%	0.3%
Prior Years' Adjustments - Federal Sources	0.0%	0.0%	0.0%	0.0%	---
Total - Federal Sources	**31.0%**	**30.5%**	**31.4%**	**32.6%**	**31.8%**
Total - Ordinary Revenue	**89.4%**	**89.2%**	**90.4%**	**90.2%**	**91.0%**
Ordinary Recoveries -					
Provincial Sources	3.3%	3.3%	3.3%	3.3%	3.3%
Federal Sources	3.3%	3.4%	2.7%	2.8%	2.2%
Total - Ordinary Recoveries	**6.6%**	**6.7%**	**6.0%**	**6.1%**	**5.5%**
Net Income from Government Business Enterprises					
Nova Scotia Liquor Corporation	2.3%	2.5%	2.5%	2.5%	2.3%
Nova Scotia Provincial Lotteries and Casino Corporation	1.4%	1.5%	1.2%	1.1%	1.2%
Halifax-Dartmouth Bridge Commission	0.1%	0.1%	0.1%	0.1%	0.1%
Highway 104 Western Alignment Corporation	0.0%	0.0%	0.0%	0.0%	0.0%
	3.8%	**4.1%**	**3.8%**	**3.8%**	**3.7%**
Total - Revenues	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

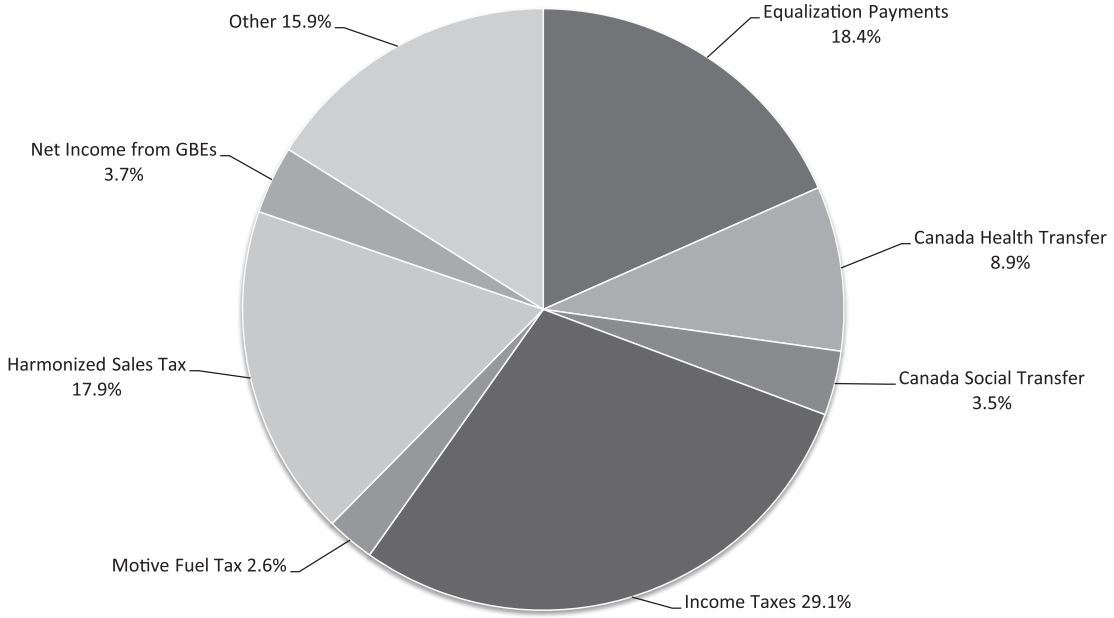
REVENUES BY SOURCE

Chart 1A

2013-2014 FORECAST



2014-2015 ESTIMATE



EXPENSES BY DEPARTMENT

Schedule 1D

($ thousands)

	ACTUAL 2010-2011 (as restated)	ACTUAL 2011-2012 (as restated)	ACTUAL 2012-2013	FORECAST 2013-2014	ESTIMATE 2014-2015
Agriculture	64,274	63,704	63,760	61,447	60,968
Communities, Culture and Heritage	54,289	54,236	57,182	58,862	61,256
Community Services	958,427	975,572	941,824	936,032	903,496
Economic and Rural Development and Tourism	106,836	107,709	171,878	138,395	141,607
Education and Early Childhood Development	1,130,144	1,131,055	1,110,600	1,111,196	1,220,027
Energy	30,110	30,202	29,305	30,336	32,085
Environment	47,427	26,652	24,737	24,893	26,484
Finance and Treasury Board	31,076	33,552	37,664	41,575	13,529
Fisheries and Aquaculture	12,818	8,284	8,474	9,043	9,622
Health and Wellness	3,696,026	3,757,896	3,857,460	3,914,956	4,104,920
Internal Services	---	---	---	---	115,022
Justice	285,247	295,490	311,631	313,004	322,476
Labour and Advanced Education	336,228	339,072	345,474	367,820	348,420
Assistance to Universities	93,545	387,215	380,847	336,598	372,941
Municipal Affairs	---	---	---	---	157,792
Natural Resources	93,776	101,245	99,354	85,072	89,242
Public Service	150,398	165,803	149,038	161,938	240,151
Seniors	1,734	1,866	1,748	2,002	1,862
Service Nova Scotia and Municipal Relations	297,927	260,017	269,607	264,031	---
Transportation and Infrastructure Renewal	404,403	408,853	419,286	435,236	402,489
Restructuring Costs	78,667	86,949	171,213	170,980	227,251
Loss on Disposal of Crown Assets	370	---	---	---	---
Total Departmental Expenses	**7,873,722**	**8,235,372**	**8,451,082**	**8,463,416**	**8,851,640**
Refundable Tax Credits	48,860	116,510	127,145	114,227	115,566
Pension Valuation Adjustment	(24,728)	40,041	107,370	391,045	90,505
Debt Servicing Costs	848,236	842,793	897,371	856,218	877,983
Total Expenses	**8,746,090**	**9,234,716**	**9,582,968**	**9,824,906**	**9,935,694**

EXPENSES BY DEPARTMENT

(as a percentage of Total Expenses)

Schedule 1D

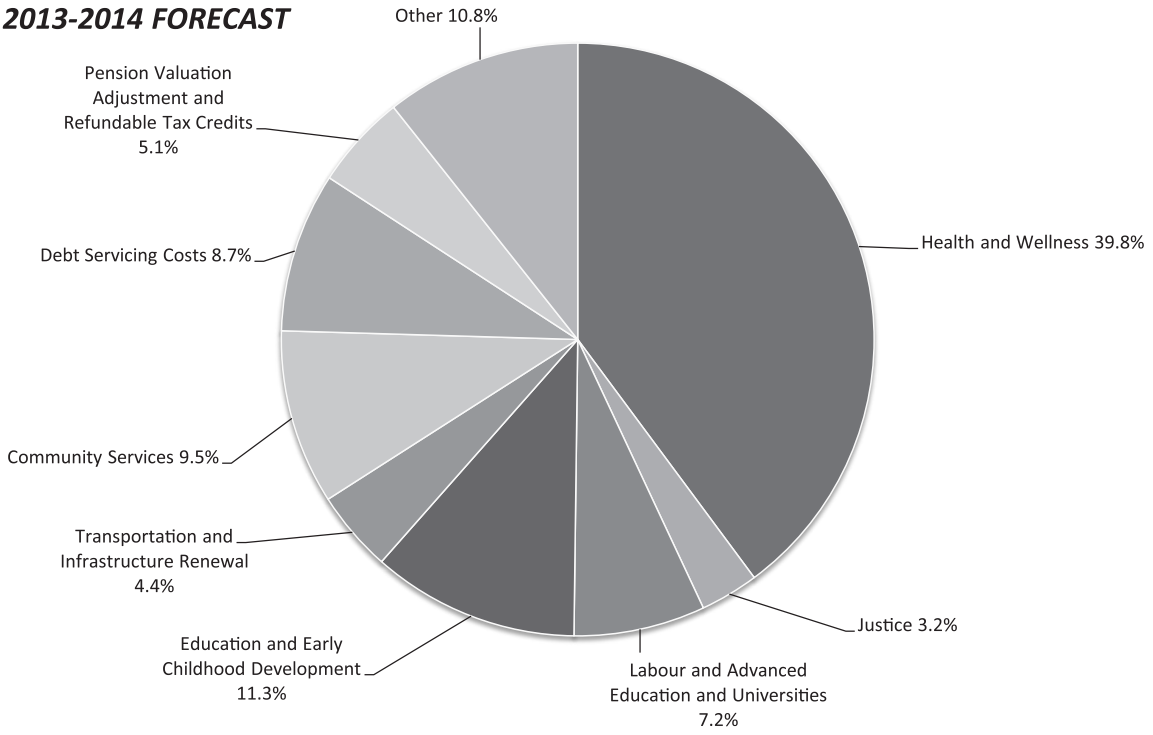
(continued)

	ACTUAL *2010-2011* *(as restated)*	***ACTUAL*** *2011-2012* *(as restated)*	***ACTUAL*** *2012-2013*	***FORECAST*** *2013-2014*	***ESTIMATE*** *2014-2015*
Agriculture	0.7%	0.7%	0.7%	0.6%	0.5%
Communities, Culture and Heritage	0.6%	0.6%	0.6%	0.6%	0.6%
Community Services	11.0%	10.6%	9.8%	9.5%	9.1%
Economic and Rural Development and Tourism	1.2%	1.2%	1.8%	1.4%	1.4%
Education and Early Childhood Development	12.9%	12.2%	11.6%	11.3%	12.3%
Energy	0.3%	0.3%	0.3%	0.3%	0.3%
Environment	0.5%	0.3%	0.3%	0.3%	0.3%
Finance and Treasury Board	0.4%	0.4%	0.4%	0.4%	0.1%
Fisheries and Aquaculture	0.1%	0.1%	0.1%	0.1%	0.1%
Health and Wellness	42.3%	40.7%	40.3%	39.8%	41.3%
Internal Services	---	---	---	---	1.2%
Justice	3.3%	3.2%	3.3%	3.2%	3.2%
Labour and Advanced Education	3.8%	3.7%	3.6%	3.7%	3.5%
Assistance to Universities	1.1%	4.2%	4.0%	3.4%	3.8%
Municipal Affairs	---	---	---	---	1.6%
Natural Resources	1.1%	1.1%	1.0%	0.9%	0.9%
Public Service	1.7%	1.8%	1.6%	1.6%	2.4%
Seniors	0.0%	0.0%	0.0%	0.0%	0.0%
Service Nova Scotia and Municipal Relations	3.4%	2.9%	2.8%	2.7%	---
Transportation and Infrastructure Renewal	4.6%	4.4%	4.4%	4.4%	4.1%
Restructuring Costs	0.9%	0.9%	1.9%	1.7%	2.3%
Loss on Disposal of Crown Assets	0.0%	---	---	---	---
Total Departmental Expenses	**90.0%**	**89.2%**	**88.2%**	**86.1%**	**89.1%**
Refundable Tax Credits	0.6%	1.3%	1.3%	1.2%	1.2%
Pension Valuation Adjustment	-0.3%	0.4%	1.1%	4.0%	0.9%
Debt Servicing Costs	9.7%	9.1%	9.4%	8.7%	8.8%
Total Expenses	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

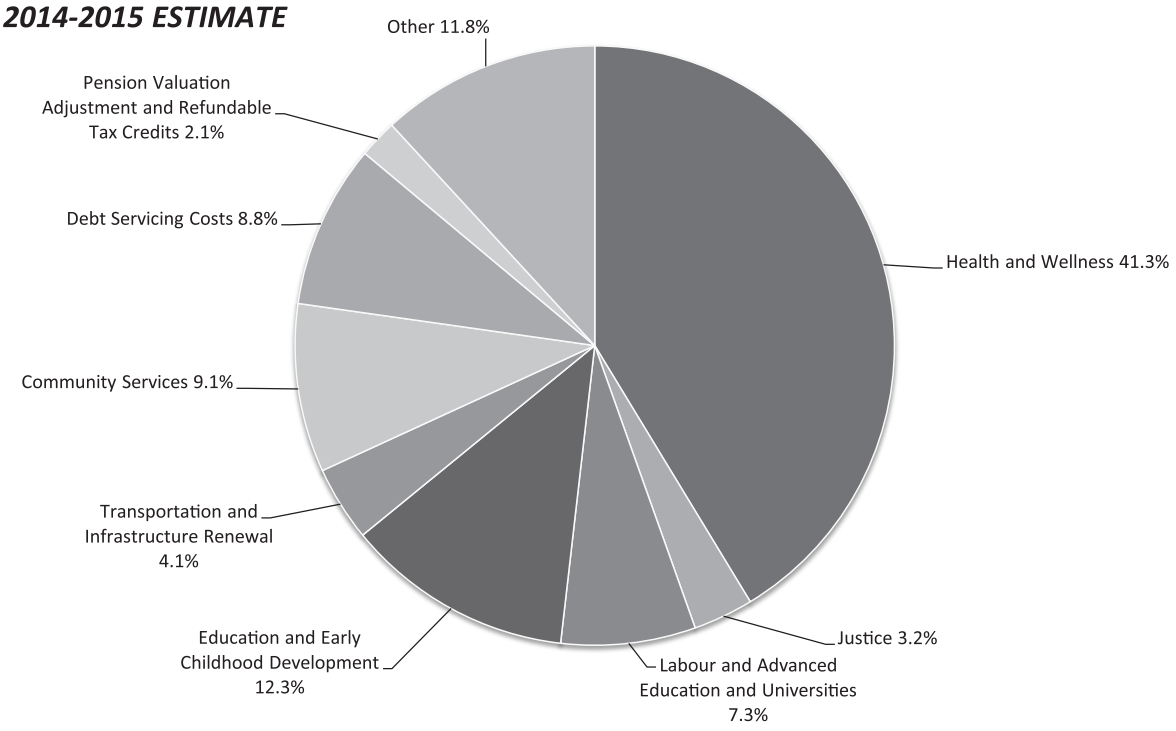
TOTAL EXPENSES

Chart 1B

2013-2014 FORECAST



2014-2015 ESTIMATE



Estimated Value of Tax Credits, Rebates and Tax Expenditures ($000)

Schedule 1E

	2013-2014 Forecast	2014-2015 Estimate
Personal Income Tax:		
Political Tax Credit	950	728
Volunteer Firefighter & Ground Search and Rescue	3,946	3,946
Labour Sponsored Venture Capital Corporation	49	49
Equity Tax Credit	8,627	9,082
Graduate Retention Rebate	31,800	---
Affordable Living Tax Credit	66,475	66,475
Healthy Living Tax Credit	1,229	1,223
Total	**113,076**	**81,503**
Corporate Income Tax:		
Political Tax Credit	91	44
Scientific Research & Experimental Development	17,361	18,018
New Small Business Tax Holiday	61	63
Digital Media Tax Credit	4,686	4,686
Film Industry Tax Credit	21,759	22,441
Small Business Tax Rate	190,078	194,760
Total	**234,035**	**240,012**
Harmonized Sales Tax:		
Public Sector Rebates	121,761	122,595
Printed Book Rebate	9,792	10,054
First-time Homebuyers Rebate	664	672
Disability Rebates	74	76
Fire Fighting Equipment Rebate	99	102
Your Energy Rebate (YERP)	108,414	115,887
Children's Clothing Rebate	7,369	7,566
Children's Footwear Rebate	1,638	1,681
Diapers and Feminine Hygiene Products Rebate	3,716	3,816
Total	**253,526**	**262,448**

Report of the Auditor General

Supplementary to the 2014–2015 Budget

Nova Scotia

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Report of the Auditor General to the House of Assembly on the Estimates of Revenue for the fiscal year ending March 31, 2015 used in the preparation of the April 3, 2014 Budget.

I am required by section 20 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 and Treasury Board to the House of Assembly.

The estimates of revenue for the fiscal year ending March 31, 2015 are the responsibility of the Department of Finance and Treasury Board and have been prepared by departmental management using assumptions with an effective date of March 4, 2014 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 $10,426,334,000 as described in the financial forecast of Revenues By Source (the 2014-15 revenue estimates as presented in Schedule 2A of the Nova Scotia Budget Assumptions and Schedules), and which consists of revenue estimates of $9,566,136,000 in the General Revenue Fund, and an estimate of revenue from third parties in certain government entities of $860,198,000 (Schedule 2B). My examination did not include, and my opinion does not cover, the budget speech or the 2014-15 expense estimates. My opinion also does not cover prior years' forecast or actual information provided for comparative purposes. My examination was made in accordance with the applicable Assurance and Related Services Guideline issued by the Chartered Professional Accountants of Canada. I have no responsibility to update this report for events and circumstances occurring after the date of my report.

In my opinion:

- 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 2014-15 revenue estimates; and
- the 2014-15 revenue estimates as presented reflect fairly such assumptions; and
- the 2014-15 revenue estimates comply with presentation and disclosure standards established by the Chartered Professional Accountants of Canada.

Since the 2014-15 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.

Alan Horgan, CA
Acting Auditor General

Halifax, Nova Scotia
April 1, 2014

REVENUES BY SOURCE

Schedule 2A

($ thousands)

	ESTIMATE *2014-2015*
General Revenue Fund: Revenues	
Ordinary Revenue - Provincial Sources	
Tax Revenue:	
Personal Income Tax	2,342,580
Corporate Income Tax	441,387
Harmonized Sales Tax	1,710,776
Motive Fuel Tax	247,617
Tobacco Tax	226,722
Other Tax Revenue	154,993
	5,124,075
Other Provincial Revenue:	
Registry of Motor Vehicles	121,458
Royalties - Petroleum	31,775
Other Provincial Sources	138,184
TCA Cost Shared Revenue - Provincial Sources	3,320
Other Fees and Charges	62,894
	357,631
Investment Income:	
Interest Revenues	69,305
Sinking Fund Earnings	106,197
	175,502
Total - Provincial Sources	**5,657,208**
Ordinary Revenue - Federal Sources	
Equalization Payments	1,757,744
Canada Health Transfer	846,774
Canada Social Transfer	331,895
Offshore Accord Offset Payments	64,481
Crown Share	13,762
Other Federal Sources	7,917
TCA Cost Shared Revenue Federal Sources	23,981
Total - Federal Sources	**3,046,554**
Total - Revenues	**8,703,762**
Ordinary Recoveries	
Provincial Sources	311,412
Federal Sources	210,571
Total - Ordinary Recoveries	**521,983**
Net Income from Government Business Enterprises	
Nova Scotia Liquor Corporation	223,503
Nova Scotia Provincial Lotteries and Casino Corporation	103,100
Halifax-Dartmouth Bridge Commission	12,143
Highway 104 Western Alignment Corporation	1,645
	340,391
Total - Revenues of the General Revenue Fund	**9,566,136** [1]
Total Governmental Unit Third Party Revenues (Schedule 2B)	860,198
Total - Revenue of the Province	10,426,334

1: Total Revenue of the General Revenue Fund is the balance that is carried through the Estimates of the Province. It is the budget of the General Revenue Fund that is the responsibility of the House of Assembly. The activities of the Governmental Units are effectively presented as off-sets against the expenses of their respective governmental units within the "Consolidation and Accounting Adjustments for Governmental Units". See Schedule 2B for further explanation of the Total Third Party Revenue of Governmental Units.

GOVERNMENTAL UNIT THIRD PARTY REVENUES

Schedule 2B

($ thousands)

	ESTIMATE 2014-2015
Governmental Unit Third Party Revenues	
Regional School Boards and Nova Scotia Community College	374,792
District Health Authorities	252,046
Housing Nova Scotia	131,999
Resource Recovery Fund Board	48,354
Trade Centre Limited	10,355
Nova Scotia E911	5,896
Waterfront Development Corporation	4,022
Nova Scotia Utility and Review Board	3,409
Nova Scotia Business Incorporated	2,650
Governmental Units with third party revenue less than $2.5 Million	26,675
Total Governmental Unit Third Party Revenues	**860,198** [2]

2: The governmental unit third party revenues are presented in this schedule to enable the total revenues of the Province to be presented on a basis consistent with the consolidated financial statements of the Province. The budgets of these organizations are subject to the approval of their respective board of directors.

