Budget Assumptions and Schedules

for the fiscal year 2011–2012

The Honourable Graham Steele
Minister of Finance

NOVA SCOTIA

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Table of Contents

NOVA SCOTIA

Budgetary Information

Supplementary to the 2011–2012 Budget

BUDGET SUMMARY - STATEMENT OF OPERATIONS

Schedule 1A

($ thousands)

	2010-2011 Estimate	2010-2011 Forecast	2011-2012 Estimate
General Revenue Fund			
Revenues			
Ordinary Revenues	7,623,118	8,040,638	**7,771,549**
Fees and Other Charges	62,537	66,625	**64,896**
Ordinary Recoveries	616,284	597,681	**582,751**
Sinking Fund Earnings	89,092	93,562	**104,803**
	8,391,031	**8,798,506**	**8,523,999**
Expenses			
Departmental Expenses	8,021,916	7,888,451	**8,344,763**
Tax Credits and Rebates	54,800	49,100	**74,943**
Pension Valuation Adjustment	8,448	(22,913)	**31,761**
Debt Servicing Costs	959,197	879,189	**885,485**
	9,044,361	**8,793,827**	**9,336,952**
	(653,330)	**4,679**	**(812,953)**
Consolidation and Accounting Adjustments for Government Units			
Consolidated Fund Consolidation Adjustments	92,803	85,632	**70,554**
Health and Hospital Boards Operations	---	(2,854)	**2,854**
School Boards Operations	(6,035)	(3,432)	**---**
Special Purpose Funds	(2,870)	(48)	**(880)**
Other Organizations	(1,224)	5,794	**(3,711)**
	82,674	**85,092**	**68,817**
Net Income from Government Business Enterprises			
Nova Scotia Gaming Corporation	116,400	127,000	**112,900**
Nova Scotia Liquor Corporation	223,459	221,456	**228,066**
Other Enterprises	8,714	8,981	**13,613**
	348,573	**357,437**	**354,579**
Provincial Surplus (Deficit)	**(222,083)**	**447,208**	**(389,557)**

FISCAL PROJECTIONS 2010–2011 to 2014–2015

Schedule 1B

($millions)

	ESTIMATE *2010–2011*	***FORECAST*** *2010–2011*	***ESTIMATE*** *2011–2012*	***ESTIMATE*** *2012–2013*	***ESTIMATE*** *2013–2014*	***ESTIMATE*** *2014–2015*
General Revenue Fund						
Total Revenue	**8,391.0**	**8,798.5**	**8,524.0**	**8,599.6**	**8,929.5**	**9,132.2**
Expenses						
Departmental Expenses	8,021.9	7,888.4	8,344.8	8,106.7	8,176.7	8,308.3
Affordable Living and Poverty Reduction Rebates	54.8	49.1	74.9	75.6	77.5	77.5
Pension Valuation Adjustment	8.5	(22.9)	31.8	62.2	83.8	86.9
Debt Servicing Costs	959.2	879.2	885.5	960.5	983.4	1,008.2
Total expense	9,044.4	8,793.8	9,337.0	9,205.0	9,321.4	9,480.9
	(653.4)	4.7	(813.0)	(605.4)	(391.9)	(348.7)
Consolidation Adjustments	82.7	85.1	68.8	31.4	31.4	31.4
Net Income Government Business Enterprises	348.6	357.4	354.6	358.2	375.9	381.7
Provincial Surplus (Deficit)	(222.1)	447.2	(389.6)	(215.8)	15.4	64.4
Net Debt	14,002.2	13,068.5	13,747.4	14,136.5	14,225.4	14,255.7
Nominal GDP	35,335.0	35,952.0	37,578.0	39,064.0	40,784.0	42,448.0
Debt-to-GDP Ratio	39.6%	36.3%	36.6%	36.2%	34.9%	33.6%

Four-Year Fiscal Plan

In Budget 2010–2011, the Government of Nova Scotia presented its four-year fiscal plan to return the province's operating budget to a balance in 2013–2014. For fiscal 2011–2012, the government is implementing the second year of the plan.

The four-year fiscal plan estimated a deficit of $222.1 million for fiscal 2010–2011. The year-end forecast provides for a surplus of $447.2 million, in part due to an additional reduction in departmental expenses of $133.9 million over the estimate, as well as increases in revenue due to a one-time payment reflecting prior-years' adjustments and ongoing refinement of revenue data.

In keeping with the government's plan, the deficit for fiscal 2011–2012 is estimated at $389.6 million. Expenditure reductions in the 2011–2012 estimate of $170.0 million are offset by the inclusion of university funding, as anticipated in the four-year fiscal plan, as well as re-investment in tax credits, health care, and the economy.

Overview—Fiscal Trends

With the exception of petroleum royalties and tobacco tax, provincial own-source revenues are expected to slowly return to near-historical levels of growth over the medium term.

Equalization payments are expected to rise over the next few years, and the province is forecasting the receipt of Cumulative Best-of Guarantee payments during this period, as well. Reductions in federal trusts and declining Offshore Accord payments will partially offset increases.

Over the medium term, Nova Scotia's real GDP growth is expected to be more consistent with longer-term trends, growing by 1.8 per cent on average from 2010–2015.

The medium-term economic outlook is more positive than the medium-term projections in the 2010–2011 Budget. At that time, the Nova Scotia Budget assumed imminent population decline, financial market uncertainty, and quicker tightening of monetary policy.

The continued commitment to the four-year fiscal plan will result in examination of government programs, yielding further savings as programs are held to the rigours of effectiveness, affordability, and orientation to priorities. Savings will be achieved through strengthened governance, accountability, and performance management in all areas of government spending.

The deficit is expected to be $389.6 million in 2011–2012; $215.8 million in 2012–2013; and then to balance in 2013–2014.

Medium-Term Revenue Outlook

With the exception of petroleum royalties and tobacco tax, provincial own-source revenues are expected to slowly return to near-historical levels of growth over the medium term. Nova Scotia's economy fared better than other provinces during the 2009 recession. However, for 2010, this means that Nova Scotia should not be expected to match the national pace of recovery as other provinces rebound from more serious downturns. In the medium term, Nova Scotia's economy is expected to grow at a pace that is consistent with its historic trend.

During the recession of 2009, corporate profits fell by over 32 per cent nationally, but by only 3 per cent in Nova Scotia. As a result, growth in corporate profits in Nova Scotia will be slower than national growth. Nova Scotia's share of national corporate taxable income will also trend downward, consistent with the historical pattern observed prior to the recession.

The increased cost of corporate income tax credits will partially slow growth, as will the successive 0.5 percentage point

NOVA SCOTIA

reduction in the small business corporate rate implemented for the 2011 and 2012 taxation years. In addition, offshore corporate income tax is declining due to lower natural gas production, low prices, and a strong Canadian dollar relative to the US dollar. Corporate income tax will grow by an average of 3.7 per cent over the next four years.

Personal income tax revenue is expected to grow at an average rate of 4.4 per cent between 2012–2013 and 2015–2016, returning revenues to historical trend growth. The growth rate of taxable income in Nova Scotia is expected to lag the rest of the country, where the decline in personal income during the recession was more acute. In addition, the province's outlook for labour supply, employment and wage growth is slower than the national average. Between 2000 and 2007, taxable income growth in Nova Scotia was outpaced by income growth in the rest of Canada. This trend was reversed in 2008 and 2009 as many provinces suffered greater employment losses than Nova Scotia during the recession. The forecast over the medium term is for a return to the historical trend.

Government introduced two complementary measures commencing with the 2010 taxation year—the introduction of a 5th personal income tax bracket of 21 per cent on taxable income above $150,000, partially offset by the removal of the 10 per cent surtax on provincial personal income tax payable of more than $10,000. Both measures are legislated to be in place until the province returns to a fiscal balance. Additional reductions to personal income tax revenues will come in the form of increased costs of personal income tax credits (e.g., Basic Personal Amount, non-refundable credits, and growth in the cost of the Graduate Retention Rebate), and the refund of provincial income tax for Guaranteed Income Supplement (GIS) recipients.

Harmonized Sales Tax (HST) revenues are forecasted to grow by an average of 3.7 per cent between 2012–2013 and 2015–2016. The two per cent increase in the rate on July 1, 2010 contributes over $350 million per year to HST revenues. Consumer expenditure and residential housing investment growth were very strong in 2010, but growth rates in these two important tax bases are expected to slow over the medium term. Consumer expenditures account for almost 72 per cent of HST revenues. The increased HST rate also means that the value of the province's rebates (e.g., Your Energy Rebate, public sector bodies, point-of-sale rebates for children's clothing, children's footwear, etc.) will increase.

Offshore natural resource royalty revenues have been on the decline since 2008–2009, primarily due to the low market price for natural gas and declining levels of production. Over the medium term, prices are expected to remain relatively constant and production volumes will continue to decline as the Sable Offshore Energy Project nears the end of its productive life. The accrual of abandonment costs that interest holders can deduct against royalties has a significant negative impact on offshore revenues commencing in 2012. Deep Panuke production is scheduled to commence in the fourth quarter of 2011, but revenues from that project are not currently factored into revenue projections and will be insufficient to replace the revenue stream from the Sable Offshore Energy Project.

In response to these concerns, government has invested $15 million in Play Fairway Analysis, an industry standard picture of the offshore geology. Government will spend $600,000 in 2011–2012 to develop a comprehensive marketing program to share findings to date, with the objective of attracting additional exploration in the offshore.

Revenues from the tobacco tax and motive fuel taxes are expected to remain relatively stable over the medium term. Consumption of gasoline and diesel oil is forecasted to remain near current levels in the face of increasing world oil prices.

Over the past three fiscal years, Equalization payments have been supported by protection payments from the federal government to mitigate year-over-year declines. The payments have been made during a period when all provinces have been experiencing significant fiscal challenges. The province does not expect these payments to continue in the medium term. Equalization measures the relative fiscal capacity of provinces. Equalization payments are expected to rise over the next few years, as a result of the pace of recovery from the recession by other provinces, and the province is forecasting the receipt of Cumulative Best-of Guarantee payments during this period, as well. The overall growth of the Equalization program is restrained to the three-year average growth rate of the Canadian economy. The Equalization program is scheduled for renewal in 2014–2015.

The province's Offshore Accord payments are on the decline as lower offshore natural resource revenues will be included in the Equalization formula. The first eight-year phase of the 2005 Offshore Accord will end in 2011–2012, but it is expected that the province will qualify for the second phase of the accord, which runs an additional eight years until March 31, 2020. The $830 million payment received in 2005 has been fully earned as of 2011–2012, and future Offshore Accord payments will be made on a cash basis rather than a notional basis.

The national pool of cash available for the Canada Health Transfer (CHT) is legislated to grow by 6 per cent per year until March 31, 2014. The calculation of the province's payment is based upon a combination of tax points and share of national population, and is expected to grow by an average of 4 per cent per year until the program is renewed. Growth beyond April 1, 2014, may be more limited if the federal government does not maintain the current legislated escalator mechanism. In addition, the CHT is scheduled to become an equal per capita cash transfer, and Nova Scotia's declining share of the national population places downward pressure on the growth rate of this revenue source.

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

Over the past few years, the province has benefitted from the establishment of federal trusts to assist with specific purposes (e.g., infrastructure, patient wait times guarantee, community development, etc.). These trusts have reached the end of their term.

Medium-Term Spending Outlook

Government plans to hold the line on spending growth in the medium term. Planned spending in 2013–2014 is at the same level, $9.3 billion, as 2011–2012 spending.

In recent years, government introduced new programs and services that have grown steadily, while the revenues that originally supported the programs are flat. The challenge for government is to match the expenditure growth to available revenues. This means that any new or increased spending must be financed by reductions in spending elsewhere.