Budget Assumptions

April 3, 2014

Revenue Outlook

In 2014–2015, Nova Scotia's total General Revenue Fund revenue, including Net Income from Government Business Enterprises, is estimated to be $9,566.1 million, an increase of $85.0 million or 0.9 per cent compared to the 2013–2014 budget estimate; an increase of $343.9 million or 3.7 per cent compared to the 2013–2014 forecast.

In 2014–2015, provincial own-source ordinary revenues are expected to be $5,657.2 million, an increase of $25.3 million or 0.4 per cent from the 2013–2014 budget estimate; an increase of $353.2 million or 6.7 per cent from the 2013–2014 forecast.

Federal source revenues are projected to be $3,046.6 million in 2014–2015, an increase of $40.5 million or 1.3 per cent from the 2013–2014 budget estimate; an increase of $35.9 million or 1.2 per cent from the 2013–2014 forecast.

Ordinary Recoveries from provincial sources are up $44.5 million or 16.7 per cent from the 2013–2014 budget estimate; an increase of $3.4 million or 1.1 per cent from the 2013–2014 forecast. Ordinary Recoveries from federal sources are down $15.4 million or 6.8 per cent from the 2013–2014 budget estimate; a decrease of $44.6 million or 17.5 per cent from the 2013–2014 forecast.

Net income from Government Business Enterprises is down $9.9 million or 2.8 per cent from the 2013–2014 budget estimate; down $4.0 million or 1.2 per cent from the 2013–2014 forecast.

Provincial tax changes in 2014–2015 include the elimination of the Graduate Retention Rebate and the introduction of a $1,000 non-refundable Age Amount tax credit to provide additional personal income tax relief for low-income seniors.

Ordinary Revenue: Provincial Sources

Tax Revenue

Personal Income Tax (PIT)

Nova Scotia's 2014–2015 estimate for personal income tax is $2,342.6 million, up $64.2 million or 2.8 per cent compared to the 2013–2014 budget estimate; an increase of $153.5 million or 7.0 per cent from the 2013–2014 forecast, following a decline of $89.4 million or 3.9 per cent from the 2013–2014 Budget Estimate.

Personal taxable income is projected to grow from $26.8 billion in 2013 to $27.7 billion in 2014—an increase of 2.13 per cent; and grow to $28.9 billion in 2015—an increase of 2.15 per cent. This is primarily as a result of stronger growth in salaries and wages than was experienced in 2013, accompanied by continued growth in pension income, business income, and investment income.

Yield on personal taxable income is projected to be 8.35 per cent in 2014 and 8.57 per cent in 2015, which represents growth rates of 1.8 per cent and 2.6 per cent. Yield on personal taxable income in 2013 was 8.21 per cent.

The removal of the Graduate Retention Rebate effective January 1, 2014 accounts for over $40 million in the difference between 2013–2014 and the 2014–2015 budget estimate.

Corporate Income Tax (CIT)

Nova Scotia's 2014–2015 estimate for corporate income tax is $441.4 million, down $32.6 million or 6.9 per cent from the 2013–2014 budget estimate; up $16.5 million or 3.9 per cent compared to the 2013–2014 forecast.

National corporate taxable income is projected to grow by 2.2 per cent in 2014 and 6.0 per cent in 2015, while the province's share is expected to decline by 0.5 per cent in 2014 and 0.7 per cent in 2015. The combination of these two factors results in growth of Nova Scotia's corporate taxable income by 1.7 per cent in 2014 and 5.7 per cent in 2015. These growth estimates take into account the impact of the 0.5 per cent reduction in the small business corporate income rate that was effective January 1, 2014. Small businesses account for 36.3 per cent of the province's corporate taxable income.

Harmonized Sales Tax (HST)

Net HST is estimated to total $1,710.8 million in 2014–2015, down $11.0 million or 0.6 per cent from the 2013–2014 budget estimate; up $41.5 million or 2.5 per cent compared to the 2013–2014 forecast.

The increase in HST revenues is largely attributable to growth in the consumer expenditure and housing tax bases. Growth in the consumer expenditure base is forecasted to be 2.3 per cent in 2014 and 3.3 per cent in 2015. Consumer expenditures represent over 70 per cent of the HST tax base. The pace of growth in taxable residential housing expenditure is expected to slow, growing by 1.0 per cent in 2014 and 2.0 per cent in 2015—following robust growth since 2010. The rebate on residential energy (Your Energy Rebate Program) is expected to rise to $115.9 million in 2014–2015.

Tobacco Tax

Tobacco tax revenues are projected to total $226.7 million in 2014–2015, a decrease of $1.2 million or 0.5 per cent from the 2013–2014 budget estimate; up $2.3 million or 1.0 per cent over the 2013–2014 forecast.

Motive Fuel Taxes

Motive fuel taxes are projected to total $247.6 million in 2014–2015, a decline of $3.4 million or 1.4 per cent from the 2013–2014 budget estimate; an increase of $1.0 million or 0.4 per cent compared to the 2013–2014 forecast.

Gasoline consumption is estimated to rise by 0.4 per cent in 2014–2015. Diesel oil consumption is estimated to increase by 1.3 per cent following a decline of 0.3 per cent in 2013–2014.

A reduction in the strength of the Canadian dollar compared to the U.S. dollar is creating upward pressure on gasoline and diesel oil prices, leading to slower growth in consumption levels being projected.

Other Tax Revenue

Other Tax Revenue includes such items as Corporations Capital Tax, Capital Tax on Non-financial Institutions, Casino Win Tax, Levy on Sale of Used Vehicles, Tax on Insurance Premiums, and a Gypsum Tax. The total for these items is estimated at $155.0 million for 2014–2015, up $3.6 million or 2.4 per cent from the 2013–2014 budget estimate; down $2.5 million or 1.6 per cent from the 2013–2014 forecast.

Other Provincial Revenue

Registry of Motor Vehicles

Revenue generated by the Registry of Motor Vehicles is estimated at $121.5 million for 2014–2015, up $0.2 million or 0.2 per cent from the 2013–2014 estimate; down $0.6 million or 0.5 per cent from the 2013–2014 forecast.

Petroleum Royalties

Offshore petroleum royalties are estimated to be $31.8 million in 2014–2015, an increase of $11.7 million or 58.2 per cent from the 2013–2014 budget estimate; up $9.1 million or 40.4 per cent from the 2013–2014 forecast.

Market prices for natural gas have improved—especially in 2014—and the commencement of production on the Deep Panuke project have improved the outlook for offshore natural resource royalties. Production volume for the Sable Offshore Energy Project is projected to decline as the project nears its end. The accrual of abandonment costs estimated by Sable Offshore Energy Project interest holders continues to be a major factor contributing to lower revenues than experienced in the past.

Other Provincial Sources

Revenue from other provincial sources is estimated at $138.2 million for 2014–2015, down $2.0 million or 1.5 per cent from the 2013–2014 budget estimate; down $2.4 million or 1.7 per cent from the 2013–2014 forecast.

This revenue source includes such items as pharmacare premiums; Nova Scotia Securities Commission; registrations revenues for deeds, companies, and property; timber licenses and revenue; and various other licenses and permits. The primary reason for the decrease is a reduction in revenue from timber and fuel wood licenses at Natural Resources, resulting from restructuring in the industry.

Tangible Capital Asset (TCA) Cost Shared Revenue: *Provincial Sources*

TCA Cost Shared Revenue from provincial sources is estimated at $3.3 million for 2014–2015, down $4.9 million from the 2013–2014 budget estimate; and down $13.7 million from the 2013–2014 forecast. Funding comes primarily ($2.3 million) through the Department of Health and Wellness for hospital construction, with the balance ($1.0 million) coming from Transportation and Infrastructure Renewal for municipal road projects. The decrease is because there was a recoveries component on school construction in 2013-2014 and that is not the case in 2014-2015.

Other Fees and Charges

Revenue generated from other fees and charges is estimated at $62.9 million for 2014–2015, an increase of $1.2 million or 1.9 per cent from the 2013–2014 estimate; up $1.1 million or 1.8 per cent from the 2013–2014 forecast. The increase results primarily from increased usage of ground ambulances services.

Investment Income

Interest Revenue

Interest revenue is estimated to be $69.3 million for 2014–2015, up $0.5 million or 0.7 per cent from the 2013–2014 budget estimate; up $1.5 million or 2.2 per cent from the 2013–2014 forecast. This increase results primarily from higher general interest earnings through increased lending of the Municipal Finance Corporation.

Sinking Fund Earnings

Sinking Fund Earnings are projected to total $106.2 million in 2014–2015, a decrease of $0.9 million or 0.9 per cent from the 2013–2014 budget estimate; down $3.2 million or 2.9 per cent from the 2013–2014 forecast, primarily as a result of the maturity of a bond issue with a sinking fund requirement.

Ordinary Revenue: Federal Sources

Equalization

Equalization revenues in 2014–2015 are estimated to be $1,757.7 million, an increase of $54.0 million or 3.2 per cent from the 2013–2014 budget estimate; up $39.6 million or 2.3 per cent compared to the 2013–2014 forecast. The figure is composed of two separate fiscal equalization payments from the federal government.

Firstly, the Equalization estimate reflects the province's adoption of the Expert Panel formula for equalization payments, estimated to be $1,619.5 million in 2014–2015, an increase of $161.5 million or 11.1 per cent above both the 2013–2014 budget estimate and the 2013–2014 forecast. This primarily reflects lower levels of Nova Scotia's offshore royalties being included in the Equalization formula and growth in the pool available for distribution.

Secondly, as part of a clarification reached with the Government of Canada on October 10, 2007, commencing with the 2008–2009 fiscal year Nova Scotia is entitled to receive 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. This is known as the Cumulative Best-of Guarantee. The arrangement is in effect until the end of 2019–2020 to coincide with the term of the Offshore Accord.

The Cumulative Best-of Guarantee payment is estimated to be $138.3 million in 2014–2015, a decrease of $107.5 million or 43.7 per cent from the 2013–2014 budget estimate; down $122.0 million or 46.9 per cent compared to the 2013–2014 forecast. This is the result of the Expert Panel approach growing at a faster rate than the Interim approach.

The Canada Health Transfer (CHT)

Effective with the 2014–2015 fiscal year, the federal government renewed the CHT to provide for equal per capita cash for all provinces and territories. The new formula is in place for a 10-year period. Prior to this year, the CHT was based upon a combination of tax points and cash. The 2014–2015 national CHT amount that is available for distribution is set at $32.1 billion. The CHT is legislated to grow by 6 per cent each year until the end of the 2016–2017 fiscal year.

The CHT cash entitlement for Nova Scotia is estimated to be $846.8 million in 2014–2015, an increase of $13.6 million or 1.6 per cent from the 2013–2014 budget estimate; up $16.9 million or 2.0 per cent compared to the 2013–2014 forecast. The estimate reflects the federal government's estimate of the province's declining share of national population, currently standing at 2.64 per cent.

The Canada Social Transfer (CST)

Nova Scotia's 2014–2015 cash entitlement for CST is estimated to be $331.9 million, an increase of $2.8 million or 0.8 per cent from the 2013–2014 budget estimate; up $4.5 million or 1.4 per cent from the 2013–2014 forecast.

The provincial entitlement is based on an equal per capita cash provincial allocation of a fixed national entitlement, which stands at $12.6 billion for 2014–2015. Effective with the 2014–2015 fiscal year, the CST has been renewed for a further 10-year period with the national pool legislated to grow by 3 per cent a year through to the end of the 2023–2024 fiscal year.

The estimate reflects the federal government's estimate of the province's declining share of national population, currently standing at 2.64 per cent.

Offshore Accord Offset Payments

Offshore Accord Offset payments are estimated to be $64.5 million in 2014–2015, a decrease of $25.0 million or 27.9 per cent from both the 2013–2014 budget estimate and the 2013–2014 forecast. The decrease reflects the declining offshore royalties included in the equalization formula. These payments are now recorded on a cash basis since prior payments have surpassed the $830 million advance payment made to the province in 2005. The province is eligible to receive offshore offset payments for the second phase of the 2005 Offshore Accord that runs from 2012–2013 until the end of 2019–2020.

Crown Share Adjustment Payment

The Crown Share Adjustment Payment is estimated to be $13.8 million in 2014–2015, an increase of $4.4 million or 47.1 per cent from the 2013–2014 budget estimate; up $7.5 million or 120.0 per cent compared to the 2013–2014 forecast. The estimate reflects the underlying profitability of offshore oil and gas projects and the addition of Deep Panuke offshore natural resource royalty revenues.

Other Federal Sources

Other Federal Sources are estimated to be $7.9 million in 2014–2015, a decrease of $10.7 million or 57.5 per cent from the 2013–2014 budget estimate; down $7.4 million or 48.3 per cent from the 2013–2014 forecast.

Other Federal Sources include such items as funding for Building Canada, Public Safety Trust, and statutory subsidies. The $10.7 million variance results from the expiration of wait times reduction funding, the depletion of the Public Safety Trust, and a reduction in Building Canada communities component as compared to last year's estimate.

Tangible Capital Asset (TCA) Cost Shared Revenue: Federal Sources

The estimate of TCA cost shared federal revenue is $24.0 million for 2014–2015. This represents an increase of $1.3 million or 5.7 per cent compared to the 2013–2014 budget estimate; an increase of $3.0 million or 14.2 per cent from the 2013–2014 forecast. The increase results from higher road funding through the Building Canada program at Transportation and Infrastructure Renewal.

The federal TCA funding all comes through Building Canada and Provincial Territorial Base funding for road projects at Transportation and Infrastructure Renewal.

Ordinary Recoveries

Ordinary Recoveries are projected to total $522.0 million in 2014–2015, an increase of $29.1 million or 5.9 per cent from the 2013–2014 budget estimate; down $41.2 million or 7.3 per cent from the 2013–2014 forecast of $563.2 million. Provincial source recoveries are up $44.5 million or 16.7 per cent to $311.4 million; an increase of $3.4 million or 1.1 per cent from the 2013–2014 forecast. Federal sources are down $15.4 million or 6.8 per cent to $210.6 million; a decrease of $44.6 million or 17.5 per cent from the 2013–2014 forecast. The increase in provincial source recoveries relates primarily to the inclusion of physician billings for out-of-provinces services as revenue as opposed to a reduction in costs, and the inclusion of recoveries from Highway 104 Western Alignment corporation as opposed to netting against expenses at Transportation and Infrastructure Renewal. The reduction in federal sources relates primarily to the depletion of the Early Learning Childcare Trust, lower Labour Market Agreement funding, and lower gas tax flow through funding as a result of project timing.

Government Business Enterprises: Net Income

Nova Scotia Liquor Corporation

The Nova Scotia Liquor Corporation (NSLC) returns all of its income from operations (“income”) to the Government of Nova Scotia as shareholder. The NSLC is budgeting comprehensive income of $223.5 million in 2014–2015. This is a decrease of 2.6 per cent compared to the 2013–2014 budget estimate of $229.4 million. Income is projected on net sales of $588.5 million for 2014–2015 as compared to $608.1 million for 2013–2014. The decrease is primarily a result of lower projected beer and spirit sales.

Nova Scotia Provincial Lotteries and Casino Corporation

The Nova Scotia Provincial Lotteries and Casino Corporation's (NSPLCC) net income is budgeted to be $103.1 million in 2014–2015, which is $4.4 million lower than the 2013–2014 estimate of $107.5 million. Revenue is expected to decline in 2014–2015 by $7.5 million compared to the 2013–2014 estimate, due to declines in the video lottery business line, partially offset by projected increases in sales from the ticket lottery line.

Halifax-Dartmouth Bridge Commission

Halifax-Dartmouth Bridge Commission (operating as Halifax Harbour Bridges) is budgeting comprehensive net income for the 2014–2015 fiscal year at $12.1 million. This represents a $0.4 million or 3.3 per cent increase over the 2013–2014 budget estimate. Total revenue is projected to decline, but is offset by a larger decline in total expenses, primarily in amortization.

Highway 104 Western Alignment Corporation

Highway 104 Western Alignment Corporation's budget estimate for 2014–2015 of $1.6 million is essentially unchanged from the 2013–2014 estimate. Total revenue is projected to be $20.8 million and total expenses are projected to be $19.2 million; both have less than $0.1 million difference from 2013–2014 estimates.

Key Tax Measures: Personal Income Taxes

Removal of Graduate Retention Rebate

Effective January 1, 2014, government will eliminate the Graduate Retention Rebate. Implemented in 2009, the Graduate Retention Rebate provided university graduates with a maximum annual credit of $2,500 and college graduates with a maximum annual credit of $1,250. The Graduate Retention Rebate could be used in the year of graduation plus the next five succeeding years to a lifetime maximum of $15,000 for university graduates and $7,500 for college graduates. The cost of the Graduate Retention Rebate in 2013–2014 was approximately $43.0 million.

Removal of Personal Income Tax for GIS Recipients

Continuing for 2014–2015, residents of Nova Scotia who receive the Guaranteed Income Supplement (GIS) will continue to be refunded their provincial personal income taxes paid. The GIS is an income transfer paid by the federal government to low-income seniors who meet certain eligibility criteria. This measure will save seniors approximately $9.8 million in taxes in 2014–2015.

$1,000 Non-refundable Age Amount Tax Credit for Low-Income Seniors

Starting with the 2014 tax year, the new $1,000 non-refundable Age Amount tax credit for seniors with taxable income under $24,000 will be in effect. Low-income seniors will save an additional $6 million in personal income taxes upon full implementation. In combination with the refund of personal income tax to GIS recipients, over 25,000 seniors will no longer pay provincial personal income tax.

Fifth Tax Bracket and Elimination of the Personal Income Tax Surtax

Effective January 1, 2010, government implemented a fifth personal income tax bracket of 21 per cent applicable to taxable income exceeding $150,000. To offset the impact of this measure, government removed the 10 per cent surtax applied to Nova Scotia residents with provincial personal income taxes payable of more than $10,000. These measures will remain in place for fiscal 2014–2015.

Key Tax Measures: Business Taxes

Small Business Corporate Income Tax

Effective January 1, 2014, the rate was reduced from 3.5 per cent to 3.0 per cent. Until December 31, 2013, small businesses were eligible for the reduced 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. Effective January 1, 2014, the threshold is reduced to $350,000.

Key Tax Measures: Consumption Taxes

Harmonized Sales Tax (HST) Rate

Effective July 1, 2010 Nova Scotia raised the provincial portion of the HST from 8 per cent to 10 per cent, thereby setting the HST rate at 15 per cent.

The Financial Measures (2012) Act contained the following provision:

"The Minister of Finance shall take such steps as are necessary under the Comprehensive Integrated Tax Co-ordination Agreement between the Government of Canada and the Government of Nova Scotia to reduce the rate of the provincial component of tax payable under Part IX of the Excise Tax Act (Canada) from 10% to 9% effective July 1, 2014, or such earlier date in 2014 as determined by the Governor in Council, and from 9% to 8% effective July 1, 2015, or such earlier date in 2015 as determined by the Governor in Council."

Budget 2014 will remove this commitment. Government will consider reducing the HST rate when sustainable fiscal balances are achieved.

Affordable Living Tax Credit

The province will continue to offer an HST credit to low-income households. For the average low-income household, the credit will more than offset the impact of the HST rate increase that took place July 1, 2010.

The credit is paid quarterly in July, October, January, and April of each year. The maximum rebate is $255 per household plus $60 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 $35,100. Similar to the federal government's Goods and Services Tax credit, individuals need to file an income tax return to be eligible to receive the HST credit.

HST Rebate on New Homes for First Time Home Buyers

The province currently provides a rebate of 18.75 per cent (to a maximum of $3,000) of the provincial portion of the HST on new homes purchased by first-time homebuyers. First-time homebuyers are defined as individuals who have not owned and occupied a home in the past five years. The rebate is also available on the purchase of land, services, and materials for owner-built homes.

Point-of-Sale (POS) Rebates of HST

In 2014–2015, point-of-sale rebates of the provincial portion of the HST on the following products will continue:

- Children's clothing
- Children's footwear
- Children's diapers
- Feminine hygiene products

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

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 professional judgment as to the most probable set of economic conditions.

As these variables change and more information becomes available throughout the year, they may have an impact, either negative or positive, on the revenue forecasts. These impacts could be material. The province intends to update the forecast periodically throughout the forecast period. The above referenced variables can move independently and may have offsetting effects.

The following table lists the specific key economic assumptions and variables that directly affect the calculation of provincial revenue estimate and forecast figures, as included in this Revenue Outlook section, and reflect assumptions developed by the province as at March 4, 2014.

Revenue Source	Key Variables
Personal Income Taxes	• personal taxable income levels • provincial taxable income yield • tax credits uptake
Corporate Income Taxes	• national corporate taxable income levels as provided by Finance Canada • Nova Scotia share of national taxable income • tax credits uptake • national and provincial corporate profit levels
Harmonized Sales Tax	• personal consumer expenditure • 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 interests holders • world price of natural gas, subject to current market conditions
Equalization	• one-estimate/one-payment approach
Canada Health Transfer/ Canada Social Transfer	• annual increases in the national base amount • changes in population

Additional Information

In addition to the key economic and fiscal assumptions contained in the 2014–2015 revenue estimates, the following information should also be taken into account when interpreting the revenue estimates.

The revenue estimates for 2014–2015 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 General Revenue Fund.

The Department of Finance and other departments or agencies of the province have prepared specific revenue estimates for 2014–2015 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 projected from federal transfer payment programs pursuant to the *Federal-Provincial Fiscal Arrangements Act* incorporates official information released by the federal government as of December 13, 2013. In addition, CHT and CST revenue estimates are based on Canadian national and provincial population estimates supplied 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 2013–2014.

Overview of Treasury Management

The Department of Finance and Treasury Board 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 and Treasury Board is responsible for managing Nova Scotia's gross financial market debt portfolio, which is estimated to have stood at $15.6 billion as of March 31, 2014. Against this gross financial market debt are financial assets held in mandatory ($1.7 billion) and discretionary ($836 million) sinking funds plus holdings of Nova Scotia Municipal Finance Corporation debt ($789.1 million). These assets total $3.3 billion and are subtracted from gross financial market debt to result in a net financial market debt of $12.3 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 management of the debt portfolio and borrowing program must consider the external financial and economic environment. Entering 2014–2015, global financial markets are expected to be more stable than has been experienced since the start of the global financial crisis in 2008.

The Budget Estimates and Public Accounts 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 2013–2014, the province had a $179 million increase in net financial market debt outstanding in financial markets due to the budgetary deficit, net acquisition of tangible capital assets and on-lending activities of the General Revenue Fund. The province estimates that net financial market debt in financial markets will increase by about $358 million in 2014–2015 due to the $279 million budgetary deficit, the net acquisition of $117 million in tangible capital assets and on-lending to Crown corporations. Offsetting these items are non-cash expenses that lower borrowing requirements and repayments from the NS Municipal Finance Corporation.

Nova Scotia's ratio of net debt to nominal gross domestic product at market prices is estimated to have stood at 37.5 per cent at March 31, 2014, up from 36.3 per cent a year earlier.

Nova Scotia Credit Ratings

Nova Scotia maintains a policy of full disclosure and transparency with financial market participants.

Nova Scotia actively communicates its economic and fiscal position both to investors and to bond-rating agencies. The long-term improved fiscal position of the province has been recognized by credit-rating agencies. Nova Scotia has generally posted budgetary surpluses over the past decade, interrupted with modest budgetary deficits in 2009–2010, 2011–2012, 2012–2013 and 2013–2014. In 2013–2014 all three rating agencies confirmed the province's credit rating, and DBRS raised the province's rating to "A(high)." The following table shows current provincial credit ratings (note that (neg) refers to a negative outlook and (pos) a positive outlook, indicating the rating agency may change the respective province's credit rating downward or upward over the next year or so).

Canadian Provincial Ratings

March 2014

	DBRS	S&P	Moody's
British Columbia	AA(high)	AAA	Aaa(neg)
Alberta	AAA	AAA	Aaa
Saskatchewan	AA	AAA	Aa1(pos)
Manitoba	A(high)	AA	Aa1
Ontario	AA(low)	AA-(neg)	Aa2
Quebec	A(high)	A+	Aa2
New Brunswick	A(high)	A+	Aa2
Nova Scotia	A(high)	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 and Treasury Board 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 locking in historically low interest rates, protecting the province's fiscal situation from unanticipated increases in interest rates, and to manage 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.

Primary Issuance Market

The Province of Nova Scotia expects to post a budgetary deficit of $279 million in 2014–2015. In addition to funding the budgetary deficit, the Department of Finance and Treasury Board borrows monies in capital markets to refinance existing debt, fund the acquisition of tangible capital assets, on-lending to Crown corporations and for other non-budgetary purposes.

The management of the debt maturities and timing of new debt issuance is optimized by the use of discretionary sinking fund reserves held by the province. As noted below, these discretionary funds represent an integral component of the Treasury Management strategy of the province as their drawdown or replenishment can significantly alter the timing of debt issuance year to year.

In the fiscal year 2013–2014, the province borrowed $975 million compared to borrowing requirements of $653 million estimated in the budget. Market conditions and opportunities, particularly for floating interest rate notes, were very favourable in 2013–2014. The borrowing completed in 2013–2014 was by way of two floating interest rate notes. The increase in the borrowing requirements in 2013–2014 was primarily for the changes in the fiscal position of the province in 2013–2014, and the General Revenue Fund's purchase of $118 million in debt issued by the Nova Scotia Municipal Finance Corporation. Those two factors were offset by lower net capital advances to Crown corporations ($108 million lower than the 2013–2014 Budget Estimates).

The province pre-borrowed about $300 million for the 2014–2015 fiscal year. The main reason for this pre-borrowing was the Department of Finance and Treasury Board's decision to take advantage of investor demand for a floating interest rate note based on the Canadian Overnight Repo Rate Average ("CORRA") instead of the usual Bankers' Acceptances (in formal terms the Canadian Dollar Overnight Rate ("CDOR")). CORRA is the weighted average rate of overnight general (non-specific) collateral repo trades that occurred through designated inter-dealer brokers between 6:00 and 16:00 EDT on the specified date as reported to the Bank of Canada. The rate is published by the Bank of Canada in the morning (9:00) of the

end date. The Province of Nova Scotia was the first province to issue what has been termed a "CORRA floater," and these issues have allowed the province to diversify its portfolio of short-term debt instruments. This diversification is expected to be of benefit to debt-servicing costs in times of financial stress, with no incremental cost in normal times.

The Debt Management Committee, an advisory committee to the Minister of Finance and Treasury Board, has had a policy guideline over the past number of years to increase the portion of long-term debt in the gross debt portfolio. The ongoing goal is to structure the debt maturity profile to temper the effects of adverse changes in economic and fiscal circumstances. At present, the province continues to have about 50 per cent of Net Financial Market Debt in issues longer than 15 years, and therfore, the borrowing program going forward is likely to be more focused on shorter-dated maturities.

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

At March 31, 2014, Nova Scotia Business Inc., Resource Recovery Fund Board, Nova Scotia Municipal Finance Corporation, Strategic Opportunities Fund, and Nova Scotia Crop and Livestock Insurance Commission invested a total of $186 million with the General Revenue Fund.

There were also entities that are not part of the Consolidated Entity that invested $32 million with the General Revenue Fund. Those entities are the Nova Scotia Research and Innovation Trust, Nova Scotia Nominee Program, and Nova Scotia Crown Land Legacy Trust.

Projected term debt borrowing requirements for fiscal year 2014–2015 are expected to be $770 million. The Department of Finance and Treasury Board does not anticipate drawing down discretionary sinking funds in 2014–2015. Schedule 3B also shows the projected borrowing program for 2014–2015 to 2017–2018. 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 that need to be made to determine the actual cash requirements of the General Revenue 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 2014–2015 are $116.9 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, through its access to capital markets, is able to raise financing in an efficient and cost-effective manner; as such the province, through its annual borrowing program, secures wholesale funding on behalf of its Crown corporations for their diverse on-lending requirements. Historically, Crown corporations have utilized approximately 10 per cent to 25 per cent of the province's annual borrowing program. Net capital advances to Crown corporations for 2013–2014 were estimated at $262.5 million and forecast at $154.6 million. For fiscal year 2014–2015, net capital advances are estimated to be $201.4 million. Some of the more notable Crown corporations that finance their ongoing lending operations through the province's annual borrowing program are Nova Scotia Business Incorporated, Innovacorp,

Nova Scotia Farm Loan Board, Nova Scotia Fisheries and Aquaculture Loan Board, Housing Nova Scotia, and the Nova Scotia Municipal Finance Corporation.

The Halifax-Dartmouth Bridge Commission, a provincial Crown corporation, received government authority to borrow $200 million from the Department of Finance and Treasury Board for the re-decking of the Angus L. Macdonald Bridge, with work anticipated to begin in late 2014 or early 2015. The $200 million will be encompassed within the province's annual borrowing plan over the next several years.

While the province demonstrated access to capital markets in fiscal year 2013–2014 by efficiently raising the monies by way of private placements through the domestic MTN program, 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.

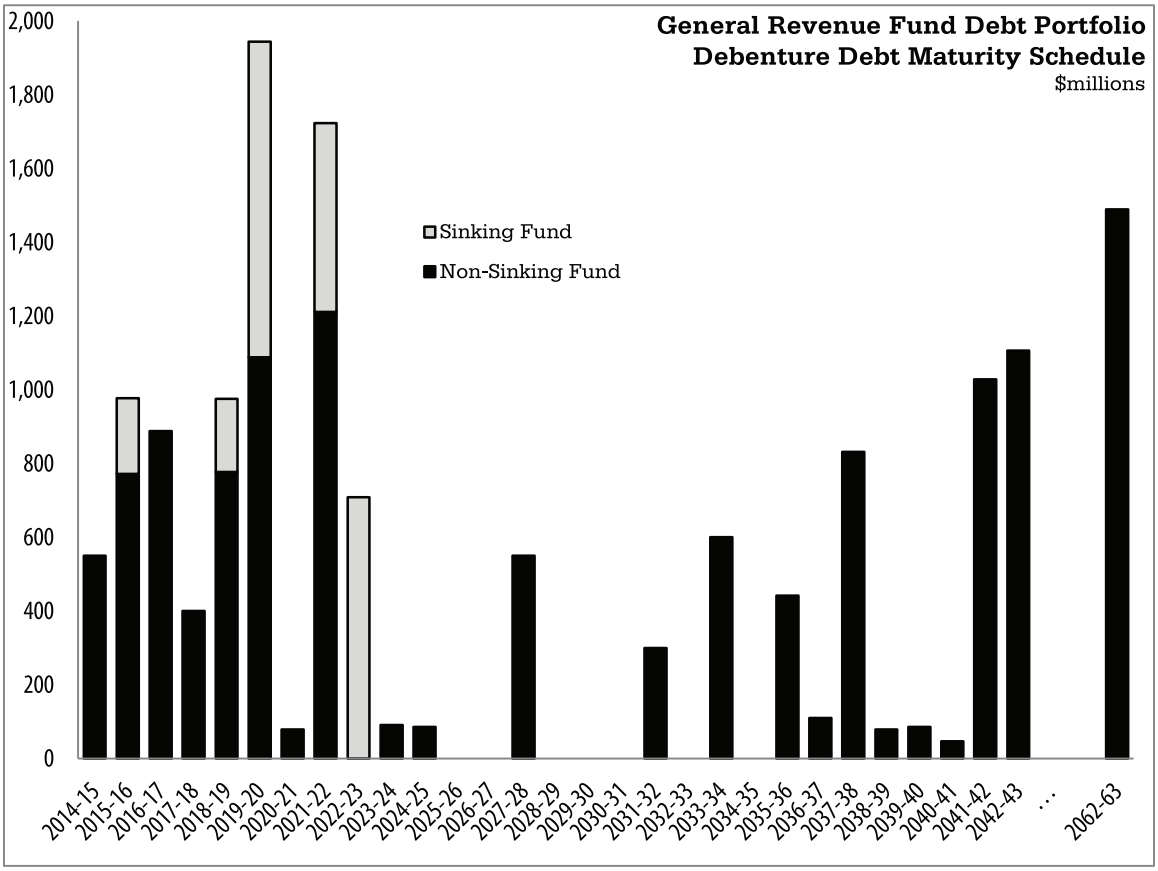
The province maintains documentation with the Securities and Exchange Commission (SEC) in the United States to provide access to the US and global bond markets. Although Nova Scotia maintains documentation to borrow in foreign markets, the domestic Canadian debt market is expected to be the primary source of funding for the province's borrowing program in 2014–2015. 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.

Maturity Schedule

The Province of Nova Scotia's gross financial market debt at March 31, 2014, consisted of Canadian fixed-coupon marketable debentures, floating interest rate marketable debentures, foreign currency denominated fixed-coupon marketable debentures (all of these issues are hedged to Canadian dollars), Canada Pension Plan non-marketable debentures, capital leases ($223 million), and short-term promissory notes. Chart 3A, titled General Revenue Fund Debt Portfolio: Debenture Debt Maturity Schedule, displays the maturity profile of the province's debenture debt portfolio ($15.1 billion). The province's debenture portfolio is shown for those debt issues that have no mandatory sinking fund provisions ($12.6 billion), and the nine remaining debenture issues that have a mandatory sinking fund contribution by way of bond covenant ($2.5 billion). The province has no debt issues outstanding with put options.

Chart 3A, General Revenue Fund Debt Portfolio:

Debenture Debt Maturity Schedule



As of March 31, 2014, the average term to maturity of the gross debenture portfolio was 15.4 years, down from 16.2 one year ago.

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, including principal repayments on capital leases, over the next three years are $578.1 million in the fiscal year 2014–2015, $1,007.6 million in the fiscal year 2015–2016, $919.8 million in the fiscal year 2016–2017, and $434.7 million in the fiscal year 2017–2018 (see Schedule 3B). In addition to the roll-over of term-debt, the borrowing program also includes the principal repayments under capital leases.

There are sizable maturities in US dollars in the fiscal years 2016 to 2023 that, by bond covenant, are fully funded with sinking funds at maturity. The next maturity of a US sinking fund debenture is a US $150 million debt issue maturing on March 15, 2016. 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 for the province to refinance these issues in the year of maturity.

Foreign Currency Exposure

The Canadian dollar payable debt has represented 100 per cent of the debt portfolio since late 2007. By way of background, the province historically carried large foreign currency exposures, and peaked at over 70 per cent in the mid-1990s. While the province has no foreign currency exposure, Section 44 of the *Finance Act* continues to limit this exposure, stating: "Unless the foreign currency exposure of the public debt is less than twenty per cent, no further transactions that increase foreign currency exposure may be executed. No borrowing in a foreign currency may be executed that cause the foreign currency exposure of the public debt to exceed twenty per cent."

Interest Rate Mix

The debt portfolio's net exposure to floating interest rates increased marginaly over the past year, and ended the year at 11.1 per cent on March 31, 2014. 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 mid-point of the province's floating interest rate exposure policy, and the Department of Finance and Treasury Board intends to raise the level of floating interest rate debt in 2014–2015. 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 zero to 35 per cent of total debt outstanding. The Department of Finance and Treasury Board targets the mid-point of the policy range.

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 underlying reference point or 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 and synthetically isolate and manage the market risks in financial instruments for the purpose of hedging, risk transfer, arbitraging interest rate differences, and adjusting portfolio risks. Derivative transactions are used when it is viewed to be more effective and can be done at a lower cost than would be possible by a cash market transaction.

At March 31, 2014, 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 position from changes in interest rates associated with the Department of Finance and Treasury Board's on-lending program to Crown corporations. The Province does not use derivatives for speculative purposes.

Currently, the province is party to approximately $5.2 billion notional face value of derivative transactions, down from a peak of $6.5 billion at March 31, 2011. The decline in swap counterparty exposure is due primarily to the maturity of three foreign currency debt issues and the maturity of some other interest rate swaps. The Department of Finance and Treasury Board 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 instalments 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 and Treasury Board.

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 instalments on the remaining nine debentures that contain sinking fund bond covenants. The last of those debentures matures on July 30, 2022. On these sinking fund issues, annual sinking fund instalments are required to be either the minimum of 0.75 per cent or 1 per cent of the par value of each original issue, or in the case where the existing sinking fund plus interest and reinvested interest to be earned thereon, together with the sinking fund contribution to be paid into the sinking fund and reinvested interest to be earned thereon, would be in excess of the principal amount of the debenture outstanding at maturity, the amount to be paid by the province on such payment date may be reduced by the amount of such excess. The contribution rates on the remaining nine sinking fund debentures ranges from zero to 2.4 per cent of the par value, with these rates being based on actual cash flows on the existing sinking fund assets and the anticipated rates of return on expected future cash flows of sinking fund assets. These figures are recalculated annually based on actual and expected investment returns. Sinking fund payments relating to debentures payable in US dollars were adjusted each year to reflect exchange rate movements from the date of issuance of the debentures to the date of being hedged to Canadian dollars. 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, 2014, the estimated book value of the sinking funds was $2,543 million, of which $1,707 million was held in sinking funds established by way of bond covenant, and $836 million in the discretionary sinking funds that are held for policy purposes. 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 General Revenue 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. All assets were invested either in federal or provincial debt obligations. Corporate bonds with a credit rating of at least "AA-" may be held in the sinking funds, but at March 31, 2014, there were no corporate bond holdings. The Sinking Fund General also holds $42 million of debt of the Halifax-Dartmouth Bridge Commission. The PDMF is typically invested in Government of Canada and provincial bonds. At March 31, 2014, 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; the NSMFC has the legislative authority and ability to issue such securities through capital markets with the assistance of a provincial guarantee. There has never been a default by the NSMFC on any of its obligations.

In recent years, the province, although having no obligation to do so, has purchased all NSMFC debenture issues in their entirety and at March 31, 2014, held a portfolio of $789 million NSMFC debentures in the General Revenue Fund, up from $763 million from a year earlier. 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.

In 2014–2015, the province will incur $135 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 significant market fluctuations, both positive and negative, and helps maintain stability and predictability in the budget process.

Projected Debt Servicing Costs **Schedule 3A**
($ millions)

	2013-2014 Estimate	2013-2014 Forecast	2014-2015 Estimate	2015-2016 Estimate	2016-2017 Estimate	2017-2018 Estimate
Interest on Long-term Debt	724.8	717.0	731.0	737.8	748.4	750.0
General Interest	9.2	12.1	11.9	13.2	17.9	18.3
Interest on Pension, Retirement and other obligations	155.0	127.1	135.1	139.6	145.4	150.3
Gross Debt Servicing Costs	888.9	856.2	878.0	890.6	911.8	918.6
Less: Sinking Fund Earnings	(107.1)	(109.4)	(106.2)	(109.4)	(106.2)	(112.7)
Net Debt Servicing Costs	781.8	746.9	771.8	781.3	805.6	805.9

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 General Revenue Fund's on-lending activities to Crown corporations. That is, the General Revenue 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 Farm Loan Board. The General Revenue Fund earns interest on those monies lent to Crown corporations and other investments in amounts of $67.8 million in the 2013–2014 forecast, and $69.3 million in the 2014–2015 Budget Estimate. Unlike the earnings on sinking fund assets, the income from the on-lending activity is not shown as netted against debt-servicing costs. To achieve a true picture of the actual interest cost on long-term indebtedness, these amounts should be subtracted from gross 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 10-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 $3 million if 10-year Canada bond yields rose by one percentage point.

Risk Management

The Debt Management Committee (DMC), an advisory committee to the Minister of Finance and Treasury Board, 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.