Total spending grew at over 5 per cent per year from 2000–2001 to 2010–2011, and departmental spending grew at over 6 per cent during that period. This high rate of growth was financed by a strong economy, both provincially and nationally, and by increasing revenues from offshore natural gas, the latter having since diminished. In 2011–2012, both total spending and departmental spending will be held flat. Although the raw numbers show an increase of $323.1 million (4 per cent) in departmental spending, this growth is entirely due to reinstatement of university funding of $327.2 million, which was not included in 2010–2011 expenses because university grants for that year had been paid in 2009–2010.

Department of Health and Wellness expenses have historically experienced high rates of growth. Over the five years from 2006–2007 to 2010–2011, Health and Wellness expenses increased at an average of 6 per cent per year. The overall increase was driven by increased utilization of health services, significantly higher wage and salary costs for medical professionals, higher costs of pharmaceuticals, and expanded long-term care services. Health capital grants were also increased as part of the stimulus program. For 2011–2012, growth in Health and Wellness costs has been contained to 1.2 per cent. This has been accomplished through significant reductions in targeted areas, such as physician costs and drug pricing; maintaining the budgets of District Health Authorities at virtually the same level as the previous year; and other reductions throughout the Department.

Government also has a plan to improve access to health care professionals and change the way emergency health care is delivered. The plan, Better Care Sooner, is currently being implemented across the province.

In the public school system, costs continued to rise even though the student population has declined quite dramatically over the past 10 years. The student population is projected to decline by 7.1 per cent from 2009–2010 to 2013–2014. Spending for public schools in the medium term is expected to decline as the student population decreases and the demographic profile of teachers and others employed in the system leads to attrition. Consequently, for 2011–2012, funding of regional school boards has been decreased by $17.6 million. The boards will also absorb cost increases, including wages.

Government grants to universities will be reduced this year by 4 per cent or $13.9 million, and negotiations will begin on a new memorandum with universities. Students will benefit from increased student assistance, the capping of tuition rates at or below the national average, as well as a continuation of the Graduate Retention Rebate.

The cost of providing Community Services—such as income assistance and housing—has also increased, from $818 million five years ago to $985.1 million in 2011–2012. The average annual growth rate between 2006–2007 and 2010–2011 was 4 per cent. In 2011–2012, Community Services costs are estimated to grow 1.4 per cent over the previous year.

Other department budgets have increased in recent years—with the help of federal recovery revenue—when the province took on responsibilities for federal-provincial labour market activities and the province added police officers and other law enforcement positions. The costs of policing are rising again in 2011–2012, and the government's jobsHere strategy and improvements in Student Assistance will lead to increased costs in the medium term.

Federal stimulus monies have impacted budgets significantly over the past two years. With the extension of the deadline for some federal programs to October 2011, there is still some spending relating to stimulus in 2011–2012 in certain departments, but the wind-down has resulted in expense decreases in other departments. For example, Service Nova Scotia and Municipal Relations shows a year-over-year expense decrease of $37.5 million, which is almost entirely related to wind-down of the stimulus from the federal Building Canada Fund and the Municipal Rural Infrastructure Fund, and is partially offset by reduced recoveries from the federal government.

Expenditure Management

A government-wide spending reduction effort has resulted in departments eliminating a combined $170.0 million in spending for the upcoming year, adding to the $54.3 million saved last year.

About 40 per cent of the spending reductions in this budget are from savings in administrative costs.

Government's spending-restraint effort has resulted in two successive years in which departmental spending has been lower than estimate.

While the fiscal plan called for $198.0 million in cost reductions in Year 2, prudence dictated a smaller reduction this year, in order to support increases in government services such as home care, and phamacare medications. As expected, expenses grow in 2011–2012 as university funding returns to an annual payment schedule.

Departmental spending reductions

Departmental spending is being reduced to a level that is sustainable.

Across government, negotiated settlements with labour unions have held wage increases to 1 per cent annually. These wage increases, along with other inflationary costs, will be absorbed by departmental budgets. Government has committed to reducing the civil service through attrition by 1,000 full-time-equivalent positions by 2013–2014. Other government-wide initiatives to reduce costs include:

- spending less on cell phones and travel
- expanding the ban on March madness spending, and other expenditure controls, to all government agencies and boards
- implemention of projects under a change and innovation fund to encourage efficiencies (So far $13 million in investments have yielded more than $9 million in annual savings.)
- a continuing review by departments and their programs, using the criteria of effectiveness and affordability

Government has relied on the Expenditure Management Initiative (EMI) to identify potential areas for cost reduction and/or containment. EMI also supports departments and agencies by assisting them with analysis, planning, and project management support.

NOVA SCOTIA

The government's Expenditure Management Initiative is showing results. Two successive budgets have come in under estimate. Government will integrate the expenditure management function within Treasury Board to ensure strengthened governance, accountability, and performance management in all areas of government spending.

The continued examinations of government programs will yield further savings as programs are held to the rigours of effectiveness, affordability, and orientation to priorities.

Government is also looking beyond 2013–2014 to ensure the province can live within our means once we get back to balance. Initiatives underway that will help sustain balance include:

- a contract management program to ensure government gets value for money by negotiating better terms in our contracts
- a further sharing of common activities across government to reduce costs and improve services. This will involve examinimg the feasibility of further streamlined common functions through shared service delivery, such as asset management, information technology, human resources, and finance—across government to improve the efficiency and effectiveness of services.
- continued implementation of the professional services policy, which to date has achieved $7 million in savings
- a government-operated chip seal and asphalt program for road maintenance, beginning this year, to help government pave more and pay less, either through direct work or by making paving contracts cheaper

Medium-Term Debt Servicing Costs

As compared to Budget 2010–2011, net debt by 2013–2014 will be lower by almost $700 million; gross debt servicing costs for 2010–2011, and 2011–2012 are significantly lower than expected, and the debt-to-GDP ratio for 2011–2012 has improved, now expected to be at 36.6 per cent.

Medium-Term Economic Outlook

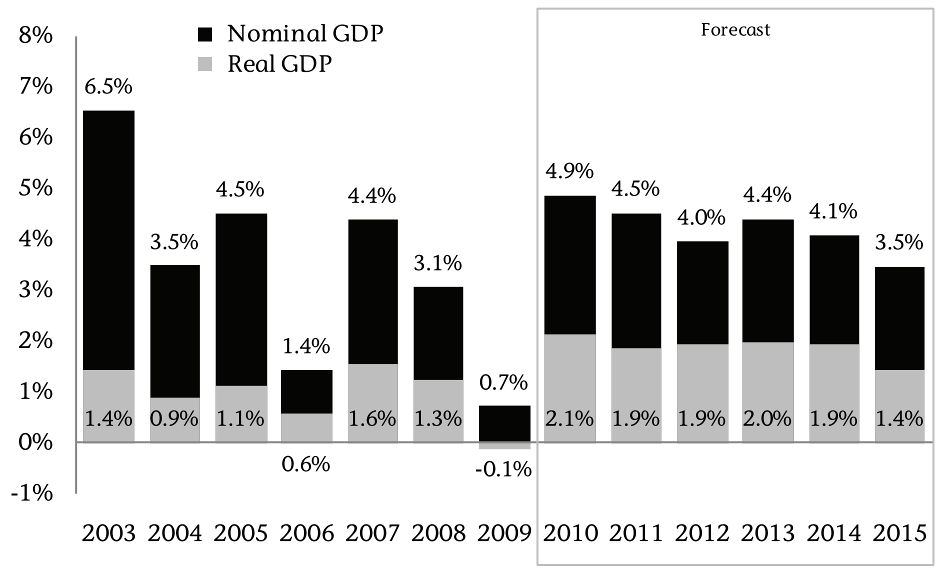
The medium-term economic outlook is more positive than the medium-term projections in the 2010–2011 Budget. At that time, the Nova Scotia Budget assumed imminent population decline, financial market uncertainty, and quicker tightening of monetary policy.

Nova Scotia's economic growth for 2009 was not as negative as some forecasters had expected. Growth in 2010 appears to be stronger, based on robust investment, labour income growth, and the reversal of the flow of out-migration.

The medium-term economic outlook has brightened somewhat. Financial markets appear to have stabilized. Emerging economies are leading global growth, while the prospects for recovery in North American are solid.

Nova Scotia's Medium-Term Economic Outlook

Per cent growth, Gross Domestic Product



Source: Statistics Canada (CANSIM 384-0002), Nova Scotia Department of Finance

Stronger results than expected for 2010 combine with a more stable population outlook to partially offset the impacts of fiscal restraint and a higher Canadian dollar in the medium term.

Over the medium term, Nova Scotia's real GDP growth is expected to be more consistent with longer-term trends, growing by 1.8 per cent on average from 2010–2015. This is about the same pace at which the economy grew from 1990–2009, although nominal growth of 4.1 per cent is slightly faster than the long-run trend of 3.8 per cent.

The province's medium-term economic outlook forms the basis for revenue projections. This is an assumption that helps inform the medium-term fiscal plan; but as a five-year economic projection, it is subject to considerable forecast error beyond the short term.

Any longer term forecast is susceptible to a number of positive and negative risks. These include: currency volatility, commodity price fluctuations, monetary policy decisions, unforeseen major project investments, and productivity improvements. If some of these conditions differ from the current assumptions, the government's fiscal planning may be affected.

NOVA SCOTIA

Financial Statistics

Supplementary to the 2011–2012 Budget

REVENUES BY SOURCE

Schedule 1C

($ thousands)