Projected Borrowing Requirements **Schedule 3B**

($ millions)

	2013-2014 Estimate	2013-2014 Forecast	2014-2015 Estimate	2015-2016 Estimate	2016-2017 Estimate	2017-2018 Estimate
Budgetary (surplus)/deficit	(16.4)	562.1	279.0	166.0	121.4	(13.6)
Net Capital Advances	262.5	154.6	201.4	60.0	60.0	60.0
NS MFC Repayments	(92.4)	26.0	(96.6)	(99.1)	(87.3)	(81.1)
Tangible Capital Assets: Net Cash	121.9	92.7	116.9	262.2	85.7	75.1
Other Non-Budgetary Transactions	(119.9)	(663.0)	(142.2)	(304.5)	(175.9)	(200.7)
Cash Operating Requirements	155.7	172.4	358.5	84.7	3.9	(160.3)
Cash Debt Retirement	999.7	999.7	578.1	1,007.6	919.8	434.7
Mandatory Sinking Fund Income	85.5	87.9	88.0	90.3	83.1	85.8
Mandatory Sinking Fund Contributions	39.4	39.4	27.5	27.5	27.5	27.5
Mandatory Sinking Fund Withdrawals	(299.9)	(299.9)	-	(205.7)	-	-
Net Mandatory Fund Requirements	(175.0)	(172.6)	115.5	(87.9)	110.6	113.3
Discretionary Fund Income	22.5	21.5	18.2	19.0	23.1	26.9
Discretionary Fund Contributions	-	-	-	-	-	-
Discretionary Fund Withdrawals	-	-	-	-	-	-
Net Discretionary Fund Requirements	22.5	21.5	18.2	19.0	23.1	26.9
Total Requirements:	1,002.9	1,021.0	1,070.3	1,023.4	1,057.3	414.7
Short-Term Borrowing (inc) / dec:	(350.0)	(46.0)	(300.0)	-	-	-
Total Term Debt Requirements	**652.9**	**975.0**	**770.3**	**1,023.4**	**1,057.3**	**414.7**

Projected Gross and Net Financial Market Debt

Schedule 3C

($ millions)

	2013-2014 Estimate	2013-2014 Forecast	2014-2015 Estimate	2015-2016 Estimate	2016-2017 Estimate	2017-2018 Estimate
Gross Debt:						
Opening Balance	15,556.2	15,556.2	15,610.0	16,005.5	15,922.3	15,972.5
Borrowing Program	652.9	975.0	770.3	1,023.4	1,057.3	414.7
Debt Retirement	(999.7)	(999.7)	(578.1)	(1,007.6)	(919.8)	(434.7)
Change in other unfunded debt	257.6	78.5	203.4	(99.1)	(87.3)	(81.1)
Closing Balance	15,467.0	15,610.0	16,005.5	15,922.3	15,972.5	15,871.3
Mandatory Sinking Funds:						
Opening Balance	1,879.4	1,879.4	1,706.8	1,822.3	1,734.4	1,845.0
Installments	39.4	39.4	27.5	27.5	27.5	27.5
Earnings	85.5	87.9	88.0	90.3	83.1	85.8
Sinking Fund withdrawals	(299.9)	(299.9)	-	(205.7)	-	-
Closing Balance	1,704.4	1,706.8	1,822.3	1,734.4	1,845.0	1,958.3
Discretionary Funds:						
Opening Balance	814.8	814.8	836.3	854.4	873.5	896.5
Installments	-	-	-	-	-	-
Earnings	22.5	21.5	18.2	19.0	23.1	26.9
Fund withdrawals	-	-	-	-	-	-
Closing Balance	837.3	836.3	854.4	873.5	896.5	923.5
NSMFC Assets:						
Opening Balance	763.1	763.1	789.1	692.5	593.4	506.1
Repayments	(92.4)	(92.4)	(96.6)	(99.1)	(87.3)	(81.1)
Advances	-	118.5	-	-	-	-
Closing Balance	670.7	789.1	692.5	593.4	506.1	425.0
Net Financial Market Debt	**12,254.6**	**12,277.8**	**12,636.2**	**12,720.9**	**12,724.8**	**12,564.5**

Schedule 3D: Projected Net Debt
($ millions)

	2013-2014 Estimate	2013-2014 Forecast	2014-2015 Estimate	2015-2016 Estimate	2016-2017 Estimate	2017-2018 Estimate
Net Debt - Opening Balance	13,883.5	13,953.8	14,608.6	15,004.5	15,432.7	15,639.9
Add (Deduct):						
Provincial Deficit (Surplus)	(16.4)	562.1	279.0	166.0	121.4	(13.6)
Increase in the Net Book Value of Tangible Capital Assets	121.9	92.7	116.9	262.2	85.7	75.1
Other	-	-	-	-	-	-
Change in Net Debt	105.5	654.8	395.9	428.2	207.1	61.5
Net Debt - Closing Balance	13,989.0	14,608.6	15,004.5	15,432.7	15,639.9	15,701.4

Economic Outlook

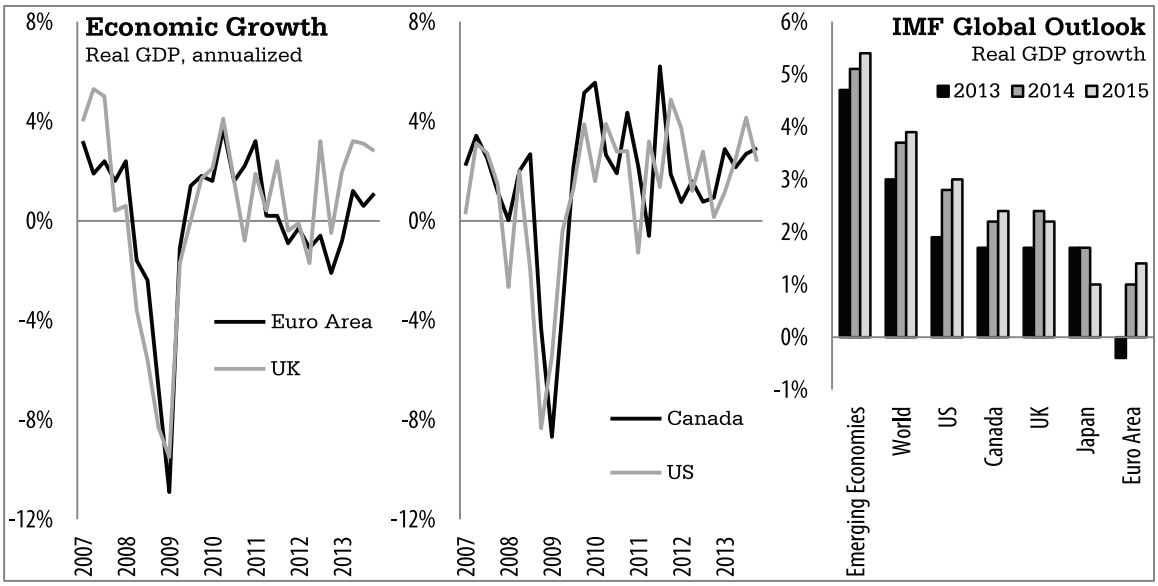
Highlights

The Nova Scotia economic outlook features more stable external conditions than have been anticipated since the start of the global recession. However, Nova Scotia's economic growth is expected to be limited by residual impacts of recent local shocks to manufacturing and public administration sectors in Nova Scotia. For 2014, Nova Scotia's real GDP is expected to grow by 1.4 per cent while nominal GDP is expected to rise by 2.9 per cent. In 2015, Nova Scotia's economic prospects improve, with real GDP expected to grow by 2.1 per cent and nominal GDP growth at 4.3 per cent. Nova Scotia's recovery to a more typical pace of economic growth is expected to be supported by improving external conditions as well as investment activities in major projects. However, with limited labour-supply growth, employment expansion is expected to be modest. This results in limited growth of household consumption and residential spending.

Global Conditions

Nova Scotia's economic performance depends on global conditions. The performance of economies around the world affects our economic growth directly through trade (particularly with the rest of Canada and the US). However, the rest of the world exerts equally important influences on Nova Scotia through indirect channels, such as financial markets, commodity prices, exchange rates, and interest rates.

The global economy strengthened in 2013 as the Euro Area emerged from recession and exports from emerging market economies rebounded. In most regions, economic activity is expected to be stronger in both 2014 and 2015; the International Monetary Fund (IMF) forecasts global growth of 3.7 per cent in 2014 followed by 3.9 per cent in 2015.



Source: US Bureau of Economic Analysis Table 1.1.6; Statistics Canada, CANSIM table 380-0064; Eurostat; International Monetary Fund, World Economic Outlook January 2014

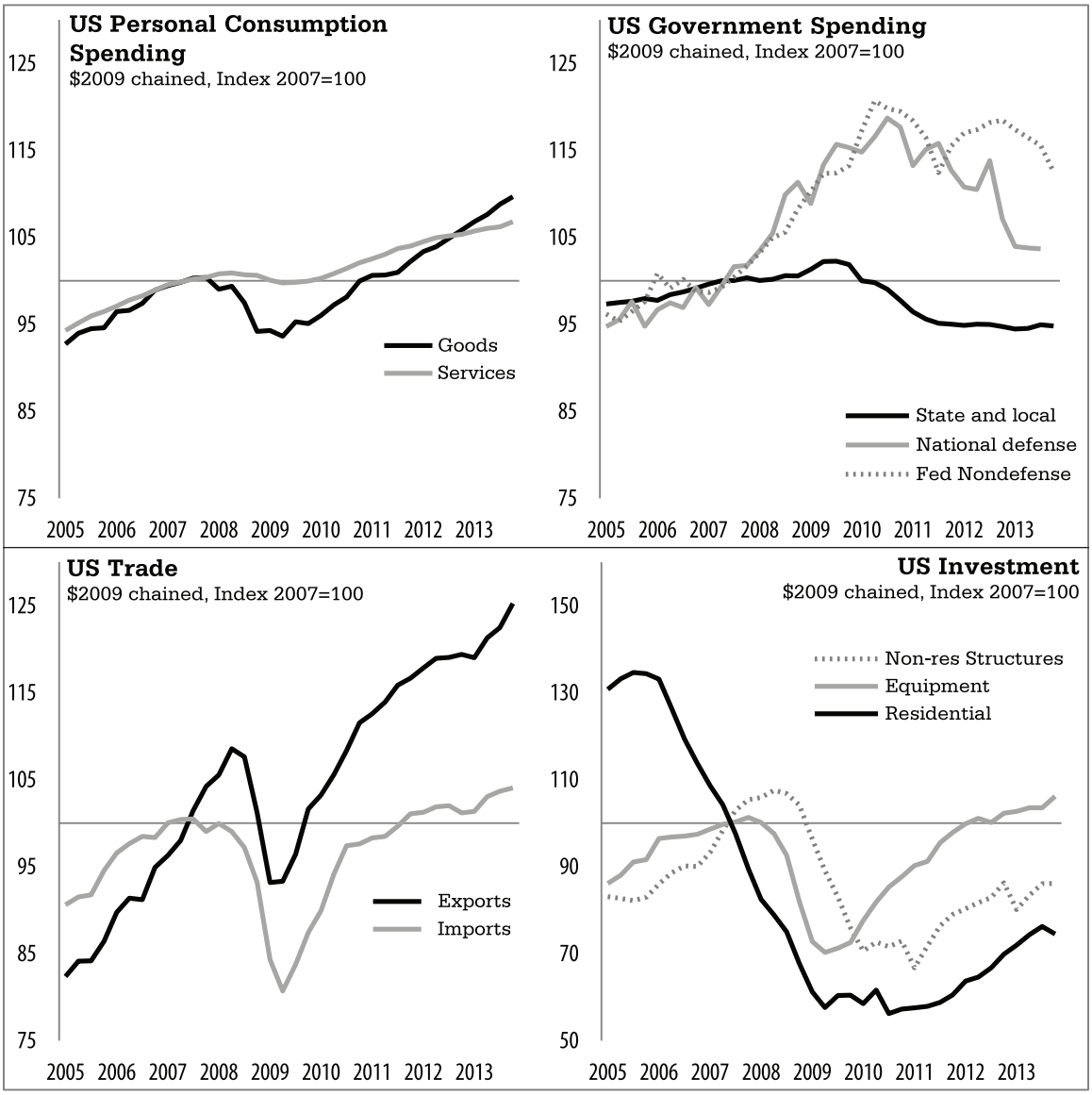
The Euro Area came out of a second recession in 2013. Activity picked up in the core nations and stabilized in the peripheral countries. Still, the continent is faced with a multitude of challenges including elevated unemployment, private deleveraging, fiscal consolidation, low inflation, and financial fragmentation between the core and periphery. Recovery in Europe is expected to be weaker on the domestic front, requiring external demand from the global economy to support exports. In contrast with the Euro Area, the UK in 2013 grew at the fastest rate since the recession as a result of a weaker currency, increased confidence and easy credit. Although gains in employment have been strong and the unemployment rate has fallen, there remains slack still in the UK economy.

Japan embarked on "Abenomics" in 2013 with the goals of ending persistent deflation and raising growth rates. The components of the initiative involve quantitative/qualitative monetary easing, fiscal stimulus spending in 2013, reduction of the primary deficit by 2015, and structural economic reforms aimed at improving employment, investment, and productivity. The first half of 2013 showed initial success with growth picking up in exports, household consumption, and public investment. The yen depreciated and inflation expectations began to rise.

According to the IMF, China's economic growth is expected to moderate from the 9.3 per cent average over the period 2007-2012 to 7.5 per cent in 2014 and 7.3 per cent in 2015. China's growth is expected to slow because of reforms to curb credit growth and because of rebalancing the mix of investment and consumption spending. Other emerging market economies should benefit from demand in advanced economies. However, those with weak domestic demand could be exposed to capital flow reversals as financial conditions in advanced economies tighten. Central banks in some emerging markets have raised policy interest rates to combat a depreciating currency and capital outflow, which has lowered growth forecasts in the short term.

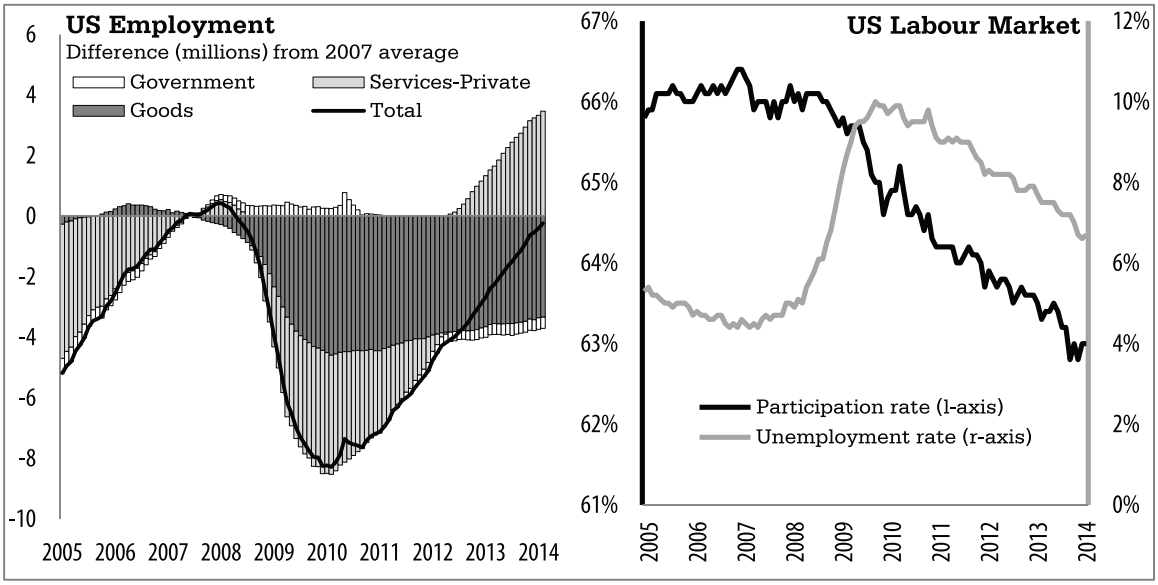
United States

The outlook for Nova Scotia's most important international trading partner continues to improve. US growth advanced 1.9 per cent in 2013 with improved consumer spending, exports, and inventories, as well as a rebound of residential investment. Fiscal consolidation has weighed on growth while inability to agree on future fiscal plans has weakened both household and business confidence.



Source; US Bureau of Economic Analysis, Table 1.1.6

US employment improved at a pace of 189,000 jobs per month in 2013 and is nearly back to the peak prior to the recession in 2008. Employment growth has been concentrated in the private services sector, while construction and manufacturing sectors have yet to recover. The unemployment rate continues to fall, but this masks underlying structural concerns about the US labour market. Participation rates are declining, and there remains an elevated number of long-term unemployed.

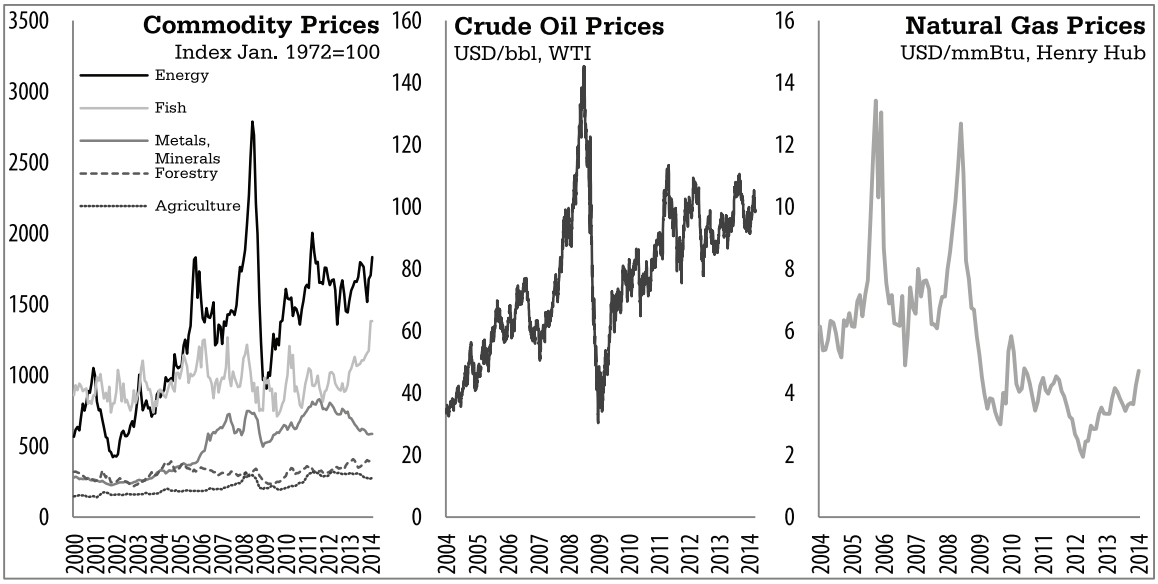


Source: US Bureau of Labor Statistics, Current Employment Statistics Survey

As residential construction, employment, and household finances improve, US economic growth is expected to accelerate over the next two years. A two-year federal budget agreement will ease the fiscal drag on the US confidence. The latest private-sector consensus (as of March 4, 2014) has US outlook brighter than Canada's with US real GDP growth of 2.8 per cent in 2014 and 3.1 per cent in 2015.

Commodity Markets

Global commodity markets determine the value of Nova Scotia's natural resource exports as well as the expected costs of key imports. Increased demand from the Chinese market lifted the commodity price index for fish in 2013. Metals and minerals prices have fallen since 2011 as the global recovery stalled. Lumber prices are anticipated to increase with the ongoing recovery in US housing construction.