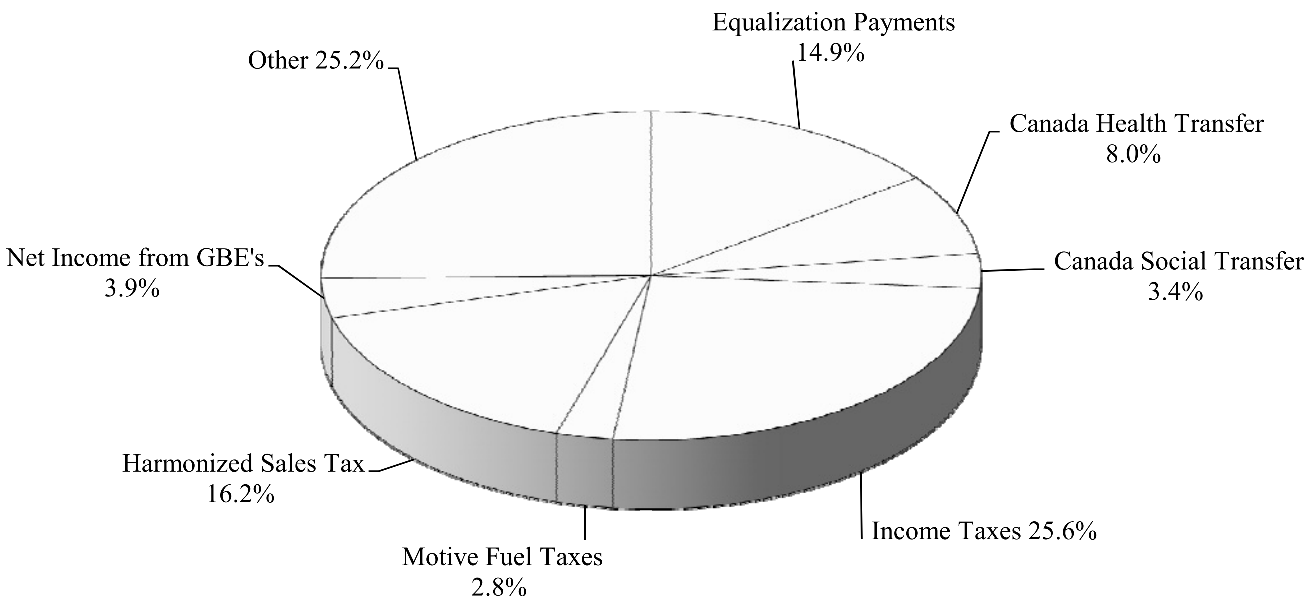
	ACTUAL 2007-2008 (Restated)	ACTUAL 2008-2009	ACTUAL 2009-2010	FORECAST 2010-2011	ESTIMATE 2011-2012
General Revenue Fund: Revenues					
Provincial Sources					
Corporate Income Tax	389,473	352,476	308,832	399,047	393,743
Harmonized Sales Tax	1,074,875	1,174,966	1,187,177	1,483,464	1,621,243
Individual Income Tax	1,778,395	1,818,415	1,827,643	1,944,635	1,981,275
Interest Revenues	87,900	84,780	81,898	92,029	96,617
Motive Fuel Taxes	249,189	243,379	248,128	254,687	253,653
Offshore Licenses Forfeitures	107,059	2,063	14,789	433	---
Registry of Motor Vehicles	99,107	112,594	111,763	112,355	110,897
Royalties - Petroleum	399,679	451,795	125,634	170,274	110,352
Tobacco Tax	145,573	147,654	199,149	213,783	213,112
Other Provincial Sources	303,994	290,596	294,998	309,940	285,186
TCA Cost Shared Revenue	4,461	2,999	12,027	10,431	3,150
Prior Years' Adjustments - Provincial Sources	85,779	53,904	40,338	196,102	---
Fees and Other Charges	56,410	61,980	66,342	66,625	64,896
Ordinary Recoveries - Provincial Sources	261,443	274,032	304,752	300,517	278,187
Sinking Fund Earnings	112,834	116,384	92,188	93,562	104,803
Total - Provincial Sources	**5,156,171**	**5,188,017**	**4,915,658**	**5,647,884**	**5,517,114**
Federal Sources					
Canada Health Transfer	638,954	668,683	700,137	728,602	758,947
Canada Social Transfer	280,413	297,114	301,978	309,233	315,047
C48 Infrastructure Trust Funds	43,090	29,913	9,416	---	---
C52 Trust Funds	2,669	5,992	39,619	3,273	700
Crown Share	234,400	95,114	79,386	29,717	21,666
Equalization Payments	1,464,528	1,464,935	1,464,935	1,360,722	1,342,552
Knowledge Infrastructure Program	---	---	10,331	32,970	4,641
Offshore Oil and Gas Payments	68,238	105,884	180,072	227,225	167,755
Other Federal Sources	40,134	50,411	39,202	67,874	23,250
TCA Cost Shared Revenue	31,206	36,366	108,772	95,552	67,763
Prior Years' Adjustments - Federal Sources	12,277	7,630	(5,831)	(1,710)	---
Ordinary Recoveries - Federal Sources	207,142	184,723	312,224	297,164	304,564
Total - Federal Sources	**3,023,051**	**2,946,765**	**3,240,241**	**3,150,622**	**3,006,885**
Total - Revenues	**8,179,222**	**8,134,782**	**8,155,899**	**8,798,506**	**8,523,999**
Net Income from Government Business Enterprises					
Nova Scotia Gaming Corporation	134,198	133,394	127,160	127,000	112,900
Nova Scotia Liquor Corporation	198,671	212,613	219,363	221,456	228,066
Other Enterprises	11,289	13,573	12,208	8,981	13,613
	344,158	**359,580**	**358,731**	**357,437**	**354,579**
Total - Revenues	**8,523,380**	**8,494,362**	**8,514,630**	**9,155,943**	**8,878,578**

	ACTUAL 2007-2008 (Restated)	ACTUAL 2008-2009	ACTUAL 2009-2010	FORECAST 2010-2011	ESTIMATE 2011-2012
General Revenue Fund: Revenues					
Provincial Sources					
Corporate Income Tax	4.6%	4.1%	3.6%	4.4%	4.4%
Harmonized Sales Tax	12.6%	13.8%	13.9%	16.2%	18.3%
Individual Income Tax	20.9%	21.4%	21.5%	21.2%	22.3%
Interest Revenues	1.0%	1.0%	1.0%	1.0%	1.1%
Motive Fuel Taxes	2.9%	2.9%	2.9%	2.8%	2.9%
Offshore Licenses Forfeitures	1.3%	0.0%	0.2%	0.0%	---
Registry of Motor Vehicles	1.2%	1.3%	1.3%	1.2%	1.2%
Royalties - Petroleum	4.7%	5.3%	1.5%	1.9%	1.2%
Tobacco Tax	1.7%	1.7%	2.3%	2.3%	2.4%
Other Provincial Sources	3.6%	3.4%	3.5%	3.4%	3.2%
TCA Cost Shared Revenue	0.1%	0.0%	0.1%	0.1%	0.0%
Prior Years' Adjustments - Provincial Sources	1.0%	0.6%	0.5%	2.1%	---
Fees and Other Charges	0.7%	0.7%	0.8%	0.7%	0.7%
Ordinary Recoveries - Provincial Sources	3.1%	3.2%	3.6%	3.3%	3.1%
Sinking Fund Earnings	1.3%	1.4%	1.1%	1.0%	1.2%
Total - Provincial Sources	**60.5%**	**61.1%**	**57.7%**	**61.7%**	**62.1%**
Federal Sources					
Canada Health Transfer	7.5%	7.9%	8.2%	8.0%	8.5%
Canada Social Transfer	3.3%	3.5%	3.5%	3.4%	3.5%
C48 Infrastructure Trust Funds	0.5%	0.4%	0.1%	---	---
C52 Trust Funds	0.0%	0.1%	0.5%	0.0%	0.0%
Crown Share	2.8%	1.1%	0.9%	0.3%	0.2%
Equalization Payments	17.2%	17.2%	17.2%	14.9%	15.1%
Knowledge Infrastructure Program	---	---	0.1%	0.4%	0.1%
Offshore Oil and Gas Payments	0.8%	1.2%	2.1%	2.5%	1.9%
Other Federal Sources	0.5%	0.6%	0.5%	0.7%	0.3%
TCA Cost Shared Revenue	0.4%	0.4%	1.3%	1.0%	0.8%
Prior Years' Adjustments - Federal Sources	0.1%	0.1%	-0.1%	0.0%	---
Ordinary Recoveries - Federal Sources	2.4%	2.2%	3.7%	3.2%	3.4%
Total - Federal Sources	**35.5%**	**34.7%**	**38.1%**	**34.4%**	**33.9%**
Total - Revenues	**96.0%**	**95.8%**	**95.8%**	**96.1%**	**96.0%**
Net Income from Government Business Enterprises					
Nova Scotia Gaming Corporation	1.6%	1.6%	1.5%	1.4%	1.3%
Nova Scotia Liquor Corporation	2.3%	2.5%	2.6%	2.4%	2.6%
Other Enterprises	0.1%	0.2%	0.1%	0.1%	0.2%
	4.0%	**4.2%**	**4.2%**	**3.9%**	**4.0%**
Total - Revenues	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

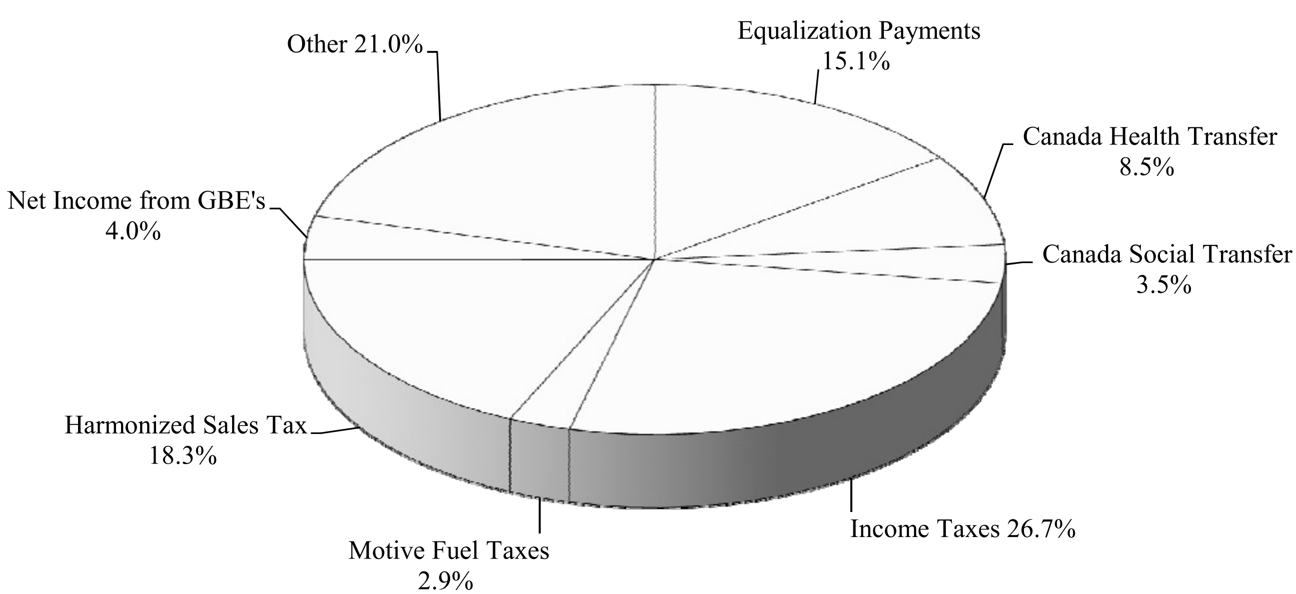
REVENUES BY SOURCE

Chart 1A

2010-2011 FORECAST



2011-2012 ESTIMATE



EXPENSES BY DEPARTMENT

Schedule 1D

($ thousands)

	ACTUAL 2007-2008 (Restated)	ACTUAL 2008-2009 (Restated)	ACTUAL 2009-2010	FORECAST 2010-2011	ESTIMATE 2011-2012
Agriculture	76,071	65,984	70,978	64,533	61,115
Communities, Culture and Heritage	---	---	---	---	55,100
Community Services	870,324	890,631	944,934	956,668	985,084
Economic and Rural Development	99,713	91,012	73,356	84,368	---
Economic and Rural Development and Tourism	---	---	---	---	125,610
Education	1,230,048	1,261,885	1,279,285	1,316,251	1,135,237
Energy	44,282	35,881	24,677	30,361	30,462
Environment	---	27,907	42,581	48,195	27,582
Environment and Labour	71,968	---	---	---	---
Finance	28,016	27,085	27,123	31,860	36,007
Fisheries and Aquaculture	6,934	7,311	8,654	13,225	8,462
Health and Wellness	3,013,902	3,165,806	3,369,241	3,597,726	3,768,259
Health Promotion and Protection	68,192	87,666	85,042	104,538	---
Justice	235,029	262,071	277,805	282,029	302,036
Labour and Advanced Education	---	67,410	146,328	170,974	345,211
Assistance to Universities	422,589	485,468	450,359	57,010	384,792
Natural Resources	87,489	86,829	92,373	92,258	92,845
Public Service	132,770	157,602	184,026	176,917	178,938
Seniors	---	1,693	1,903	1,902	1,881
Service Nova Scotia and Municipal Relations	237,046	244,388	278,665	294,013	274,761
Tourism, Culture and Heritage	57,400	61,356	62,930	61,000	---
Transportation and Infrastructure Renewal	366,289	381,343	378,286	403,200	420,362
Restructuring Costs	56,727	154,861	159,594	101,423	111,019
Gain (Loss) on the Disposal of Assets	(4,169)	(1,076)	(14,943)	---	---
Total Program Expenses	**7,100,620**	**7,563,113**	**7,943,197**	**7,888,451**	**8,344,763**
Tax Credits and Rebates	---	---	---	49,100	74,943
Pension Valuation Adjustment	107,504	85,066	86,410	(22,913)	31,761
Debt Servicing Costs	924,889	866,641	853,216	879,189	885,485
Total Expenses	**8,133,013**	**8,514,820**	**8,882,823**	**8,793,827**	**9,336,952**