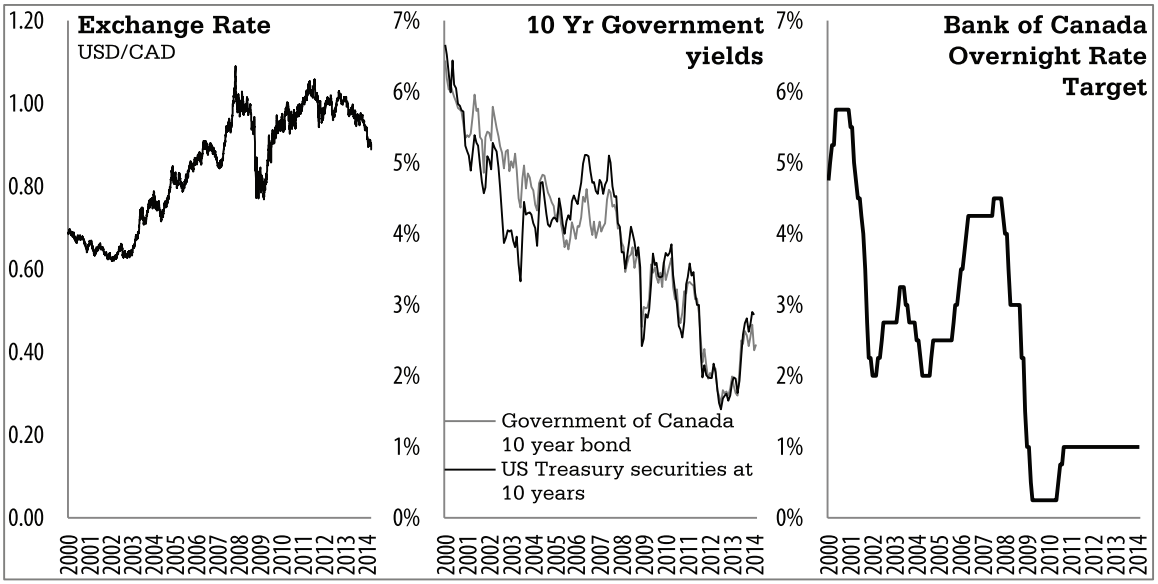
Source: Statistics Canada, CANSIM table 176-0075, US Energy Information Administration, Weekly Petroleum Status Report

Since 2011, crude oil prices have been relatively stable as a modest global recovery limited demand and greater use of fracturing technology in North America boosted supply. With higher levels of production, prices are expected to slightly decline in the short term, though this is vulnerable to geopolitical risks. Natural gas prices have gradually recovered since 2012. The colder winter conditions in the US have reduced inventories, which should help keep prices at current levels over the spring and summer.

Financial Markets

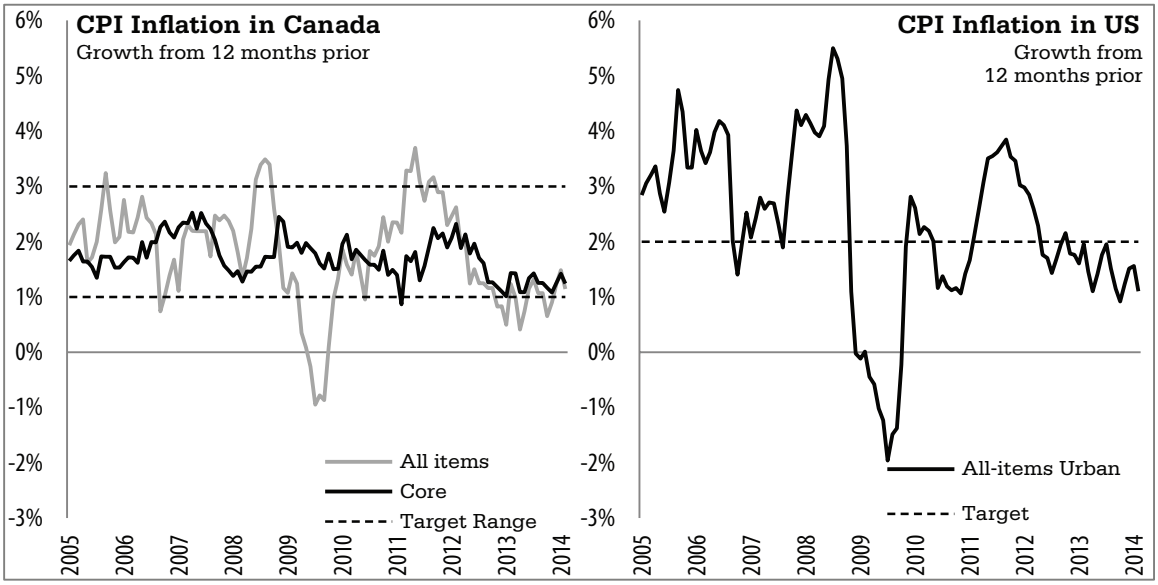
Canada's inflation rate continues to be at the lower end of the Bank of Canada's target range. Slack in Canadian economy, stable commodity prices, and retail competition are keeping inflation in check. The Bank of Canada sees risks to inflation as balanced, moving gradually back to 2 per cent by the end of 2015. The Bank of Canada is currently maintaining the overnight target rate at 1 per cent, but it is anticipated that it will move up over the near term.

US Inflation has slowed through 2013 and remains below the 2 per cent inflation target. With softening inflation and the improving employment situation, the US Federal Open Market Committee has begun to reduce its purchase of mortgage-backed securities and long-term treasuries. Developing economies have seen volatility as a result of US monetary policy, with depreciating currency, higher inflation prospects, and capital outflows requiring central banks to hike policy interest rates. Nevertheless, the US Federal Reserve has also signalled that the federal funds rate will continue to be historically low even after unemployment rates and inflation are near mandate levels.



Source: Statistics Canada, CANSIM table 176-0043; Bank of Canada, Summary of Key Monetary Policy Variables; US Federal Reserve table H.15

Inflation has not been an issue for Canada. The core inflation has been at the lower end of the target range for most of the time since the recession. Only at the end of 2011 and the start of 2012 did the core rate briefly climb over 2 per cent. Since then Canada's inflation has followed the global slowdown in inflation, recently stabilizing in the 1 to 1.5 per cent range.



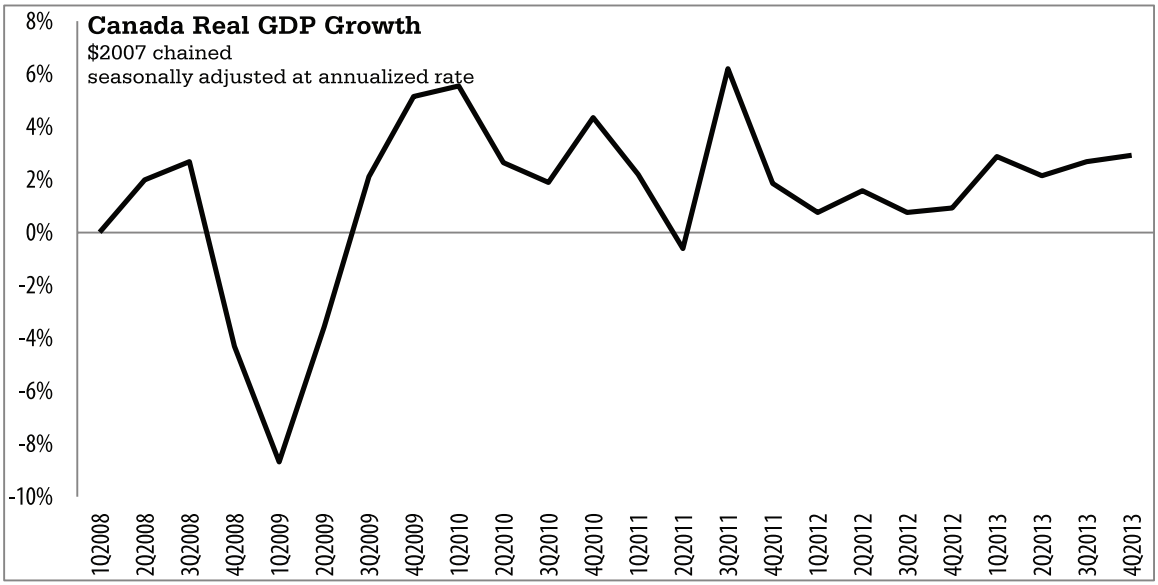
Source: Statistics Canada, CANSIM table 326-0020; US Bureau of Labor Statistics, Consumer Price Index-All Urban Consumers

The European Central Bank commitment to purchase bonds and various bailout packages has narrowed yield spreads between core and periphery government bonds—easing concerns around sovereign debt and allowing time for unit labour cost adjustment and reforms.

Overall, greater confidence in global financial markets has eased "safe haven" purchases of Canadian securities. These financial market conditions have largely been responsible for depreciation of the Canadian dollar to around 90 US cents. Most private sector forecasters see little potential for exchange rate to move upward in the near term.

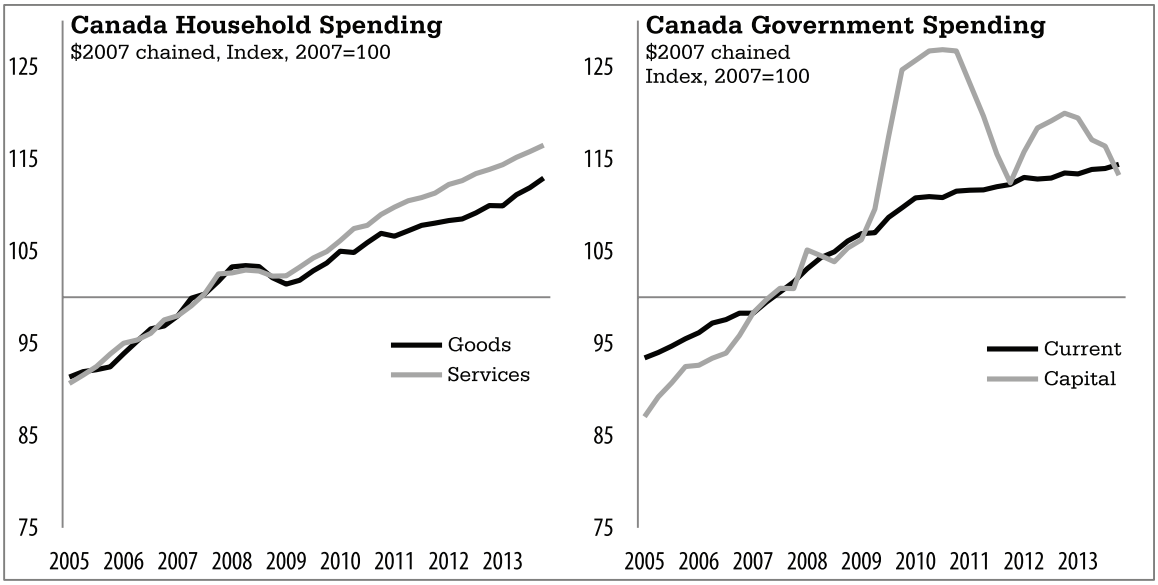
Canada

Since the 2009 recession, the Canadian economy has experienced a volatile recovery. Canadian real GDP did finish 2013 on a positive note with annualized growth rates of 2.7 per cent in the third quarter and 2.9 per cent in the fourth quarter.



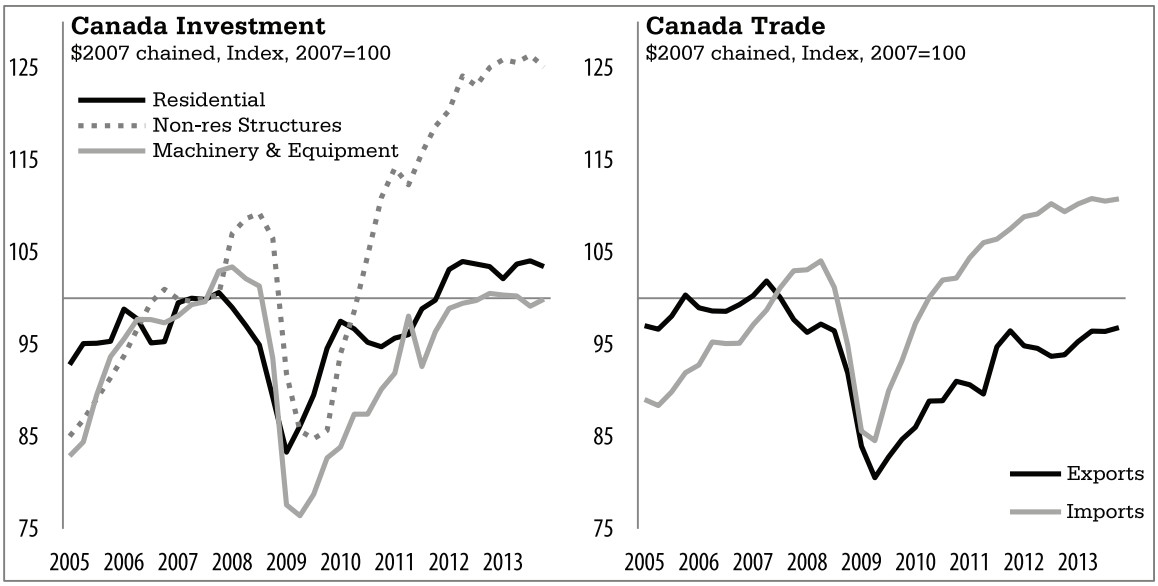
Source: Statistics Canada, CANSIM table 380-0064

Part of Canadian economic volatility during the recovery can be attributed to public sector stabilization and intervention policies. While growth in public spending has slowed as both federal and provincial governments repair deficits, Canadian domestic demand was supported from consumers taking advantage of low interest rates.



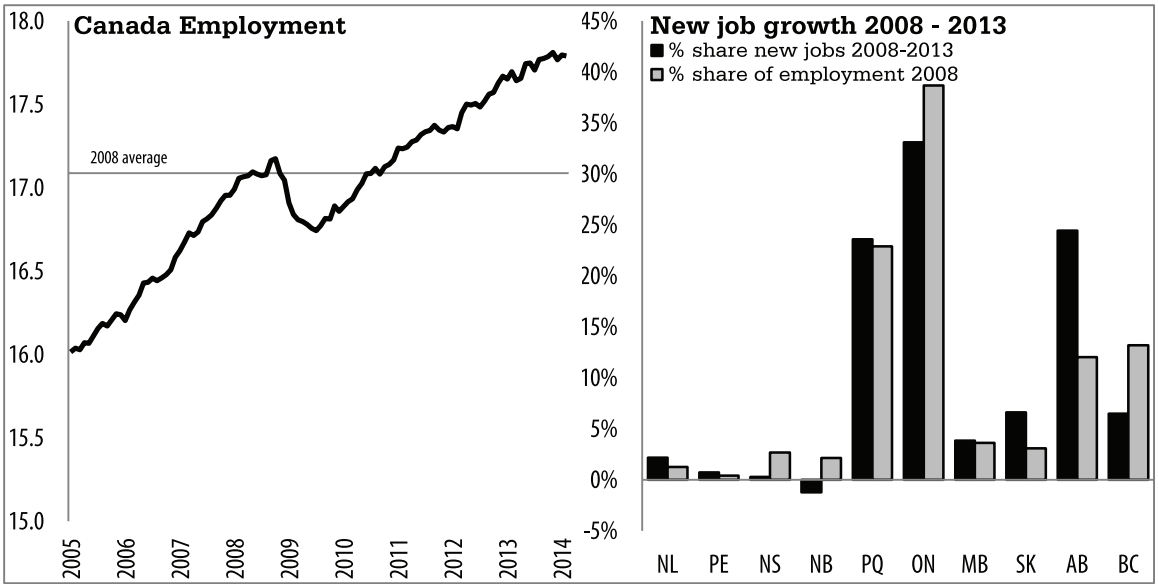
Source: Statistics Canada, CANSIM table 380-0064

Business investments did not return to 2008 levels until 2011, though investment recovery has been concentrated in non-residential structures (notably energy developments). External demand has yet to return to pre-recession levels. A slow global recovery especially in the US has dampened external demand for Canadian goods and services, while import growth tracked the stronger Canadian recovery.



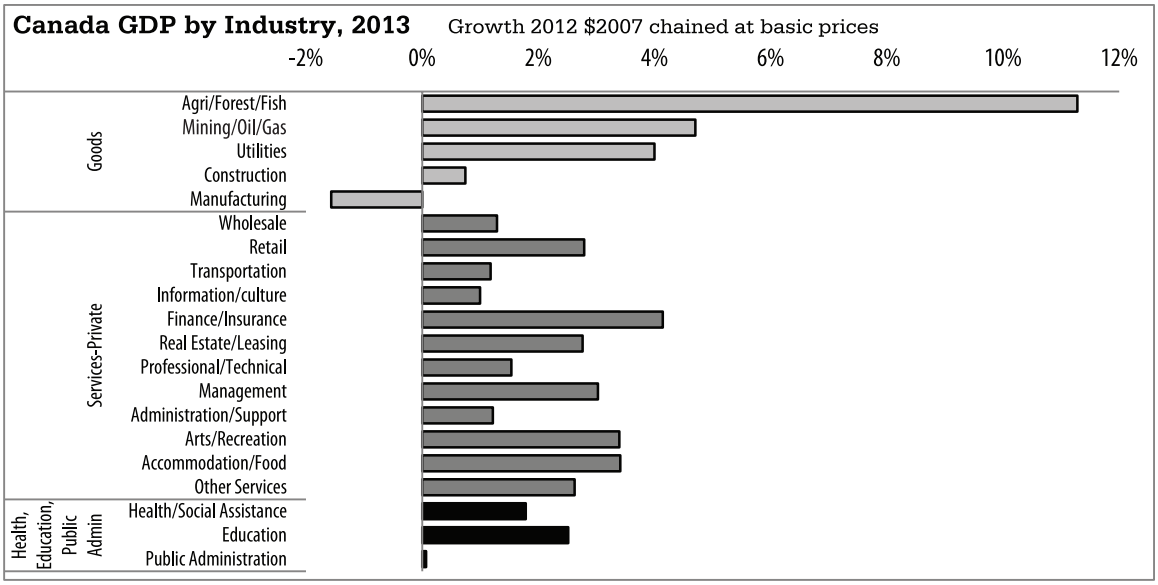
Source: Statistics Canada, CANSIM table 380-0064

Employment growth since the recession has been on an upward trend for Canada. Within Canada, however, job growth has been unbalanced among the provinces. Several provinces experienced a disproportionate share of new jobs created since 2008. Ontario had 39 per cent of total employment in 2008, but its share of new jobs since 2008 was only 33 per cent. Alberta had 12 per cent of total employment in 2008, but captured 24 per cent of the new jobs. British Columbia had 13 per cent of total employment in 2008, but only got 6.5 per cent of the new jobs created. This is the same share of new job growth as Saskatchewan, which had previously accounted for 3 per cent of employment. Nova Scotia recorded 2.6 per cent of the total employment in 2008, but only generated 0.3 per cent of the new jobs created since 2008 in Canada.



Source: Statistics Canada, CANSIM tables 282-0002, 282-0087

The positive results in the last half of 2013 reflect growth for all industries except manufacturing. Both the goods and service sectors reported positive growth adding up to a 2.0 per cent real GDP expansion for the year. This growth is expected to carry over into the forecast period as external demand takes a hand-off from slower domestic spending.



Source: Statistics Canada, CANSIM table 379-0031

The Nova Scotia Budget Economic Forecast assumes 2.3 per cent Canadian real GDP growth rate in 2014, followed by 2.6 per cent growth in 2015. The forecast falls within the forecast range of the private sector forecasters with a consensus forecast of 2.3 per cent growth for 2014 and 2.5 per cent for 2015.

The key driver for the Canadian economy in the short-term outlook is the expected return of external demand as the global recovery gathers steam. The US recovery and the lower exchange rate is expected to help exports over the next two years.