EXPENSES BY DEPARTMENT

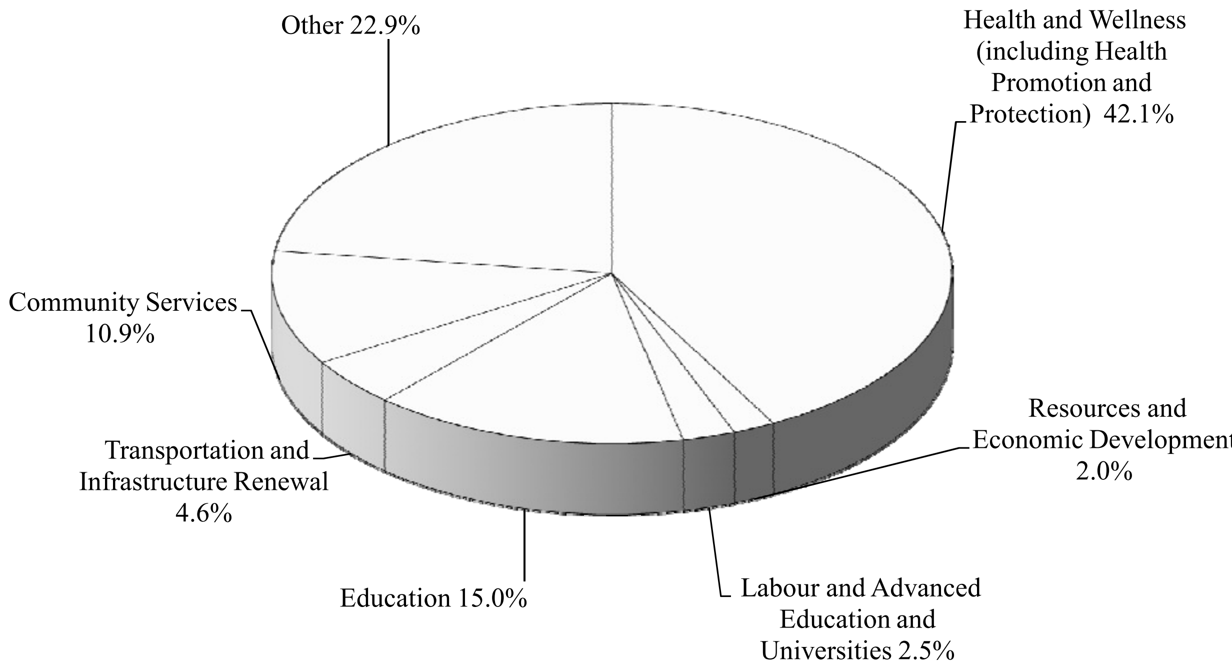
(as a percentage of Total Expenses)

	ACTUAL 2007-2008 (Restated)	ACTUAL 2008-2009 (Restated)	ACTUAL 2009-2010	FORECAST 2010-2011	ESTIMATE 2011-2012
Agriculture	0.9%	0.8%	0.8%	0.7%	0.7%
Communities, Culture and Heritage	---	---	---	---	0.6%
Community Services	10.7%	10.5%	10.6%	10.9%	10.6%
Economic and Rural Development	1.2%	1.1%	0.8%	1.0%	---
Economic and Rural Development and Tourism	---	---	---	---	1.3%
Education	15.1%	14.8%	14.4%	15.0%	12.2%
Energy	0.5%	0.4%	0.3%	0.3%	0.3%
Environment	---	0.3%	0.5%	0.5%	0.3%
Environment and Labour	0.9%	---	---	---	---
Finance	0.3%	0.3%	0.3%	0.4%	0.4%
Fisheries and Aquaculture	0.1%	0.1%	0.1%	0.2%	0.1%
Health and Wellness	37.1%	37.2%	37.9%	40.9%	40.4%
Health Promotion and Protection	0.8%	1.0%	1.0%	1.2%	---
Justice	2.9%	3.1%	3.1%	3.2%	3.2%
Labour and Advanced Education	---	0.8%	1.6%	1.9%	3.7%
Assistance to Universities	5.2%	5.7%	5.1%	0.6%	4.1%
Natural Resources	1.1%	1.0%	1.0%	1.0%	1.0%
Public Service	1.6%	1.9%	2.1%	2.0%	1.9%
Seniors	---	0.0%	0.0%	0.0%	0.0%
Service Nova Scotia and Municipal Relations	2.9%	2.9%	3.1%	3.3%	2.9%
Tourism, Culture and Heritage	0.7%	0.7%	0.7%	0.7%	---
Transportation and Infrastructure Renewal	4.5%	4.5%	4.3%	4.6%	4.5%
Restructuring Costs	0.7%	1.8%	1.8%	1.2%	1.2%
Gain (Loss) on the Disposal of Assets	-0.1%	0.0%	-0.2%	---	---
Total Program Expenses	**87.3%**	**88.8%**	**89.4%**	**89.7%**	**89.4%**
Tax Credits and Rebates	---	---	---	0.6%	0.8%
Pension Valuation Adjustment	1.3%	1.0%	1.0%	-0.3%	0.3%
Debt Servicing Costs	11.4%	10.2%	9.6%	10.0%	9.5%
Total Expenses	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

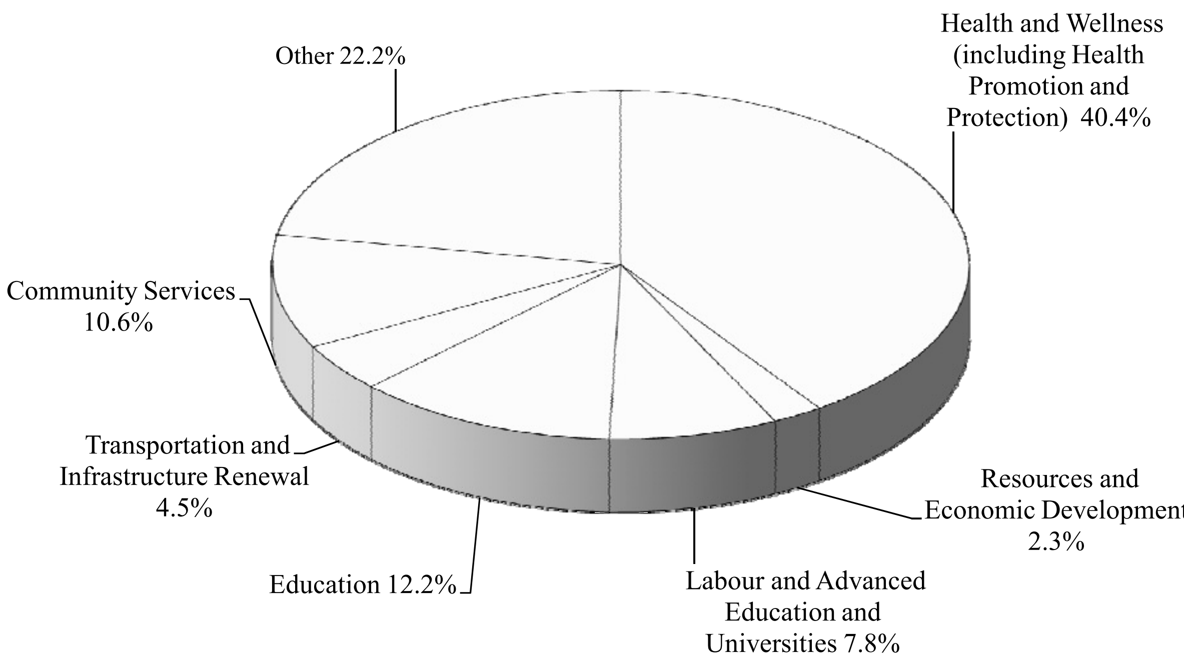
TOTAL EXPENSES BY DEPARTMENT

Chart 1B

2010-2011 FORECAST



2011-2012 ESTIMATE



Estimated Value of Tax Credits, Rebates and Tax Expenditures (By Fiscal Year) ($ 000s)

	2010–2011	2011–2012
Personal Income Tax:		
Political Tax Credit	611	632
Volunteer Firefighter & Ground Search and Rescue	3,677	3,677
Labour Sponsored Venture Capital Corporation	174	174
Equity Tax Credit	7,058	7,530
Graduate Retention Rebate	17,031	24,873
Affordable Living Tax Credit	47,000	71,943
Poverty Reduction Credit	2,100	3,000
Healthy Living Tax Credit	1,717	1,757
Total	**79,368**	**113,586**

	2010–2011	2011–2012
Corporate Income Tax:		
Political Tax Credit	51	51
Scientific Research & Experimental Development	27,658	29,243
New Small Business Tax Holiday	79	83
Digital Media Tax Credit	3,157	5,924
Film Industry Tax Credit	21,866	22,881
Small Business Rate	110,286	113,538
Total	**163,097**	**171,720**

	2010–2011	2011–2012
Harmonized Sales Tax:		
Public Sector Rebates	111,220	122,060
Printed Book Rebate	11,719	13,255
First-time Homebuyers Rebate	851	896
Disability Rebates	108	123
Volunteer Fire Equipment Rebate	62	70
Your Energy Rebate	82,758	87,888
Children’s Clothing Rebate	5,476	8,012
Children’s Footwear Rebate	802	1,174
Children’s Diapers Rebate	374	547
Feminine Hygiene Rebate	1,280	1,873
Total	**214,650**	**235,898**

Note:

For additional information on tax expenditures and Nova Scotia's tax system, please refer to "Overview of the Nova Scotia Tax System" on the Nova Scotia Department of Finance website: http://www.gov.ns.ca/finance/en/home/taxation/default.aspx

NOVA SCOTIA

Report of the Auditor General

on Estimates of Revenue

2011–2012

Office of the Auditor General

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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, 2012 used in the preparation of the April 5, 2011 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 to the House of Assembly.

The estimates of revenue for the fiscal year ending March 31, 2012 are the responsibility of the Department of Finance and have been prepared by departmental management using assumptions with an effective date of March 24, 2011 or earlier. I have examined the support provided by departmental management for the assumptions and the preparation and presentation of the revenue estimates in the amount of $8,878,578,000 as described in the financial forecast of Revenues By Source (Schedule 2A of the Nova Scotia Budget Assumptions and Schedules) (the 2011-12 revenue estimates). My examination did not include, and my opinion does not cover, the budget speech or the 2011-12 expense estimates. My opinion also does not cover prior years' forecast or actual information provided for comparative purposes. Except as explained in the following paragraph, my examination was made in accordance with the applicable Assurance and Related Services Guideline issued by the Canadian Institute of Chartered Accountants. I have no responsibility to update this report for events and circumstances occurring after the date of my report.

Third party revenues of certain government units are excluded from the 2011-12 revenue estimates. These revenues are included elsewhere in the budget as offsets against expenditures of the respective government units rather than as part of the revenue estimates. As a result, the revenue estimates are not presented on a basis consistent with the consolidated financial statements, a requirement of generally accepted accounting principles in such circumstances. To the extent of these exclusions, the 2011-12 revenue estimates are not presented in accordance with generally accepted accounting principles. In addition, management was unable to provide support for these third party revenues and therefore I was unable to complete my review of them or determine the amount of these revenues.

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

- as at the date of this report, the assumptions used by departmental management are suitably supported and consistent with the plans of the government, as described to us by departmental management, and provide a reasonable basis for the 2011-12 revenue estimates; and
- the 2011-12 revenue estimates as presented reflect fairly such assumptions; and
- the 2011-12 revenue estimates comply with presentation and disclosure standards established by the Canadian Institute of Chartered Accountants.

Since the 2011-12 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.

Jacques R. Lapointe, CA
Auditor General

Halifax, Nova Scotia
April 4, 2011

REVENUES BY SOURCE — *Schedule 2A*

($ thousands)

	ESTIMATE 2011-2012
General Revenue Fund Revenues	
Provincial Sources	
Corporate Income Tax	393,743
Harmonized Sales Tax	1,621,243
Individual Income Tax	1,981,275
Interest Revenues	96,617
Motive Fuel Taxes	253,653
Registry of Motor Vehicles	110,897
Royalties - Petroleum	110,352
Tobacco Tax	213,112
Other Provincial Sources	285,186
TCA Cost Shared Revenue	3,150
Fees and Other Charges	64,896
Ordinary Recoveries - Provincial Sources	278,187
Sinking Fund Earnings	104,803
Total - Provincial Sources	**5,517,114**
Federal Sources	
Canada Health Transfer	758,947
Canada Social Transfer	315,047
C52 Trust Funds	700
Crown Share	21,666
Equalization Payments	1,342,552
Knowledge Infrastructure Program	4,641
Offshore Oil and Gas Payments	167,755
Other Federal Sources	23,250
TCA Cost Shared Revenue	67,763
Ordinary Recoveries - Federal Sources	304,564
Total - Federal Sources	**3,006,885**
Total - Revenues	**8,523,999**
Net Income from Government Business Enterprises	
Nova Scotia Gaming Corporation	112,900
Nova Scotia Liquor Corporation	228,066
Other Enterprises	13,613
	354,579
Total - Revenues	**8,878,578**

NOVA SCOTIA

BUDGET ASSUMPTIONS —
April 5, 2011

Revenue Outlook

In 2011–2012, Nova Scotia's total General Revenue Fund revenue, including net income from Government Business Enterprises, is estimated to be $8,878.6 million, an increase of $139.0 million or 1.6 per cent compared to the 2010–2011 budget estimate.

Provincial own-source revenues are expected to increase by $326.0 million or 6.3 per cent from the 2010–2011 budget estimate to $5,517.1 million in 2011–2012.

Federal source revenues will decrease by $193.0 million or 6.0 per cent from the 2010–2011 budget estimate to $3,006.9 million in 2011–2012.

Provincial Own-Source Revenues

Personal Income Tax (PIT)

Nova Scotia's 2011–2012 estimate for personal income tax is $1,981.3 million, up $84.4 million or 4.4 per cent from the 2010–2011 budget estimate.

National personal taxable income is projected to grow by 3.2 per cent in 2011 and by 4.4 per cent in 2012. The increase is being driven by stronger national growth in salaries and wages as a result of labour market conditions improving as the economy rebounds from the recession. Nova Scotia's personal taxable income is projected to grow by 2.46 per cent in 2011 and by 3.66 per cent in 2012.

The 2010–2011 Budget implemented the removal of the surtax on provincial personal income taxes payable of more than $10,000 and introduced the fifth personal income tax bracket. The net impact of these changes adds $27.5 million to the 2011–2012 revenues. Additional reductions to personal income tax revenues in 2011–2012 will come in the form of increased costs of personal income tax credits (e.g., Basic Personal

Amount, non-refundable credits, and growth in the cost of the Graduate Retention Rebate), and the refund of provincial income tax for Guaranteed Income Supplement (GIS) recipients.

Nova Scotia's share of national personal taxable income is projected to be 2.46 per cent in 2011 and 2.44 per cent in 2012. The 2011–2012 estimate is based upon Finance Canada's December 2010 forecast for national personal taxable income and the 2009 tax year Final Payment Books received from the federal government in April 2011.

Corporate Income Tax (CIT)

Nova Scotia's 2011–2012 estimate for corporate income tax is $393.7 million, up $50.1 million or 14.6 per cent from the 2010–2011 budget estimate.

The increase largely reflects a return to pre-recession levels of growth, albeit at a slower pace than is occurring on a national basis. Large losses experienced by corporations as a result of the economic downturn are no longer a major factor influencing corporate taxable income.

National corporate taxable income is projected to grow by 15.6 per cent in 2011 and by 8.1 per cent in 2012, compared with provincial growth rates of 6.3 per cent in 2011 and 3.0 per cent in 2012.

Nova Scotia's share of national corporate taxable income is projected to be 1.74 per cent in 2011 and 1.71 per cent in 2012, reflecting a return to the historical trend.

The cost of the film industry and digital media tax credits is expected to increase over 2010–2011 levels.

Harmonized Sales Tax (HST)

Net HST is estimated to total $1,621.2 million in 2011–2012, up $208.1 million or 14.7 per cent from the 2010–2011 budget estimate, primarily as a result of the full-year impact of the rate increase from 13 per cent to 15 per cent on July 1, 2010, and strong base growth in consumer expenditures and residential housing investment.

HST rebates for public-sector bodies, first-time homebuyers, printed books, volunteer fire departments, persons with disabilities, and Your Energy Rebate are also projected to increase as a result of the full-year impact of the rate change.

New point-of-sale (POS) rebates on children's clothing, children's footwear, children's diapers, and feminine hygiene products, implemented on July 1, 2010, will cost approximately $12 million in 2011–2012.

Growth in consumer expenditures is projected at 4.3 per cent in 2011 and 4.2 per cent in 2012, representing a slight decline from the strong growth experienced in 2010.

Tobacco Tax

Tobacco tax revenues are projected to total $213.1 million in 2011–2012, an increase of $19.3 million or 9.9 per cent over the 2010–2011 budget estimate.

The $0.05/unit increase in the tobacco tax rate, effective June 23, 2009, continues to contribute to higher revenues as the consumption of legal tobacco products remains above levels forecast in the 2010–2011 budget estimate. Cigarette consumption accounts for over 90 per cent of tobacco tax revenues.

Motive Fuel Taxes

Motive fuel taxes are projected to total $253.7 million in 2011–2012, an increase of $5.1 million or 2.0 per cent from the 2010–2011 budget estimate.

Diesel oil consumption is forecasted to be higher in 2011–2012, partially offset by marginally lower consumption of gasoline and lower expected revenues from propane, aviation fuel, and fuel for commercial vessels.

The average price of gasoline is projected to be $1.24 per litre in 2011–2012, while the average price of diesel oil is projected to be $1.21 per litre. A stronger Canadian dollar relative to the U.S. dollar offsets some of the impact of higher world oil prices.

Petroleum Royalties

Offshore petroleum royalties are estimated to be $110.4 million in 2011–2012, a decrease of $63.3 million or 36.4 per cent from the 2010–2011 budget estimate.

World market prices for natural gas remain at historically low levels and production volume is projected to decline in both 2011 and 2012. The accrual of abandonment costs estimated by Sable Offshore Energy Project interest holders is a major factor contributing to the decline in revenues.

Production of Deep Panuke is not expected until the fourth quarter of 2011. No estimate of petroleum royalties from Deep Panuke has been included in the 2011–2012 budget estimate.

Other Provincial Sources

Other Provincial Sources are estimated to be $495.8 million, an increase of $19.4 million or 4.1 per cent from the 2010–2011 budget estimate.

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

The increase is primarily the result of higher revenues from corporate capital taxes, tax on insurance premiums, the Casino Win Tax, Registry of Motor Vehicles revenue, and interest revenue. These increases are offset by the scheduled reduction in the Large Corporations Tax on capital of non-financial institutions.

Federal Transfers

Equalization

Equalization revenues are estimated to be $1,342.6 million in 2011–2012, a decline of $18.2 million or 1.3 per cent from the 2010–2011 budget estimate.

The Equalization estimate reflects the province's adoption of the Expert Panel formula for equalization payments. The federal government is providing transitional protection to ensure that no province receives less in total major federal transfers—Equalization, Canada Health Transfer (CHT), Canada Social Transfer (CST)—than they received in 2010–2011. Payments made under the transitional protection are deemed to be fiscal equalization payments.

In the absence of any transitional protection, Nova Scotia would have received $1,167.0 million in Equalization. A transitional payment of $157.6 million is being made in 2011–2012, representing the difference between the year-over-year decline in Equalization entitlement and the increases in CHT and CST.

NOVA SCOTIA

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

At the end of 2010–2011 the cumulative value of the Expert Panel approach exceeds the cumulative value of the Interim approach for the years 2008–2009 to 2010–2011. In 2011–2012, the cumulative value of the Interim approach is estimated to exceed the cumulative value of the Expert Panel approach by $18.0 million. The arrangement is in effect until 2019–2020 to coincide with the term of the Offshore Accord.

Offshore Oil and Gas Payments

Offshore Offset payments are estimated to be $167.8 million in 2011–2012, a decrease of $59.5 million or 26.2 per cent over the 2010–2011 budget estimate. The decrease reflects the declining offshore royalties included in the equalization formula. These payments are recorded on a notional basis until the payments reach the $830 million advance payment made to the province in 2005. In 2011–2012, a $134.1 million notional payment will be made, while a cash payment of $33.7 million will also be received.

The Canada Health Transfer (CHT)

In 2011–2012, the total provincial entitlement for CHT consists of the provincial allocation of a fixed national entitlement. The 2011–2012 national CHT amount that is available in cash and tax points is estimated to be $40.5 billion. The fixed national pool of cash to be distributed to provinces is $27 billion. Under an agreement reached in September 2004, the cash portion of CHT is legislated to grow by 6.0 per cent each year until the end of the 2013–2014 fiscal year.

The CHT cash entitlement for Nova Scotia is estimated to be $758.9 million in 2011–2012, an increase of $34.4 million or 4.7 per cent higher than the 2010–2011 budget estimate. The estimate of the province's cash entitlement reflects the federal government's calculation on the levels of population, and personal and corporate income tax provided in December 2010.

The Canada Social Transfer (CST)

Nova Scotia's 2011–2012 cash entitlement for CST is estimated to be $315.0 million, an increase of $7.5 million or 2.4 per cent higher than the 2010–2011 budget estimate.

The provincial entitlement is based on an equal per capita cash provincial allocation of a fixed national entitlement, which stands at $11.5 billion for 2011–2012. Effective with the 2007 federal budget, the CST no longer contains a tax point transfer component. The national pool of cash is legislated to grow by 3.0 per cent each year to the end of the 2013–2014 fiscal year.

Crown Share Adjustment Payment

The Crown Share Adjustment Payment is estimated to be $21.7 million in 2011–2012, a decrease of $11.8 million or 35.3 per cent from the 2010–2011 budget estimate. The decrease reflects declining offshore natural resource royalty revenues.

Other Federal Sources

Other Federal Sources are estimated to be $96.4 million in 2011–2012, a decrease of $127.1 million or 56.9 per cent from the 2010–2011 budget estimate.

There is a decrease of $48.3 million in Tangible Capital Asset (TCA) cost-shared revenue from the federal government compared to the 2010–2011 budget estimate, largely as a result of a $51.6 million reduction in Department of

Transportation and Infrastructure Renewal projects, offset by increased funding for health projects.

The province will draw down $5.3 million, which is $52.4 million—or 90.8 per cent—less from trust fund revenues that were made available by the federal government, as the funds set up by the federal government reach the end of their expected life.

Other Federal Sources also include the federal Wait Times Reduction transfer. This transfer is an equal per capita allocation based upon the province's share of the national population. Nova Scotia's share of the $250.0 million national entitlement in 2011–2012 is $6.8 million, compared to funding of $6.9 million in the 2010–2011 budget estimate.

Other

Recoveries

Recoveries are projected to total $582.8 million in 2011–2012, a decrease of $33.5 million or 5.4 per cent lower than the 2010–2011 budget estimate.

Fees and Other Charges

Fees and Other Charges are projected to total $64.9 million in 2011–2012, an increase of $2.4 million or 3.8 per cent higher than the 2010–2011 budget estimate.

Sinking Fund Earnings

Sinking Fund Earnings are projected to total $104.8 million in 2011–2012, an increase of $15.7 million or 17.6 per cent from the 2010–2011 budget estimate.

Key Tax Measures—Personal Income Taxes

Removal of Provincial Income Taxes for GIS Recipients

Effective for the 2010 taxation year, residents of Nova Scotia who are in receipt of the Guaranteed Income Supplement (GIS) receive a refund of provincial 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 $9.2 million in taxes in 2011–2012.