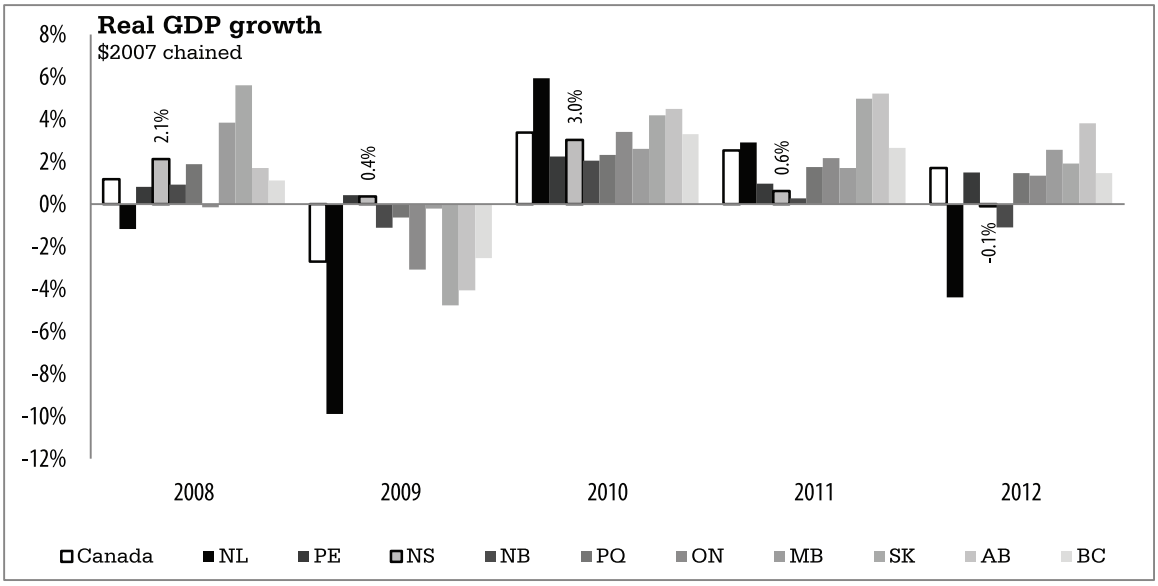
After much government stimulus during the recession and immediate recovery, balanced budget initiatives are expected to slow domestic demand growth. Consumer spending growth is expected to continue but at a more moderate pace as households carry on the slow process of repairing debt-laden financial positions.

NS Economic Forecast External Assumptions

	2014	2015
US Real GDP (growth)	2.8	3.1
Canada Real GDP (growth)	2.3	2.6
Canada Nominal GDP (growth)	4.4	4.6
USD/CAD Exchange rate	.923	.937
Natural Gas (USD/mmBTU, Henry Hub)	$4.24	$4.14
Crude Oil (USD/bbl, WTI)	$93.31	$86.38
Canadian Prime Lending Rate (%)	3.1	3.5
5 Year Conventional Mortgage Rate (%)	5.6	6.2

Nova Scotia's Recent Economic Performance

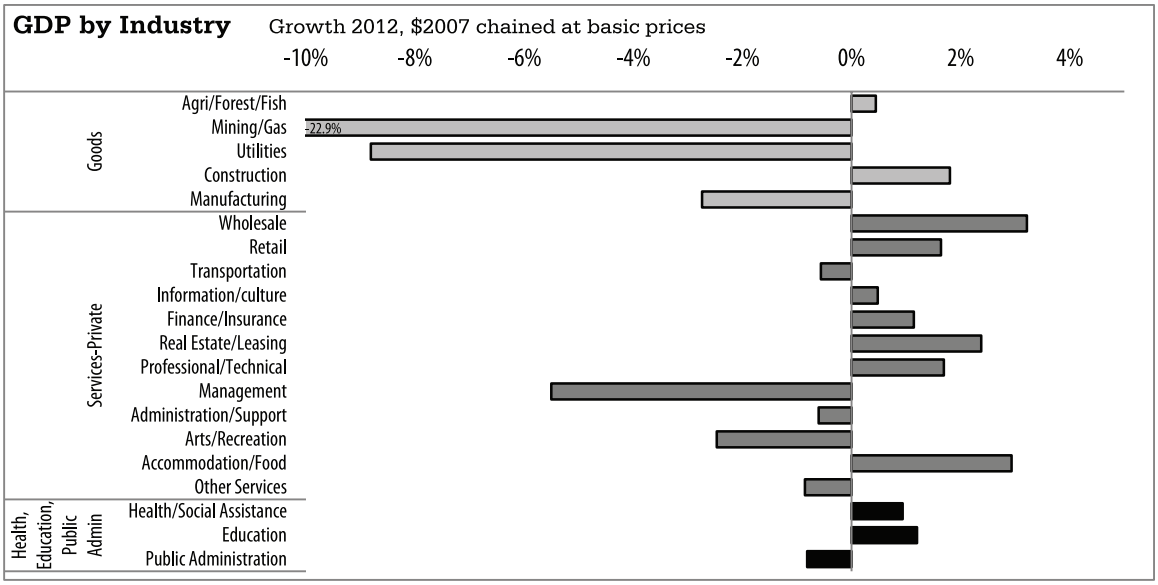
Historical revisions to Nova Scotia's economic growth show that the province did avoid recession in 2009 with real GDP growth of 0.4 per cent, followed by 3.0 per cent growth in 2010. However, in the subsequent two years, provincial economic growth slowed and even receded slightly in 2012 (the latest year for which Statistics Canada has published results). Over this period, the global economy was still impaired by ongoing instability in recovery, commodity price volatility, and uncertainty about European sovereign debt and financial institutions.



Source: Statistics Canada, CANSIM table 384-0038

In addition to these shocks, Nova Scotia's economy also experienced setbacks that were unique to the province over this period. Starting in 2011, the province's forest industry underwent a substantial restructuring that saw the end of newsprint production and temporary suspension of specialty-grade papers until later in 2012. The impacts of this adjustment proved immediate and severe, reducing output across a number of goods and services sectors.

Although offshore gas production has been declining for several years, output slowed much faster in 2012 because of unanticipated production issues.



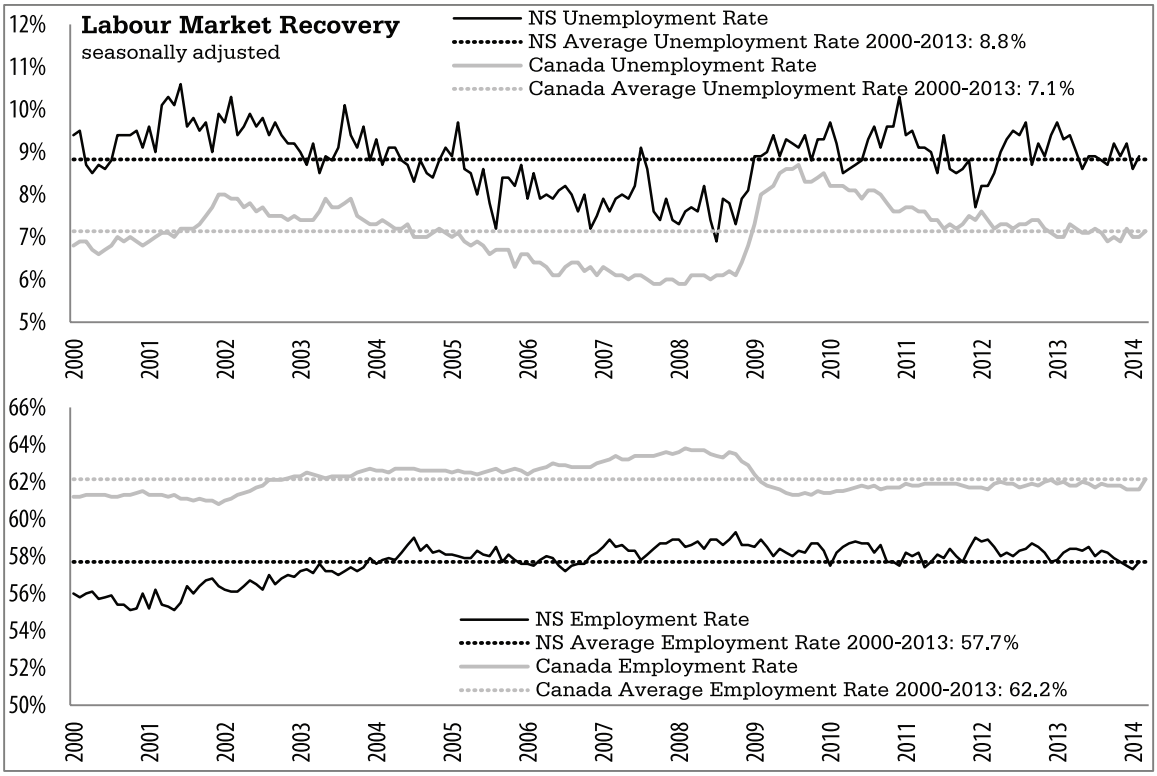
Source: Statistics Canada, CANSIM table 379-0030

The impacts of government spending reductions were also revealed in 2012. Although slower government spending growth is a nationwide phenomenon, the provincial economy was particularly affected by federal government austerity, to which Nova Scotia is more exposed.

In nominal terms, Nova Scotia's GDP was also influenced by the accounting of a $536 million payment to the public service pension plan recorded in 2011. This historical revision gave Nova Scotia the appearance of an extra half-billion in nominal GDP and employee compensation in 2011 that was not repeated in 2012, distorting the pace of nominal economic growth and other key variables reporting Nova Scotia's economic activity (though there was no impact on real GDP from this transaction). The latest indicators suggest that this payment caused employee compensation to rise by 5.9 per cent in 2011 followed by a decline of 0.3 per cent in 2012 as this pension activity was not repeated. Similarly, nominal government spending was up 7.6 per cent in 2011 before falling 2.0 per cent in 2012 while nominal GDP grew 2.9 per cent in 2011 and slowed to 0.7 per cent in 2012. In the absence of this pension activity, employee compensation growth would have been 3.1 per cent in 2011 and 2.3 per cent in 2012; government spending would have grown 3.0 per cent in 2011 and 2.4 per cent in 2012; nominal GDP would have increased 1.5 per cent in 2011 and 2.1 per cent in 2012.

With slower growth in both nominal and real terms through 2011 and 2012, future economic growth will start from a lower level. This will result in weaker tax revenues for the provincial government.

Over the period of recession and recovery, Nova Scotia's unemployment rates have remained elevated above levels observed prior to the recession. However, the province has settled lately at unemployment rates that are near to the average since 2000. Likewise, Nova Scotia's employment rates have stabilized at a plateau just under 58 per cent. In comparison, Canadian unemployment rates are near their average since 2000 while employment rates have been below longer trends since the start of the recession.

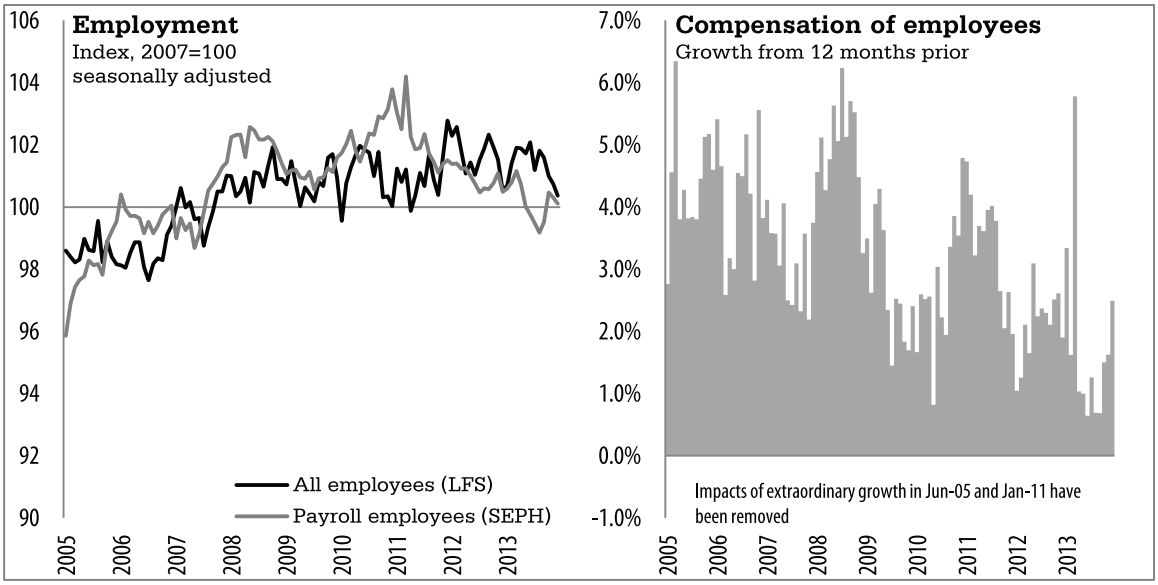


Source: Statistics Canada, CANSIM table 282-0087

Preliminary results for GDP in 2013 will not be revealed until April (final results in November). However, there are a number of indicators for 2013 that suggest that Nova Scotia's economy grew even more slowly than its long-run average pace of growth.

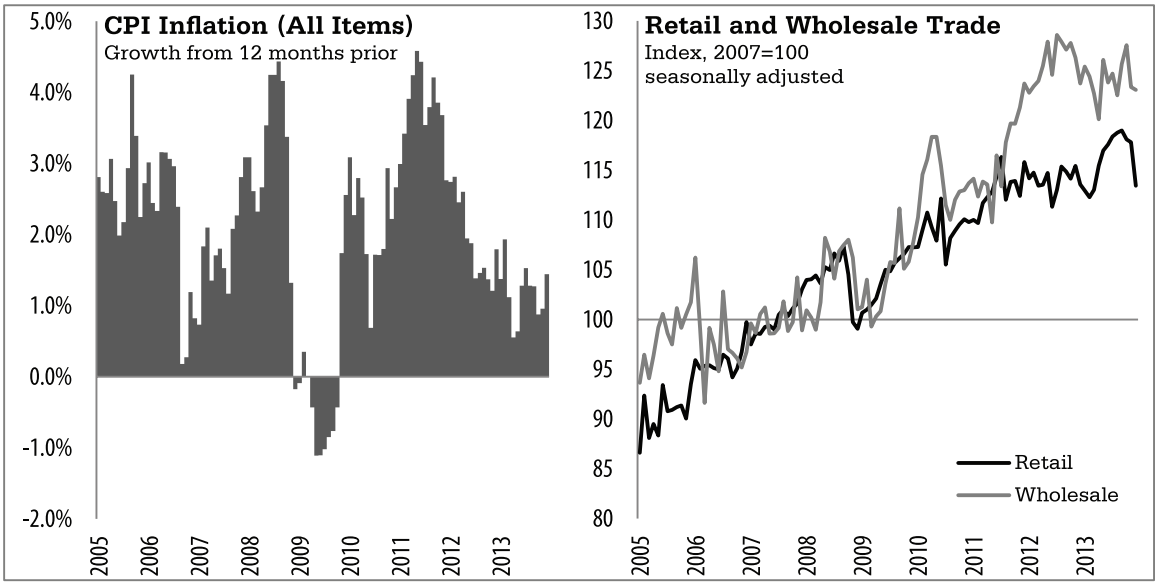
In 2013, Nova Scotia's labour force declined by 1,500 to 498,900 while employment fell 1,700 to 453,800. This is the most substantial percentage drop in employment since the early 1990s. Although this led to little change in the unemployment rate at 9.0 per cent, there was a substantial decline in the number of payroll employees, which fell by 7,100 (3,200 of which were in the public sector). The number of self-employed rose by 5,300. With average weekly earnings growing by just 1.5 per cent in 2013, the overall growth of employee compensation was limited to 1.8 per cent through 2013, slower than recent trends and slower even than was observed during the crisis of 2009.

Limited payroll growth combined with moderate inflation of 1.2 per cent to limit growth of retail sales in 2013 to 1.9 per cent. Similarly, growth of residential construction investments was limited to 2.3 per cent in 2013. However, durable goods consumption was supported by strong new motor vehicle sales, which advanced 11.3 per cent in 2013.

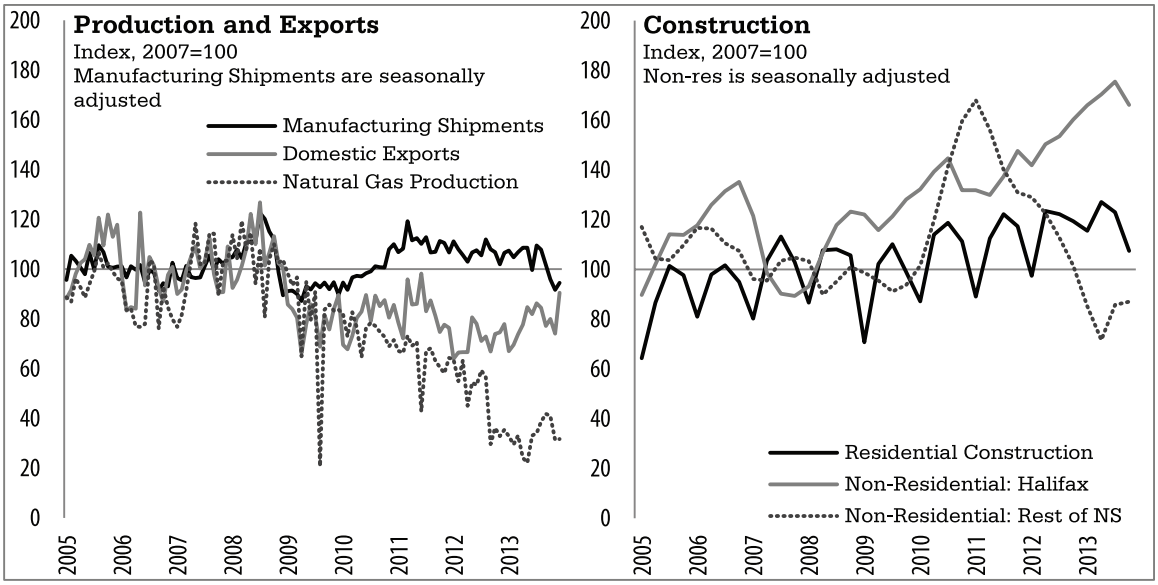


Source: Statistics Canada, CANSIM tables 281-0049, 282-0087, 382-0006
Note: extraordinary monthly growth in June 2005 and January 2011 has been adjusted

Nova Scotia's wholesale merchant sales declined in 2013 after reporting strong growth in 2012. Much of this decline was concentrated in areas that may have experienced muted price growth, but machinery and equipment sales at wholesalers were also down in 2012. Although Halifax non-residential construction continued to grow, investments outside of Halifax fell in each of the last two years.



Source: Statistics Canada, CANSIM tables 080-0020, 081-0011, 326-0020



Source: NS Department of Energy; Statistics Canada, CANSIM tables 026-0013, 026-0016, 228-0060, 304-0015

In the production sector, Nova Scotia's manufacturing shipments fell by 3.6 per cent as output of refined petroleum ceased at the Dartmouth refinery. Domestic exports grew by 10.1 per cent in 2013 as forest product output stabilized with return of specialty-grade paper output. With the commencement of production from Deep Panuke and restoration of planned production from the Sable platform, natural gas output (which is now largely used within Canada) experienced less of a decline in 2013.

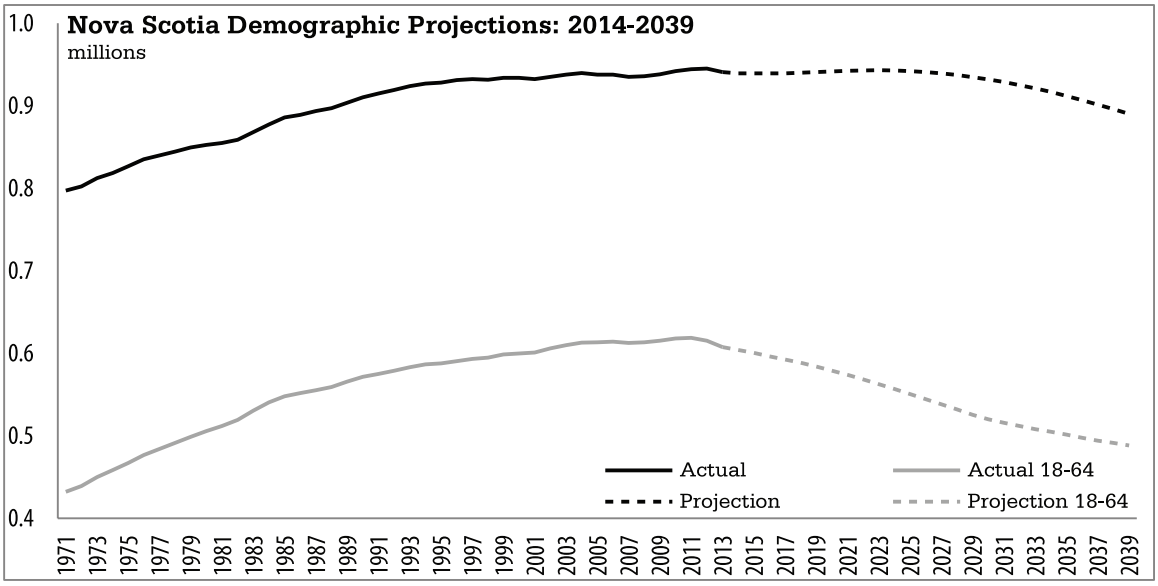
Demographic Outlook

With the July 1, 2013, population results for Nova Scotia, Statistics Canada began using the results of the 2011 Census of Population as the basis for its estimates. As part of this update, Statistics Canada also announced historical revisions to Nova Scotia's population. Notably, the population on July 1, 2012, that had previously reported at 948,695 was revised down to 945,061. A further decline to 940,789 through July 1, 2013, was also reported.