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. The fifth personal income tax bracket will add $54.5 million in revenues in 2011–2012 and impact approximately 6,000 tax filers. The removal of the surtax will save 25,000 tax filers a total of $27.0 million in 2011–2012.

Basic Personal Amount and Other Non-refundable Credits

From 2007 to 2010, the province increased the basic personal amount exempted from personal income taxes by $250 per year. This represented an increase of $1,000 or 13.83 per cent. The province's other non-refundable credits also grew by 13.83 per cent over this period.

The province will increase the basic personal amount by $250—from $8,231 to $8,481—for the 2011 taxation year. The non-refundable personal income tax credits will also increase in the same proportion for the 2011 taxation year.

NOVA SCOTIA

Equity Tax Credit and Labour-Sponsored Venture Capital Tax Credit

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

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

Key Tax Measures—Business Taxes

Small Business Corporate Income Tax

On January 1, 2011, the province reduced the rate of corporate income tax for small businesses from 5.0 per cent to 4.5 per cent. Effective January 1, 2012, the rate will be further reduced to 4.0 per cent. The combined impact of the rate decreases will save small businesses an additional $6.5 million in 2011–2012, and $11.0 million per year upon full implementation. Small businesses currently save more than $110 million per year in taxes relative to the general corporate tax rate of 16.0 per cent.

Small businesses are 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.

Large Corporations Tax

As announced in the 2006–2007 budget, the province's Large Corporations Tax (LCT) on capital of non-financial institutions will decline from 0.10 per cent to 0.05 per cent on July 1, 2011. On July 1, 2012, this tax will be eliminated.

NOVA SCOTIA

Key Tax Measures—Consumption Taxes

Affordable Living Tax Credit

The province will continue to offer an HST credit to households earning less than $34,800 per year. 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. In addition, the province will index payments at a rate of 2.2 per cent, effective July 1, 2011.

The credit will be paid quarterly in July, October, January, and April of each year. Effective July 1, 2011, the maximum rebate is $245.28 per household plus $58.25 per dependant child for households earning less than $30,000 per year. Above $30,000, the credit will be reduced by $0.05 per $1.00 of income and will be completely phased out at a household income of $34,800. Similar to the federal government's Goods and Services Tax credit, individuals will need to file an income tax return to be eligible to receive the HST credit.

Point-of-Sale (POS) Rebates of HST

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

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

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

Sensitivity

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

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

The following table lists the specific key economic assumptions and key variables that directly affect the calculation of provincial revenue estimate and forecast figures as included in this Revenue Outlook section, and reflects assumptions developed by the province as at March 24, 2011.

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

NOVA SCOTIA

Additional Information

In addition to the key economic and fiscal assumptions contained in the 2011–2012 revenue estimates, the following information should be taken into account when interpreting the revenue estimates.

The revenue estimates for 2011–2012 are considered to have been prepared on a basis consistent with accounting policies currently used by the province to record and/or recognize revenue for purposes of its General Revenue Fund. As a result, revenues for certain government service organizations that are consolidated for financial statement purposes are not included in the province's revenue estimates.

The Department of Finance and other departments or agencies of the province have prepared their specific revenue estimates for 2011–2012 using a combination of current internal and external models and other information available. Every effort has been made to ensure the integrity of the results of the models and other information. As actual or more current information becomes available, adjustments may be necessary to the projection of revenues.

The revenue forecasted to be received through federal transfer payment programs pursuant to the Federal-Provincial Fiscal Arrangements Act incorporates official information released by the federal government as of March 22, 2011. In addition, CHT and CST revenue estimate are, in part, based on Canadian national and provincial population estimates supplied by Statistics Canada.

As with past population estimates, there is a forecast risk that the data will be revised by Statistics Canada. Prior years' adjustments (PYAs) are normally made to federal transfers and to income tax revenues. All PYAs known to-date have been included in the final revenues for 2010–2011.

Offshore Forfeiture Revenue

The risk of a deposit forfeiture is inherent in the offshore exploration industry. While a forfeiture is not unusual given the unpredictable nature of this industry, any revenue projection based on past trends would be inappropriate. The province's accounting recognition policy is to record forfeiture revenue when a notice of forfeiture is given. As of today's date, no notice has been provided for 2011–2012.

To be consistent with our revenue recognition policy and to reflect the uncertainty of this revenue, no offshore forfeiture revenue is included in the 2011–2012 estimates. If, subsequent to the budget, forfeiture notice is provided, the amount will be reflected in future quarterly forecast updates and the Public Accounts for 2011–2012.

Government Business Enterprises—Net Income

Nova Scotia Liquor Corporation Net Income

The Nova Scotia Liquor Corporation (NSLC) returns all of its net income to the Government of Nova Scotia as shareholder. The NSLC is budgeting net income of $228.1 million in 2011–2012. This is an increase of 2.1 per cent compared to the 2010–2011 estimate of $223.5 million. The net income is projected on sales of $599.1 million for 2011–2012 as compared to $581.3 million for 2010–2011. The increase in net income is primarily attributable to the following factors:

- net sales increase of 3.1 per cent, attributable to a combination of price and volume increases
- ongoing benefits from investment in enhancing the in-store shopping experience for retail customers
- continued exploration of new ways—both technological and non-technological—to better understand and meet customer needs
- continued strength in the retail sales channel, while efforts continue to reenergize and revitalize the wholesale sales channels
- an increased emphasis on strengthening processes and controls in order to increase efficiency and effectiveness within the corporation

Following are challenges and constraints to the growth in net income:

- Beer sales are a key source of revenue, and trends are indicating a slowdown in that category.

- NSLC is analyzing demographic changes within the province that may impact the ability to grow sales at rates similar to those seen in recent years.

Nova Scotia Gaming Corporation Net Income

Nova Scotia Gaming Corporation's (NSGC) net income is budgeted to be $112.9 million in 2011–2012, which is $3.5 million or 3.0 per cent lower than the 2010–2011 estimate. Budgeted revenue will decline, primarily due to the ticket lottery business line and continued decreases in the video lottery business line. Certain budgeted expenses are lower, corresponding with the decline in revenue and reduced expenditures in keeping with cost reduction efforts, but are impacted by increased depreciation expense due to replacement of ticket lottery retail terminals.

Net Income from Other Enterprises

Net income from other enterprises is estimated at $13.6 million for 2011–2012. This includes $9.8 million from the Halifax-Dartmouth Bridge Commission and $3.8 million from the Highway 104 Western Alignment Corporation.

The 2011–2012 Halifax-Dartmouth Bridge Commission estimate is $3.2 million higher than 2010-11, primarily as a result of increased toll revenue.

Highway 104 Western Alignment Corporation's budget estimate for 2011–2012 is $1.7 million higher than 2010–2011, mostly as a result of increased traffic through the tolls, and interest earned on holdings.

Overview of Treasury Management

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

The Department of Finance is responsible for managing Nova Scotia's gross financial market debt portfolio, which is estimated to be $14.4 billion as of March 31, 2011. Against this gross financial market debt are financial assets held in mandatory and discretionary sinking funds plus holdings of Nova Scotia Municipal Finance Corporation debt. These assets total $3.1 billion, resulting in a net financial market debt of $11.3 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 government's budgetary policy sets the context for treasury management operations. The province's annual fiscal plan sets the context for debt management. The 2011–2012 budget shows that the government intends to incur a budgetary deficit for the fiscal years 2011–2012 and 2012–2013, followed by budgetary surpluses for the fiscal years 2013–2014 and 2014–2015.

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

In 2010–2011, the province had an $832-million increase in net debt outstanding in financial markets due to the on-lending activities of the General Revenue Fund and the refinancing of $536 million of debt of the Public Service Superannuation Fund. As the province's budgetary surplus exceeded the net acquisition of tangible capital assets, the net debt of the province declined in fiscal year 2010–2011. The province estimates that net debt in financial markets will increase by about $1.1 billion in 2011–2012, primarily due to the budgetary deficit, the net acquisition of tangible capital assets, and on-lending to Crown corporations.

Nova Scotia's ratio of net direct debt to nominal gross domestic product at market prices is estimated to have stood at 36.3 per cent at March 31, 2011, down from 38.2 per cent a year earlier.

Nova Scotia Credit Ratings

Nova Scotia continues to communicate its economic and fiscal position both to investors and to bond-rating agencies. Nova Scotia's budgetary surpluses over the past number of years, interrupted with a budgetary deficit in 2009–2010, and the improved fiscal outlook have been recognized by credit rating agencies. In 2010–2011, all three rating agencies confirmed the province's credit rating. The following table shows current provincial credit ratings.

Canadian Provincial Ratings April 2011

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

Structure of the Debt Portfolio

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

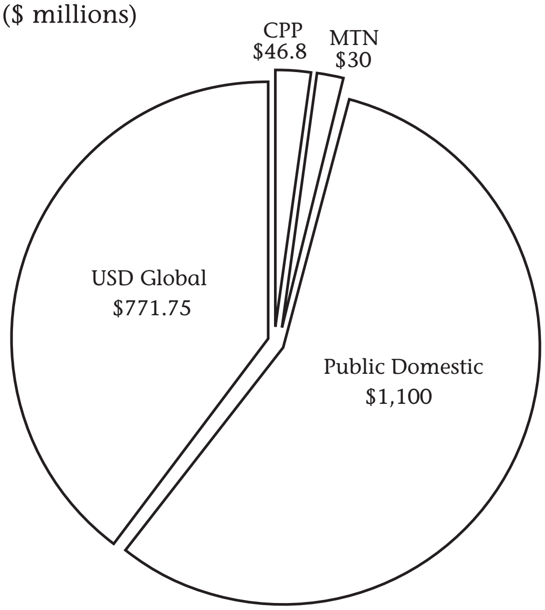
The following five profiles are provided to describe the overall structure and risk profile of the province's debt portfolio: (1) primary issuance market activities; (2) the debt maturity schedule; (3) foreign currency exposure; (4) interest rate mix; and (5) derivative counterparty exposure.

1. Primary Issuance Market

The Province of Nova Scotia expects to incur a budgetary deficit of $389.6 million in 2011–2012, monies that will be borrowed in capital markets. In addition to this amount, the province borrows further monies on an ongoing basis to refinance existing debt, fund the acquisition of tangible capital assets, provide on-lending to Crown corporations, and for other non-budgetary purposes.

The management of the debt maturities is enhanced 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, and may be used extensively in 2011–2012.

Chart 3A: General Revenue Fund Debt Portfolio—Issuance Profile, 2010–2011
($ millions)



In the fiscal year 2010–2011, the province borrowed $1,948 million compared to borrowing requirements of $1,996 million estimated in the budget. The borrowing completed in 2010–2011 includes $600 million of pre-borrowing for the 2011–2012 fiscal year. The decrease in the borrowing requirements in 2010–2011 was due to the following: improvement to a surplus of $447.2 million from a budgeted $222.1 million deficit; forecasted capital advances to Crown corporations that were $139 million lower in 2010–2011 than budget estimates; and net TCA requirements that were lower by $51 million. The province met its borrowing requirements in fiscal year 2010–2011 by raising $1,100 million in the domestic public market, $771.8 million Canadian dollars by way of a five-year USD Global debt issue, $30 million under the Medium Term Note program, and the rollover of a $46.8 million Canada Pension Plan issue for a 30-year term. The last issue is part of the Canada Pension Plan Investment Board's assets that are invested in the provincial bond market and are transacted at market rates of interest.

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

At March 31, 2011, 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 $116.1 million with the General Revenue Fund.

There were also entities that are not part of the Consolidated Entity that invested $57.6 with the General Revenue Fund. Those entities are the Nova Scotia Research and Innovation Trust, Nova Scotia Nominee Program, Nova Scotia Crown Share University Infrastructure Trust, and Nova Scotia Crown Land Legacy Trust.

Projected term debt borrowing requirements for fiscal year 2011–2012 are expected to be $1,613 million, and the province expects to raise a further $600 million in short-term debt—for total borrowing requirements of $2,213 million. The Department of Finance also expects to draw down discretionary sinking funds by $494 million in 2011–2012. Over the past number of years, the province has been aggressively borrowing monies at long-term fixed interest rates to take advantage of the low interest rates observed during that period, and to protect the budgetary position from rising interest rates. As a consequence of that long-term strategy, the province has maintained a low level of short-term debt. The increase in short-term debt anticipated in 2011–2012 will return the short-term debt position to normal levels. Schedule 3B also shows the projected borrowing program for 2012–2013 to 2014–2015. The borrowing

NOVA SCOTIA

program starts with the provincial budgetary deficit that increases requirements or a surplus that reduces requirements. There are numerous cash versus accrual adjustments (non-budgetary items) that need to be made to determine the actual cash requirements of the 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 2011–2012 are $289 million. The remaining non-budgetary adjustments are primarily related to non-cash interest charges on unfunded pension liabilities and post-employment benefits, and the non-cash expense of the Pension Valuation Adjustment.

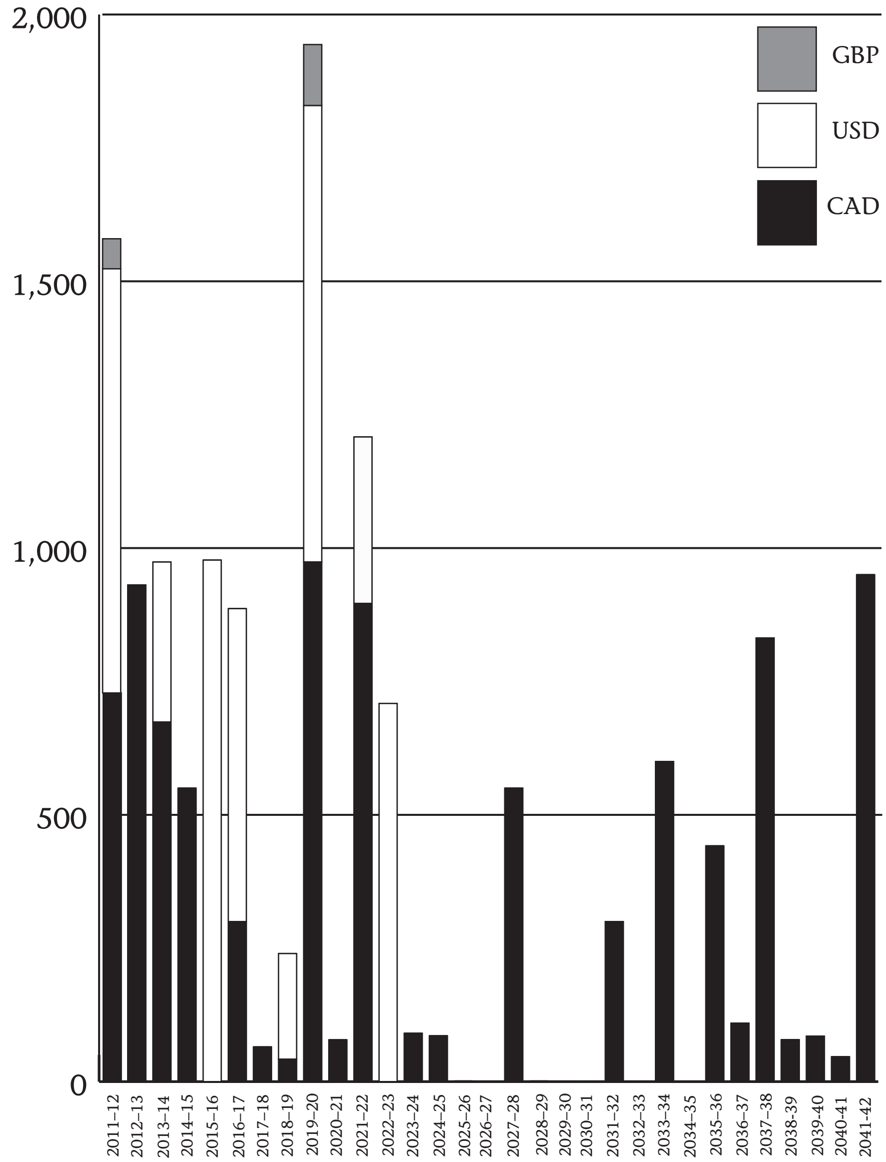
The province demonstrated access to capital markets in fiscal year 2010–2011 by efficiently raising the monies required to complete the borrowing program in the domestic market and in the USD Global market. The province continues to maintain access to a diversity of borrowing sources, both domestically 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 files a Form 18-K Annual Report and other required documents with the Securities and Exchange Commission (SEC) in the United States to provide access to the U.S. and global bond markets. This documentation provides information to investors and the general public on the economic, fiscal, and debt situation of the province. 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 2011–2012. The province attempts to maintain a presence in the domestic public debt markets with liquid benchmark issues. The domestic Medium Term Note (MTN) program is maintained to add flexibility to the domestic borrowing programs.

2. Maturity Schedule

The Province of Nova Scotia's gross financial market debt consists of Canadian fixed-coupon marketable bonds, Canadian floating-interest rate bonds, foreign currency denominated fixed-coupon marketable bonds (these issues are all hedged to Canadian dollars), Canada Pension Plan non-marketable bonds, capital leases, and short-term promissory notes. Chart 3B, titled General Revenue Fund Debt Portfolio—Maturity Schedule, displays the maturity profile of the province's gross financial market debt portfolio. The province's currency exposures are shown prior to the effect of derivative transactions. For example, the U.S. Global issue that was completed in July 2010 and matures in fiscal year 2015–2016 was swapped to Canadian dollars (CAD). The province has no debt issues outstanding with put options.

Chart 3B: General Revenue Fund Debt Portfolio—
Maturity Schedule
($ millions)



As at March 31, 2011, the average term to maturity of the gross debt portfolio was 11.0 years, down from 11.4 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 over the next two years are $1,580 million in the fiscal year 2011–2012 and $931 million in the fiscal year 2012–2013 (see Chart 3B). In addition to the rollover 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 2014 to 2023 that, by bond covenant, are fully funded with sinking funds at maturity. The province is required to contribute to the sinking fund of each such issue annually until such time as the full principal value of the bonds is accumulated. As such, the refinancing of these issues is spread over the entire life of each bond, and it is not necessary to refinance these issues in the year of maturity.

3. Foreign Currency Exposure

The Canadian dollar payable debt 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

NOVA SCOTIA

that cause the foreign currency exposure of the public debt to exceed twenty per cent."

4. Interest Rate Mix

The debt portfolio's exposure to floating interest rates was increased over the past year, and ended the year at 14.4 per cent on March 31, 2011. 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 Department of Finance increased the debt portfolio's floating interest rate exposure in 2010–2011 with the execution of a five-year USD Global issue swapped to Canadian floating interest rates.

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 intends to raise the level of floating interest rate debt in 2011–2012. 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 targets the mid-point of the policy range, and at present the province has some protection from unexpected increases in interest rates.

5. Derivative Exposure

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

At March 31, 2011, the province's use of derivatives was for two purposes: (1) the hedging of foreign currency debt issues to Canadian dollars; and (2) asset-liability management purposes. The latter derivative transactions are designed to protect the provincial budgetary surplus from changes in interest rates associated with the Department of Finance's on-lending program to Crown corporations.

Currently, the province is party to approximately $6.5 billion notional face value of derivative transactions, up by $700 million primarily due to the USD Global debt issue executed during the 2010–2011 fiscal year. The Department of Finance credit policy states that it executes derivative transactions only with well-rated counterparties. The Liability Management and Treasury Services Division actively manages the credit risks of the derivative portfolio. The Debt Management Committee reviews all counterparty exposure and limits. When the counterparty has a split credit rating, the province considers the most conservative among the ratings.

Structure of Debt Management and Sinking Funds

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

NOVA SCOTIA

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

At March 31, 2011, the estimated book value of the sinking funds was $2,386 million, of which $1,608 million was held in sinking funds established by way of bond covenant, and $778 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, and corporate bonds with a credit rating of at least “AA-”. The Sinking Fund General also holds a $51-million debt of the Halifax-Dartmouth Bridge Commission. The PDMF is typically invested in Government of Canada and provincial bonds. At March 31, 2011, cash and equivalents in the sinking fund and PDMF were negligible.

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

In recent years, the province has purchased all NSMFC debenture issues in their entirety and at March 31, 2011, held a portfolio of $754 million in NSMFC debentures in the provincial General Revenue Fund. The NSMFC asset portfolio held by the Department of Finance, along with sinking funds and the Public Debt Management Fund, are netted against the gross financial market debt of the province to arrive at net debt.

Debt-Servicing Costs

Gross debt-servicing costs comprise the following items:

- interest on existing long-term debenture and capital lease debt and the estimated interest cost of incremental borrowing

- general interest that provides for bank charges, bond issue expense, amortization of debenture discounts/premiums, and short-term interest costs

- the accrual of interest of the province's unfunded pension and post-retirement benefit obligations

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

	Estimate 2010–11	Forecast 2010–11	Estimate 2011–12	Estimate 2012–13	Estimate 2013–14	Estimate 2014–15
Interest on Long-term Debt	759.7	704.1	737.7	792.6	795.5	822.5
General Interest	34.5	37.0	29.0	26.6	31.4	33.7
Interest on Pension, Retirement and Other Obligations	165.0	138.0	118.8	141.3	156.5	151.9
Gross Debt Servicing Costs	959.2	879.2	885.5	960.5	983.4	1,008.2
Less: Sinking Fund Earnings	89.1	93.6	104.8	102.7	98.4	99.9
Net Debt-Servicing Costs	**870.1**	**785.6**	**780.7**	**857.8**	**885.0**	**908.3**

In 2011–2012, the province will incur $118.8 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 Public Sector Accounting Board (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 market fluctuations, both positive and negative, and assists to maintain stability and predictably to the budget process.

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

In addition, gross debt-servicing costs also support 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 the Farm Loan Board. The General Revenue Fund earns interest on those monies lent to Crown corporations in amounts of $92.0 million in the 2010–2011 forecast, and $96.6 million in the 2011–2012 budget estimate. Unlike the earnings on sinking fund assets, the income from the on-lending activity is not typically shown as netted against debt servicing costs. 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 ten-year Canada bond yields during the fiscal year. Sensitivity to these variables (how much debt-servicing costs would change if a variable changed from the assumed level for a full year) is $20 million if Canada Treasury Bills were a full percentage point higher relative to the assumed level, and $6 million if ten-year Canada bond yields rose by one percentage point.