The Department of Finance and Treasury Board has revised its demographic projections for Nova Scotia. Although the level from which these projections start has changed with the recent historical revisions and new data, the pattern remains largely consistent. Nova Scotia's population is expected to remain stable over the coming decade, before beginning to decline in the later part of the 2020s. Over this period, the population aged 18–64 is expected to decline rapidly as the baby boom cohort ages.

As in previous demographic projections, the Department of Finance and Treasury Board assumes that net interprovincial migration will improve from its historical trends to generate positive population gains during the period 2017–2023. Vessel construction activity at the Halifax shipyard is assumed to drive much of this gain. As noted in the medium-term economic outlook, this population gain is necessary to generate sufficient labour supply for

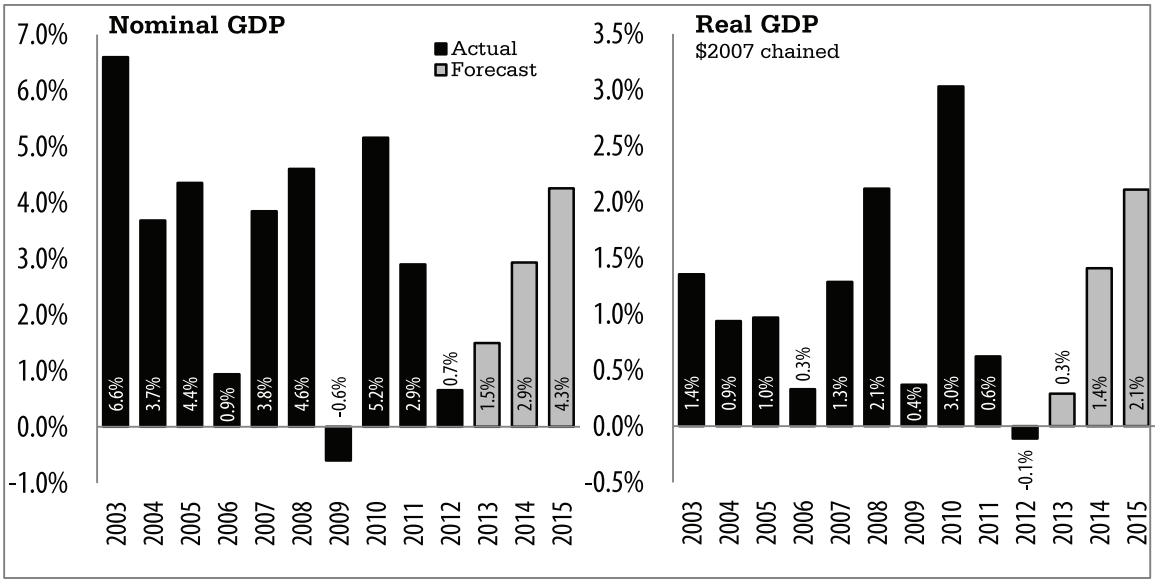
these major investments. Without positive interprovincial migration (or potentially greater immigration), the economic impacts of these major investment projects may not materialize as currently estimated.



Source: Statistics Canada, CANSIM table 051-0001; NS Department of Finance and Treasury Board projections

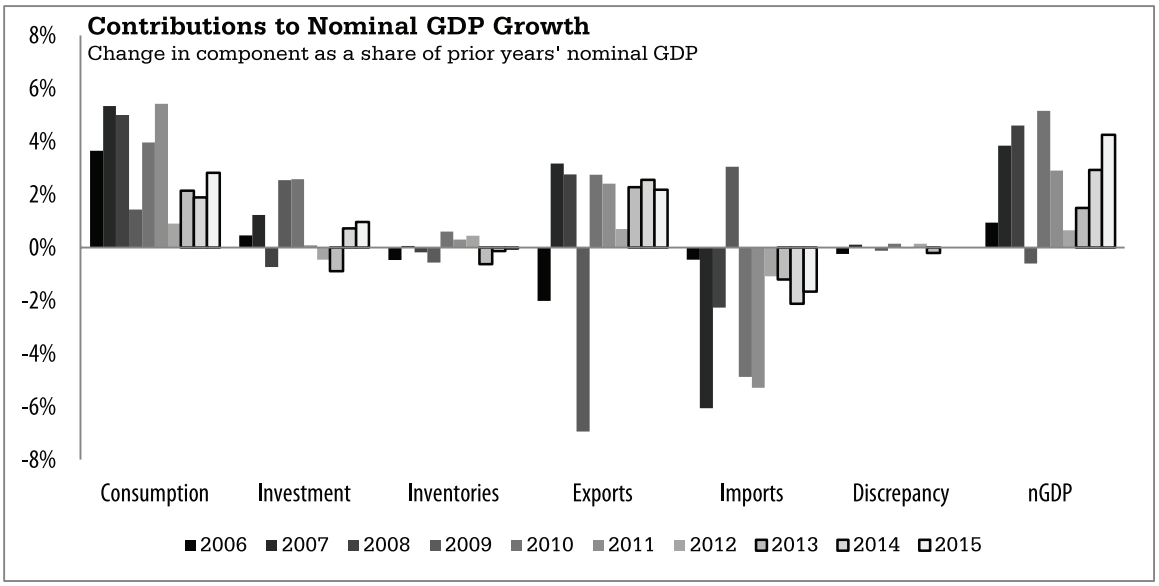
Economic Outlook

Nova Scotia's economy slowed under external shocks in 2011 and 2012. Although forest sector restructuring appears complete for now and governments have progressed substantially with restraint plans, it will take some time before the Nova Scotia economy returns to stronger employment and consumption growth. In the short term, external conditions are expected to support the Nova Scotia economy while domestic expenditures remain weak. The 2014–2015 provincial budget assumption estimates 0.3 per cent real GDP growth in 2013, followed by modest acceleration to 1.4 per cent in 2014 and 2.1 per cent in 2015. Nominal GDP is estimated to have grown by 1.5 per cent in 2013, before quickening to 2.9 per cent in 2014 and 4.3 per cent in 2015. Throughout this period, Department of Finance and Treasury Board's Nova Scotia real GDP outlook is below the average of private sector forecasts published as of March 4, 2014.

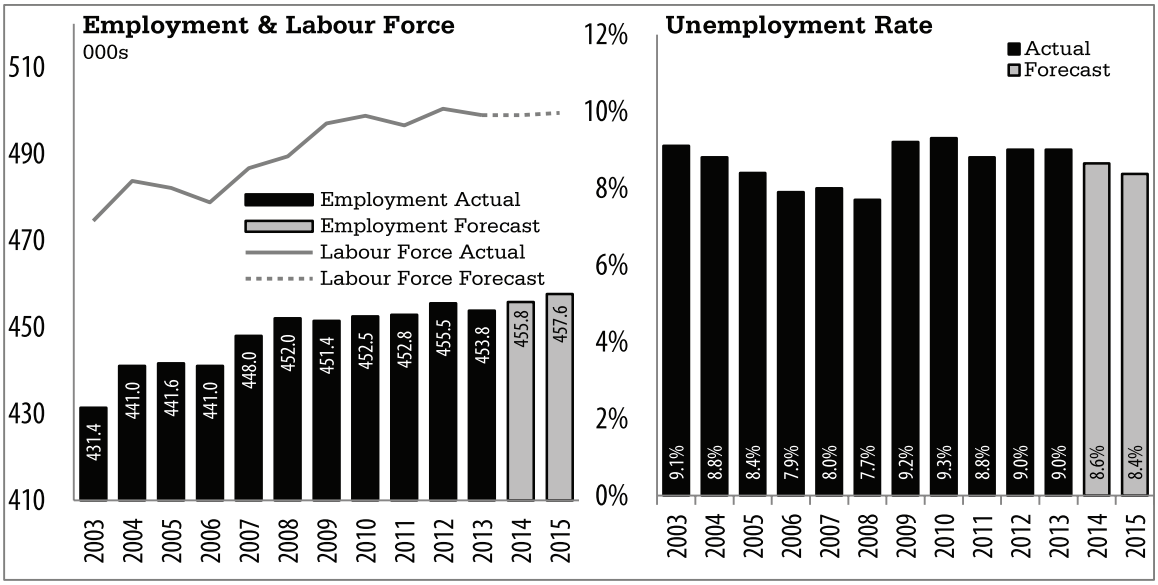


Source: Statistics Canada, CANSIM table 384-0038, NS Department of Finance and Treasury Board forecast

Among the major contributors to the outlook for nominal GDP growth, the provincial budget assumes that final consumption spending by households and governments will remain supportive, but at a slower pace than historical averages. While exports are expected to continue their growth with a strengthening US economy and renewed natural gas production, imports are also expected to rise, partially offsetting export gains. This external demand is expected to combine with major project investments to drive growth faster in 2014 and 2015.

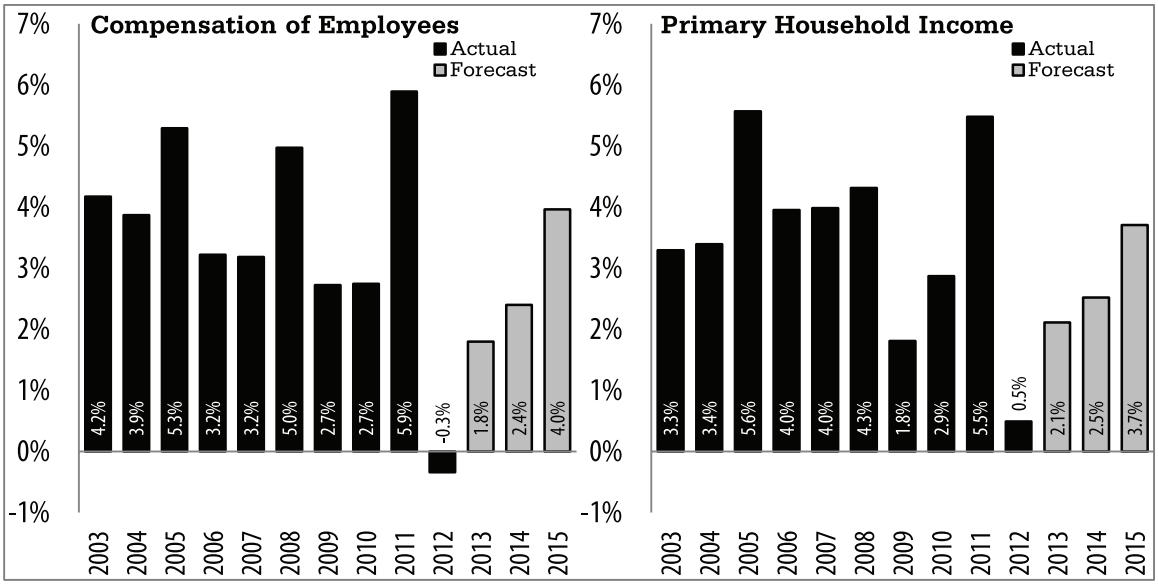


Source: Statistics Canada, CANSIM table 384-0038, NS Department of Finance and Treasury Board forecast



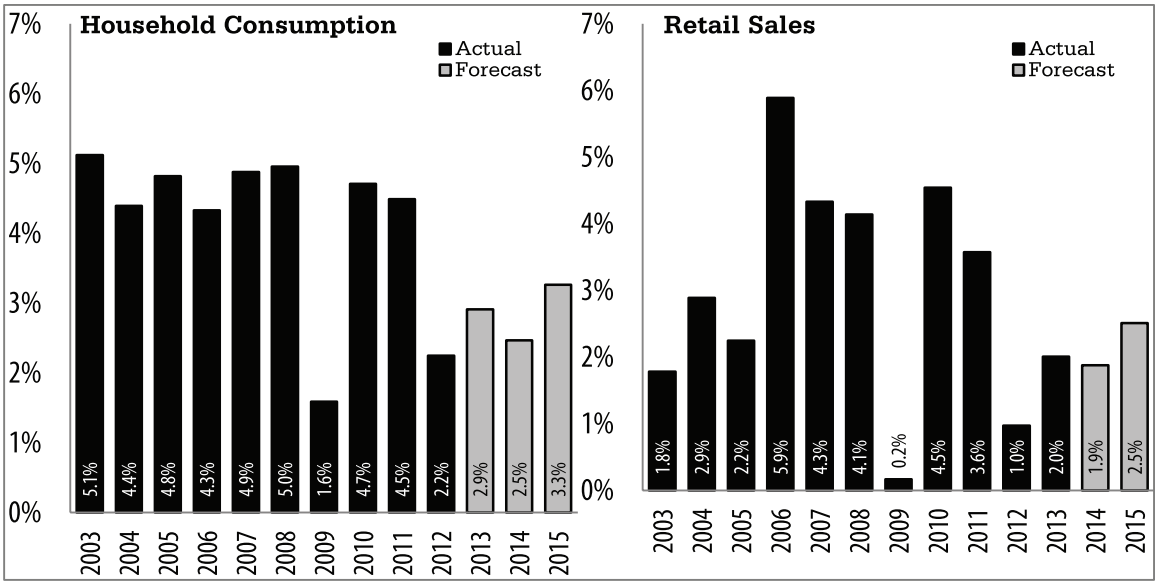
Source: Statistics Canada, CANSIM table 282-0002, NS Department of Finance and Treasury Board forecast

Nova Scotia's labour market has seen little change in the past few years as labour force growth has slowed, containing employment expansion. With a stable and aging population, the Nova Scotia labour force is expected to remain unchanged in the coming two years, keeping employment growth under 4,000 over this period. The unemployment rate is likewise expected to decline slowly as modest employment gains reduce the number of unemployed persons in a stable labour force.

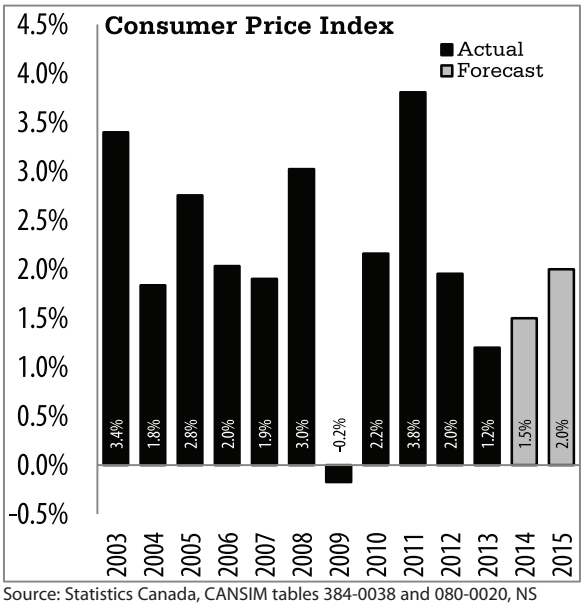


Source: Statistics Canada, CANSIM tables 384-0037 and 384-0040, NS Department of Finance and Treasury Board forecast

Preliminary data for 2013 report that employee compensation grew at a pace of 1.8 per cent—the slowest annual pace in recent years (excluding the impact of the 2011 spike in employee compensation that resulted in a decline in 2012). In 2014, slow growth in employment, coupled with wage growth in line with inflation, is expected to cause some improvement in employee compensation growth. With commencement of shipbuilding activities expected in late 2015, employee compensation growth accelerates to 4.0 per cent, which is consistent with the pace observed during pre-recession economic expansion. Counting all primary sources, household income is projected to grow more slowly than recent trends in 2013 and 2014 before rising to 3.7 per cent growth in 2015.



Source: Statistics Canada, CANSIM tables 384-0038 and 080-0020, NS Department of Finance and Treasury Board forecast



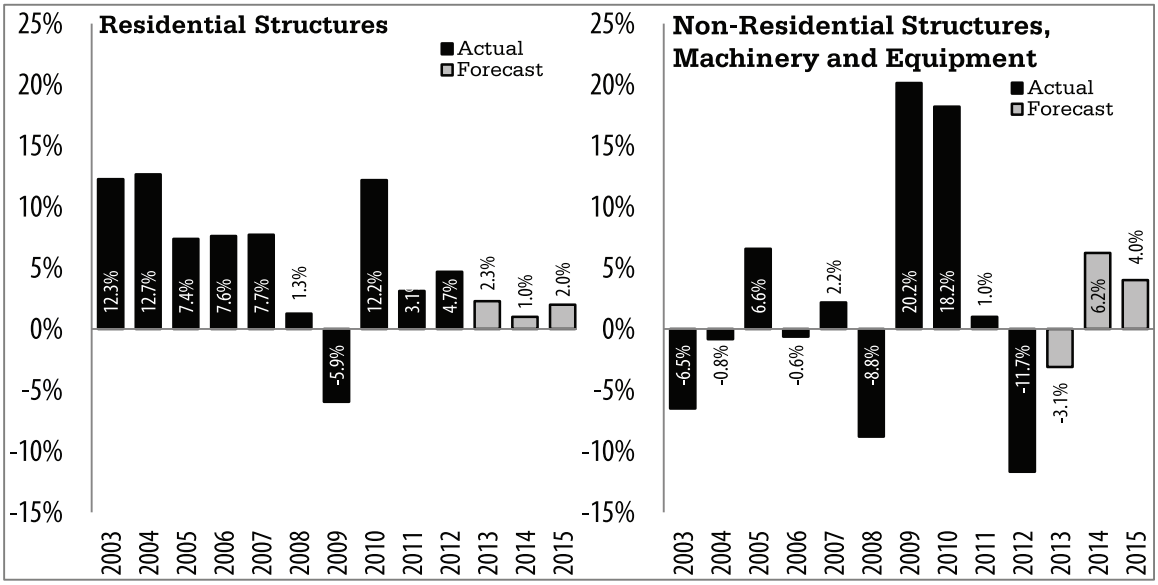
Source: Statistics Canada, CANSIM tables 384-0038 and 080-0020, NS Department of Finance and Treasury Board forecast

Consumer price inflation was 1.2 per cent in 2013—below recent trends. There is limited inflationary pressure throughout the world and price growth is expected to be weak again in 2014 before returning to more typical inflation of 2.0 per cent in 2015.

With income growth and prices expected to remain below long-run trends, the pace of nominal consumption spending increases is also projected to be muted. It is only after sustained income growth in the medium term that household consumption spending and associated retail sales should be expected to return to long-run trends.

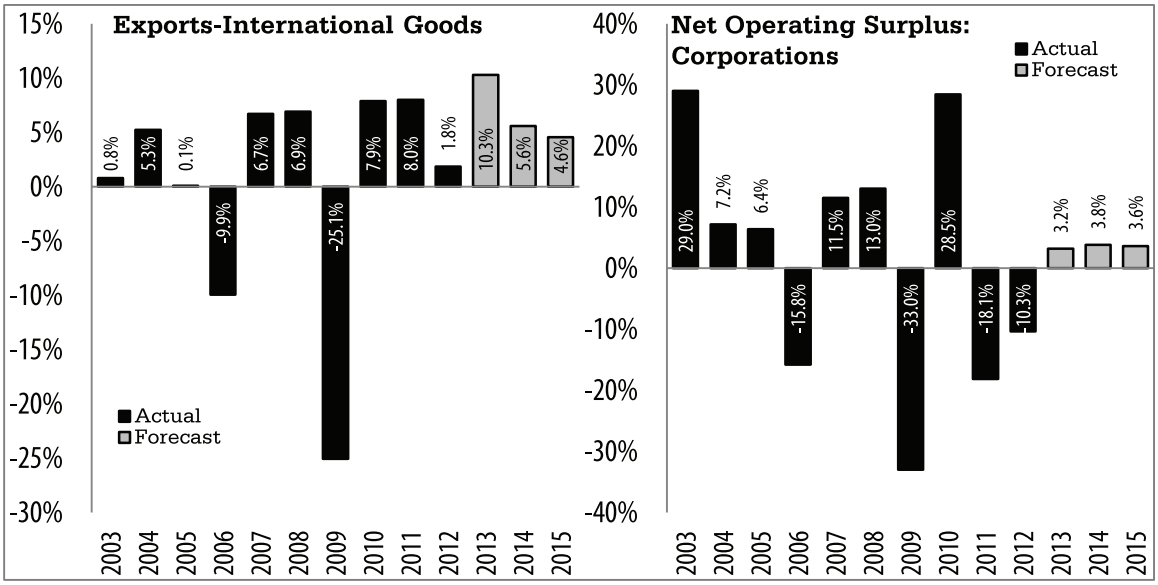
Nova Scotia's residential construction investments grew by 2.3 per cent in 2013 according to preliminary data. As tighter mortgage rules continue to weigh on first-time homebuyers and prices fall, Nova Scotia's housing investments are expected to finally slow to 1.0 per cent.

Non-residential construction activities declined in 2013 (preliminary results), particularly for institutional and government investments outside Halifax. With large non-residential construction projects continuing in 2014, the pace of non-residential and machinery/ equipment investment growth is expected to rebound to 6.2 per cent in 2014 and 4.0 per cent in 2015.



Source: Source: Statistics Canada, CANSIM table 384-0038, NS Department of Finance and Treasury Board forecast

Although industrial production is assumed to be reduced because of the tire line closure at Michelin's Granton facility, overall international goods exports are forecast to rebound with the accelerating US recovery, and Nova Scotia companies are forecast to return to growing net operating surplus. However, weakness in the provincial and national domestic economies is expected to limit the pace of corporate net operating surplus growth.



Source: Statistics Canada, CANSIM tables 384-0037 and 384-0038, NS Department of Finance and Treasury Board forecast

The Nova Scotia economic forecast contains data and information up to and including March 4, 2014.

Nova Scotia Economic Forecast

	2013	2014	2015
Real GDP $2007, (growth)	0.3%	1.4%	2.1%
Nominal GDP (growth)	1.5%	2.9%	4.3%
Compensation of Employees (growth)	1.8%	2.4%	4.0%
Primary Household Income (growth)	2.1%	2.5%	3.7%
Household Final Consumption (growth)	2.9%	2.5%	3.3%
Retail Sales (growth)	2.0%	1.9%	2.5%
Consumer Price Index (growth)	1.2%	1.5%	2.0%
Residential Investment (growth)	2.3%	1.0%	2.0%
Net Operating Surplus: Corporations (growth)	3.2%	3.8%	3.6%
Exports of Goods to Other Countries (growth)	10.3%	5.6%	4.6%
Population (000s)	940.8a	939.5	939.3
Employment (000s)	453.8a	455.8	457.6
Unemployment Rate (%)	9.0a	8.6%	8.4%

a~actual (forecast growth rates apply to actuals as known by March 4, 2014)

Private Sector Forecasters' Outlook for Nova Scotia

	2013	2014	2015
Real GDP $2007, (growth) Average of Private Sector Forecasters	1.1%	2.1%	2.4%
Real GDP $2007, (growth) Maximum of Private Sector Forecasters	*1.3%*	*2.6%*	*2.8%*
Real GDP $2007, (growth) Minimum of Private Sector Forecasters	*0.8%*	*1.7%*	*2.1%*
Nominal GDP*	1.7%	3.7%	5.0%
Retail Sales*		2.8%	3.8%
Consumer Price Index		1.6%	2.0%
Employment		456.8	463.5
Unemployment Rate		8.7	8.1

As published by March 4, 2014

* Only a limited number of forecasters publish outlook for nominal GDP and for retail sales.

Risks to the Economic Forecast

The Nova Scotia Budget economic assumptions constitute a forward-looking assessment of economic conditions for the province, based on information up to March 4, 2014. As new information is revealed subsequent to March 4, 2014, the results of this forecast are subject to change. When substantial deviations are observed after publication of the Budget Assumptions, the Department of Finance and Treasury Board will revise its economic outlook.

With greater momentum behind a global economic recovery, the economic outlook contains fewer uncertainties than in previous forecasts. With the flow of "safe haven" investments to Canada now reversing, there is some possibility that the Canadian currency could fall below the Budget assumption. This has the potential to improve externally driven growth as Canadian competitiveness benefits from a weaker currency and marginal imports are displaced by domestically produced goods. Higher natural gas prices could also improve nominal export values. With limited inflationary pressure, Canada's monetary authorities could keep interest rates lower for longer in an attempt to avoid deflation (albeit at the risk of exacerbating household debt overhang). In previous outlooks, uncertainty about the impacts of Federal government spending restraint was a negative risk. With most austerity initiatives underway or concluded, the risks associated with changing Federal spending in Nova Scotia are more balanced for the 2014-15 outlook. These upside risks are offset by global financial and commodity risks from geopolitical upheaval, particularly if the European energy market is destabilized by actions in and reactions to the situation in the Ukraine.

Nova Scotia's domestic forecast risks have proven to be the greater source of downward revision to the economic outlook. As has been the experience in 2011 and 2012, major industrial closures can have large and unforeseen impacts on the provincial economy.

The provincial economic outlook only factors in major investments that have achieved sufficient certainty in planning. There are a number of projects at the developmental stage that are not included in this forecast and could boost economic growth in the medium term (beyond 2015).

Nova Scotia's economic outlook is expected to be influenced by the pace and scale of certain major projects such as the national shipbuilding procurement strategy (assumed to start major expenditures in late 2015), the Maritime Link to Lower Churchill hydroelectric power, wind energy developments, Macdonald Bridge re-decking, offshore energy exploration, and the completion of the Halifax convention centre. The ability of the provincial economy to respond to these major project investments depends on the extent to which the work is performed by local firms and the capacity of the labour force to undertake them.

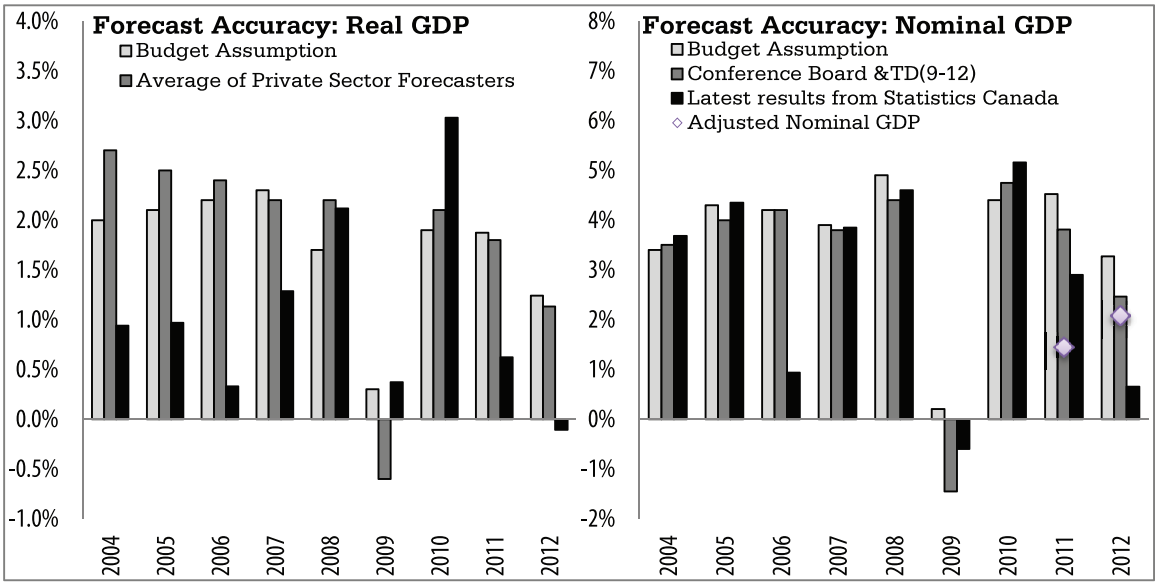
Nova Scotia's economic growth is projected to accelerate over the time during which these major projects unfold. However, this depends on the medium-term demographic assumption that net out-migration trends reverse (or are offset by immigration). Without sufficient labour supply to meet major project needs, the impact of these projects may be different than anticipated in this outlook. More fundamentally, the impacts of demographic changes on Nova Scotia's potential GDP growth could constitute a barrier to growth. This demographically driven barrier may be overcome through capital accumulation, resource development, trade, and productivity, but this requires changes to business practices by Nova Scotia firms.

As observed in the 2013–2014 Provincial Budget economic assumptions, Statistics Canada has adopted a new structure of presenting the Provincial Economic Accounts. Although Statistics Canada released a full history of these revisions in late December, they have not yet been incorporated into a revised forecast model. Ad hoc procedures used in last year's economic forecast remain in place and constitute a level of uncertainty in this economic forecast.

Economic Forecasting Process

Section 56(3)(b) of the Finance Act requires the Minister of Finance to present the major economic assumptions made in preparing the fiscal plan. The Nova Scotia Department of Finance and Treasury Board prepares economic forecasts as part of the fiscal planning process. The provincial forecast results are generated in Statistics Canada's revised income and expenditure account format (SNA2012).

Economic forecasts help inform the Minister of Finance and Treasury Board of the potential size of tax bases. The economic forecast also provides the Minister and the Treasury Board with context on the size of government expenditures relative to the entire value of production in the province. Nominal GDP growth is the broadest indicator of the size of the tax base and of the dollar value of production in the province. However, it is generally the sub-components of nominal GDP that are directly incorporated into the Budget revenue forecast.



Source:Provincial Budgets, Private Sector Economic Forecasts, Statistics Canada CANSIM table 384-0038

The Department of Finance and Treasury Board uses a proprietary econometric forecasting model to project the key indicators of Nova Scotia's economy. The model builds future projections on historical trends as well as a number of exogenous (i.e., external) assumptions about global conditions that affect the performance of Nova Scotia's economy. The demographic and economic outlooks presented in this document are based on data, fiscal plans, and information available up to March 4, 2014. This leads to a forecast prepared, reviewed, and approved for use in fiscal planning as of March 19, 2014.

Nevertheless, unforeseen and unforeseeable events will undermine the accuracy of any forward-looking statement such as an economic forecast, and the results of the provincial economic forecast are only intended to provide a reasonable basis for fiscal planning. In recent years, this has included events such as closure of major industrial facilities, unanticipated slowdowns in natural gas production, and federal government austerity.

Economic forecasting is also vulnerable to historical data revisions. In 2011, the provincial government undertook a $536 million payment to the public service pension plan. This was recorded as a one-time contribution to employee compensation that was not repeated in 2012. As a result, growth in nominal GDP in 2011 was artificially inflated by this one-time payment while growth in 2012 was artificially depressed by the absence of this payment (there were no impacts on real GDP from this transaction). An adjusted series of nominal GDP growth shows that forecasts actually overstated growth in 2011 as opposed to 2012.

In the process of generating an economic forecast, staff identify conditions that are expected to deviate from historical trends and make appropriate adjustments to reflect these events. This exercise of professional judgment is documented and disclosed to decision-makers prior to releasing the economic forecast.

Because forecasting is a difficult but important part of the budget planning process, the Department of Finance and Treasury Board conducts challenge and review sessions to validate the economic forecast. Before using economic assumptions and forecasts for budget planning, the Department of Finance and Treasury Board presents them to members of the academic community and leading private-sector forecasters. These experts evaluate whether the exogenous assumptions and resulting economic forecasts form a reasonable and internally coherent basis for fiscal planning. Department staff note any challenges to the economic forecast and determine whether further adjustments are necessary. Senior management of the Department of Finance and Treasury Board participate in challenge sessions, so that they can hear credible, objective advice on whether the economic forecast is a reasonable basis for fiscal planning.

After the economic forecast has been challenged, reviewed, and approved, it is shared with the Office of the Auditor General for further review as part of the OAG's review of revenue estimates. In addition to scrutinizing the reasonableness of the forecast itself, the OAG ensures that the economic forecast reflects consistent process, full disclosure of assumptions, and professional judgment, and appropriate approvals. The OAG's review of economic forecasts is a unique procedure in Canada, providing an additional layer of transparency in the budget process.

Nova Scotia Economic Performance and Outlook, Key Indicators

Nova Scotia Economic Performance and Outlook, Key Indicators

		ACTUAL				
		2008	2009	2010	*2011	2012
Gross domestic product at market prices ($millions current)		35,467	35,254	37,073	38,147	38,397
	(% change)	4.6%	-0.6%	5.2%	2.9%	0.7%
Gross domestic product at market prices ($2007, chained millions)		34,625	34,753	35,806	36,029	35,990
	(% change)	2.1%	0.4%	3.0%	0.6%	-0.1%
Compensation of employees ($millions current)		18,404	18,905	19,424	20,569	20,499
	(% change)	5.0%	2.7%	2.7%	5.9%	-0.3%
Primary household income ($millions current)		25,089	25,543	26,276	27,716	27,852
	(% change)	4.3%	1.8%	2.9%	5.5%	0.5%
Household final consumption expenditure ($millions current)		23,402	23,774	24,894	26,012	26,596
	(% change)	5.0%	1.6%	4.7%	4.5%	2.2%
Retail sales ($millions current)		12,121	12,141	12,692	13,146	13,274
	(% change)	4.1%	0.2%	4.5%	3.6%	1.0%
Consumer Price Index (all-items, Index 2002=100)		115.9	115.7	118.2	122.7	125.1
	(% change)	3.0%	-0.2%	2.2%	3.8%	2.0%
Business gross fixed capital formation: residential structures ($millions current)		2,389	2,247	2,521	2,600	2,722
	(% change)	1.3%	-5.9%	12.2%	3.1%	4.7%
Business gross fixed capital formation: non-res., M&E ($millions current)		2,526	3,035	3,588	3,624	3,201
	(% change)	-8.8%	20.2%	18.2%	1.0%	-11.7%
Net operating surplus: corporations ($millions current)		3,841	2,574	3,307	2,708	2,428
	(% change)	13.0%	-33.0%	28.5%	-18.1%	-10.3%
Exports of goods and services ($millions current)		16,151	13,691	14,661	15,554	15,820
	(% change)	6.2%	-15.2%	7.1%	6.1%	1.7%
Exports of goods to other countries ($millions current)		6,754	5,062	5,462	5,900	6,009
	(% change)	6.9%	-25.1%	7.9%	8.0%	1.8%
Imports of goods and services ($millions current)		22,688	21,607	23,327	25,288	25,699
	(% change)	3.5%	-4.8%	8.0%	8.4%	1.6%
Population (all ages, 000s July 1)		935.9	938.2	942.1	944.5	945.1
	(% change)	0.1%	0.2%	0.4%	0.3%	0.1%
Population (ages 18-64, 000s)		613.4	615.3	618.1	618.9	615.4
	(% change)	0.1%	0.3%	0.5%	0.1%	-0.6%
Labour Force (000s)		489.4	497.0	498.8	496.6	500.4
	(% change)	0.6%	1.6%	0.4%	-0.4%	0.8%
Participation rate (%)		63.6%	64.3%	64.2%	63.7%	64.1%
	(change)	0.1%	0.7%	-0.1%	-0.5%	0.4%
Employment (000s)		452.0	451.4	452.5	452.8	455.5
	(% change)	0.9%	-0.1%	0.2%	0.1%	0.6%
Employment Rate (%)		58.8%	58.4%	58.2%	58.1%	58.4%
	(change)	0.3%	-0.4%	-0.2%	-0.1%	0.3%
Unemployment Rate (%)		7.7%	9.2%	9.3%	8.8%	9.0%
	(change)	-0.3%	1.5%	0.1%	-0.5%	0.2%

**Results for 2011 include $536 million pension payment, directly affecting nominal GDP, compensation of employees and primary household income.*

Nova Scotia Economic Performance and Outlook, Key Indicators

		FORECAST			ANNUAL AVERAGE	
		2013	2014	2015	2008-12	2012-15
Gross domestic product at market prices ($millions current)		38,971	40,112	41,819		
	(% change)	*1.5%*	*2.9%*	*4.3%*	*2.0%*	*2.9%*
Gross domestic product at market prices ($2007, chained millions)		36,095	36,603	37,376		
	(% change)	*0.3%*	*1.4%*	*2.1%*	*1.0%*	*1.3%*
Compensation of employees ($millions current)		20,868	21,369	22,215		
	(% change)	*1.8%*	*2.4%*	*4.0%*	*2.7%*	*2.7%*
Primary household income ($millions current)		28,441	29,157	30,237		
	(% change)	*2.1%*	*2.5%*	*3.7%*	*2.6%*	*2.8%*
Household final consumption expenditure ($millions current)		27,370	28,044	28,960		
	(% change)	*2.9%*	*2.5%*	*3.3%*	*3.3%*	*2.9%*
Retail sales ($millions current)		13,537	13,795	14,141		
	(% change)	*2.0%*	*1.9%*	*2.5%*	*2.3%*	*2.1%*
Consumer Price Index (all-items, Index 2002=100)		126.6	128.5	131.1		
	(% change)	*1.2%*	*1.5%*	*2.0%*	*1.9%*	*1.6%*
Business gross fixed capital formation: residential structures ($millions current)		2,785	2,812	2,869		
	(% change)	*2.3%*	*1.0%*	*2.0%*	*3.3%*	*1.8%*
Business gross fixed capital formation: non-res., M&E ($millions current)		3,102	3,296	3,427		
	(% change)	*-3.1%*	*6.2%*	*4.0%*	*6.1%*	*2.3%*
Net operating surplus: corporations ($millions current)		2,505	2,601	2,696		
	(% change)	*3.2%*	*3.8%*	*3.6%*	*-10.8%*	*3.6%*
Exports of goods and services ($millions current)		16,693	17,688	18,561		
	(% change)	*5.5%*	*6.0%*	*4.9%*	*-0.5%*	*5.5%*
Exports of goods to other countries ($millions current)		6,628	7,000	7,319		
	(% change)	*10.3%*	*5.6%*	*4.6%*	*-2.9%*	*6.8%*
Imports of goods and services ($millions current)		26,160	26,986	27,654		
	(% change)	*1.8%*	*3.2%*	*2.5%*	*3.2%*	*2.5%*
Population (all ages, 000s July 1)		940.8	939.5	939.3		
	(% change)	*-0.5%*	*-0.1%*	*0.0%*	*0.2%*	*-0.2%*
Population (ages 18-64, 000s)		607.8	604.1	600.4		
	(% change)	*-1.2%*	*-0.6%*	*-0.6%*	*0.1%*	*-0.8%*
Labour Force (000s)		498.9	498.9	499.4		
	(% change)	*-0.3%*	*0.0%*	*0.1%*	*0.6%*	*-0.1%*
Participation rate (%)		63.8%	63.8%	63.8%	‡64.0%	‡63.9%
	(change)	*-0.3%*	*0.0%*	*0.0%*		
Employment (000s)		453.8	455.8	457.6		
	(% change)	*-0.4%*	*0.4%*	*0.4%*	*0.2%*	*0.2%*
Employment Rate (%)		58.1%	58.3%	58.5%	‡58.4%	‡58.3%
	(change)	*-0.3%*	*0.2%*	*0.2%*		
Unemployment Rate (%)		9.0%	8.6%	8.4%	‡8.8%	‡8.8%
	(change)	*0.0%*	*-0.4%*	*-0.2%*		

‡Average level over period, not average change