Risk Management

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

Schedule 3B: Projected Borrowing Requirements ($ millions)

	Estimate 2010–11	Forecast 2010–11	Estimate 2011–12	Estimate 2012–13	Estimate 2013–14	Estimate 2014–15
Budgetary (surplus)/deficit	222.0	(447.2)	389.6	215.8	(15.4)	(64.4)
Net Capital Advances	457.1	318.1	288.4	65.1	64.5	65.0
NSMFC Repayments	(90.5)	28.3	(96.2)	(92.2)	(77.1)	(72.9)
Tangible Capital Assets: Net Cash	460.8	409.4	289.3	173.3	104.3	94.7
Other Non-Budgetary Transactions[1]	691.9	648.4	89.1	(99.4)	(148.2)	(151.5)
Cash Operating Requirements	**1,741.5**	**957.0**	**960.3**	**262.7**	**(71.8)**	**(129.0)**
Cash Debt Retirement	670.7	670.7	1,603.9	955.6	999.7	578.1
Mandatory Sinking Fund (SF) Income	66.8	79.7	92.6	95.9	91.3	92.7
Mandatory SF Contributions	88.1	88.1	37.6	37.6	30.6	30.6
Mandatory SF Withdrawals	—	—	—	—	(299.9)	—
Net Mandatory SF Requirements	155.0	167.9	130.2	133.5	(177.9)	123.3
Discretionary Fund Income	22.3	13.8	12.2	6.8	7.1	7.2
Discretionary Fund Contributions	—	—	—	—	—	—
Discretionary Fund Withdrawals	(93.9)	(93.9)	(494.0)	(7.0)	—	—
Net Discretionary Fund Requirements	(71.6)	(13.8)	(481.8)	(0.2)	7.1	7.2
Total Requirements	2,495.5	1,712.4	2,212.6	1,351.6	757.1	579.6
Change in Short-Term Borrowing (inc)/dec	(500.0)	236.0	(600.0)	—	—	—
Total Borrowing Requirements	**1,995.5**	**1,948.4**	**1,612.6**	**1,351.6**	**757.1**	**579.6**

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

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

	Estimate 2010–11	Forecast 2010–11	Estimate 2011–12	Estimate 2012–13	Estimate 2012–14	Estimate 2014–15
Gross Financial Market Debt						
Opening Balance	13,394.2	13,394.2	14,436.2	15,044.7	15,440.6	15,197.9
Borrowing Program	1,995.5	1,948.4	1,612.6	1,351.6	757.1	579.6
Debt Retirement	(670.7)	(670.7)	(1,603.9)	(955.6)	(999.7)	(578.1)
Change in Other Unfunded Debt1	500.0	(235.7)	600.0	—	—	—
Closing Balance	**15,219.0**	**14,436.2**	**15,044.7**	**15,440.6**	**15,197.9**	**15,199.2**
Mandatory Sinking Funds						
Opening Balance	1,440.2	1,440.2	1,608.1	1,738.3	1,871.8	1,693.9
Installments	88.1	88.1	37.6	37.6	30.6	30.6
Earnings	66.8	79.7	92.6	95.9	91.3	92.7
Sinking Fund Withdrawals	—	—	—	—	(299.9)	—
Closing Balance	**1,595.2**	**1,608.1**	**1,738.3**	**1,871.8**	**1,693.9**	**1,817.2**
Discretionary Funds						
Opening Balance	764.0	764.0	777.8	296.0	295.8	302.9
Installments	—	—	—	—	—	—
Earnings	22.3	13.8	12.2	6.8	7.1	7.2
Fund Withdrawals	(93.9)	—	(494.0)	(7.0)	—	—
Closing Balance	**692.3**	**777.8**	**296.0**	**295.8**	**302.9**	**310.1**
NSMFC Assets						
Opening Balance	726.0	726.0	754.4	658.2	566.0	488.9
Repayments	(90.5)	(90.5)	(96.2)	(92.2)	(77.1)	(72.9)
Advances	—	118.9	—	—	—	—
Closing Balance	**635.5**	**754.4**	**658.2**	**566.0**	**488.9**	**416.0**
Net Financial Market Debt	**12,296.0**	**11,295.8**	**12,352.2**	**12,707.0**	**12,712.2**	**12,655.9**

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

Schedule 3D: Projected Net Debt ($ millions)

	Estimate 2010–11	Forecast 2010–11	Estimate 2011–12	Estimate 2012–13	Estimate 2013–14	Estimate 2014–15
Net Debt – Opening Balance	**13,319.3**	**13,106.3**	**13,068.5**	**13,747.4**	**14,136.5**	**14,225.4**
Add (Deduct):						
Provincial Surplus on an Expense basis	222.1	(447.2)	389.6	215.8	(15.4)	(64.4)
Increase in the Net Book Value of Tangible Capital Assets	460.8	409.4	289.3	173.3	104.3	94.7
Inventories and prepaid expenses	—	—	—	—	—	—
Change in Net Debt	682.9	(37.8)	678.9	389.1	88.9	30.3
Net Debt—Closing Balance	**14,002.2**	**13,068.5**	**13,747.4**	**14,136.5**	**14,225.4**	**14,255.7**

NOVA SCOTIA

Economic Assumptions

Highlights

Nova Scotia's economy (real GDP) is expected to grow by 1.9 per cent in 2011 and in 2012. This follows growth of 2.1 per cent expected for 2010.

The Department of Finance now projects Nova Scotia's population decline to be more moderate than previously estimated. However, an aging workforce is still expected to erode the labour supply in coming years.

Despite fiscal consolidation and rising interest rates, Nova Scotia's growth over the medium term is projected to outpace the pre-recession period, averaging 1.8 per cent (real) and 4.1 per cent (nominal) growth from 2010–2015. If large investment projects materialize in three to five years, this could boost growth toward the end of the period.

Although financial markets appear to have stabilized after the liquidity crisis of 2009, global economic conditions remain very uneven. For example:

- European countries do not appear to have resolved sovereign debt problems, and severe fiscal austerity is expected to limit any widespread recovery.
- The impacts of disasters in Japan are still unknown, but could seriously affect financial and commodity markets in 2011.
- Renewed demand from developing countries has stoked growth, but has also pushed commodity prices and inflation fears.
- The US recovery appears to be solidifying, with real GDP growth of 3.0 per cent expected for 2011, and 3.1 per cent for 2012. But the US outlook is fragile and sensitive to further financial industry or housing problems.

Canada's economic growth prospects also strengthened toward the end of 2010, and most indicators have recovered to pre-recession levels. Facing the headwinds of high currency and low productivity, Canada will post a modest recovery, with real GDP expected to grow by 2.6 per cent in 2011 and by 2.5 per cent in 2012.

Global Conditions

How Global Conditions Influence Nova Scotia's Economy

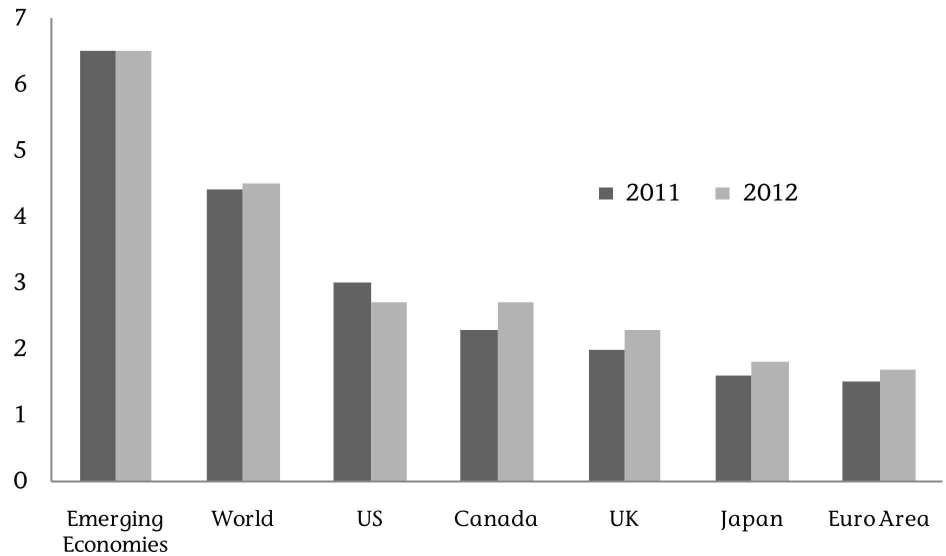
Nova Scotia's economic performance depends on global conditions. The performance of economies around the world affects our economic growth directly through trade (particularly with the rest of Canada and the US). However, the rest of the world exerts equally important influences on Nova Scotia through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

Global Economic Outlook

The International Monetary Fund's (IMF) forecast of global economic growth follows the emerging consensus about "multi-speed" recovery. The IMF expects overall world economic growth to be 4.4 per cent in 2011, followed by 4.5 per cent in 2012. This is somewhat more optimistic than the private-sector consensus of 4.2 per cent real GDP growth in each of the next two years.

Figure 1 IMF Global Economic Outlook

Real GDP growth (per cent)



Source: IMF World Economic Outlook, January 2011

Emerging economies are expected to post the fastest growth, with real GDP improving by over 6 per cent per year. Many emerging economies are starting to see significant inflationary pressures because of commodity price growth. This may prompt monetary policy and capital market actions to control overheating.

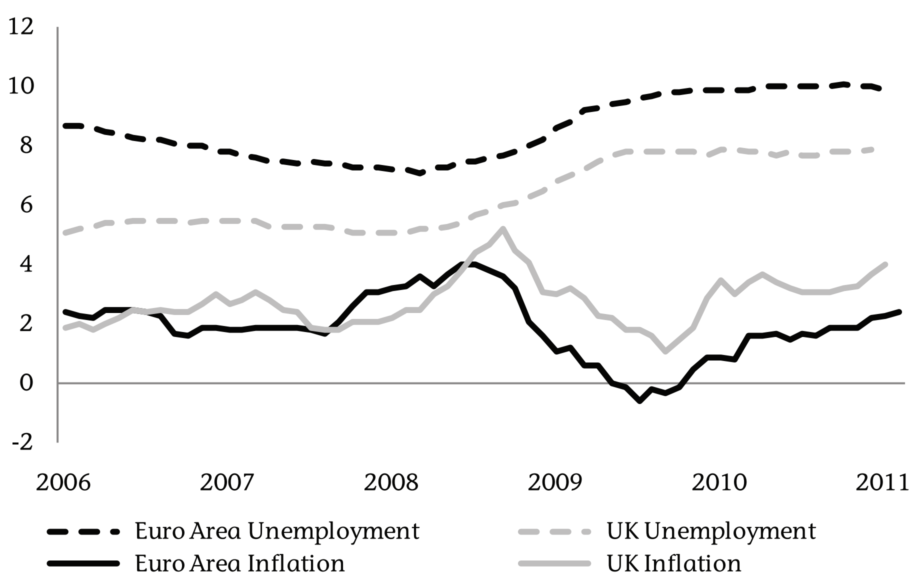
The IMF expects the US and Canada to post a modest recovery from the recession over the next two years, albeit slower than the average pace of world growth. More recent economic results suggest that US and Canadian growth may be stronger than the IMF anticipated in January (see below).

Japan's economic outlook has yet to be revised to fully reflect the impact of natural disasters, but there is little doubt that the recent tragedies will significantly affect the Japanese and global economies. The disasters in Japan pose risks to both commodity trade and to capital equipment/electronics supply chains. In addition, the Japanese role in capital markets may change should the stricken country repatriate funds to rebuild.

In the United Kingdom and Europe, the effects of fiscal consolidation required to resolve sovereign debt crises are expected to constrain economic growth. Despite contraction of government spending, European countries are starting to face increasing inflationary pressures from commodity price growth. In the 2011–2012 Budget outlook, Britain's Office of Budget Responsibility notes that household living standards are expected to deteriorate as wage levels fail to keep pace with price growth.

Figure 2 Inflation and Unemployment in Europe

Euro Area and the United Kingdom



Source: Eurostat

Even with unemployment rates stagnating at recessionary levels, it is possible that the European Central Bank and the Bank of England may be forced to raise benchmark interest rates from their current historic lows. The consequences of synchronous tightening of monetary and fiscal policy could be ominous for peripheral countries that could be forced to redouble efforts on fiscal austerity. As a result, the prospects for short-term European recovery from recession are unfavourable and threaten stagflation. Fiscal consolidation and inflation fighting may slow economic growth in Europe for years to come.

The consequences for Nova Scotia of variable-speed recovery throughout the world will be felt primarily through the indirect channels of commodity and capital markets. Fast recovery in emerging countries (notably Asia) may sustain commodity price growth in the short term, bolstering the Canadian dollar.

Despite their growing demand for commodities (notably food), many emerging economies continue to run strong current account surpluses. In the short term, countries that maintain current account surpluses may exert twin pressures on industrialized commodity currencies like the Canadian dollar: higher currency from commodity demand and higher currency from financial asset purchases.

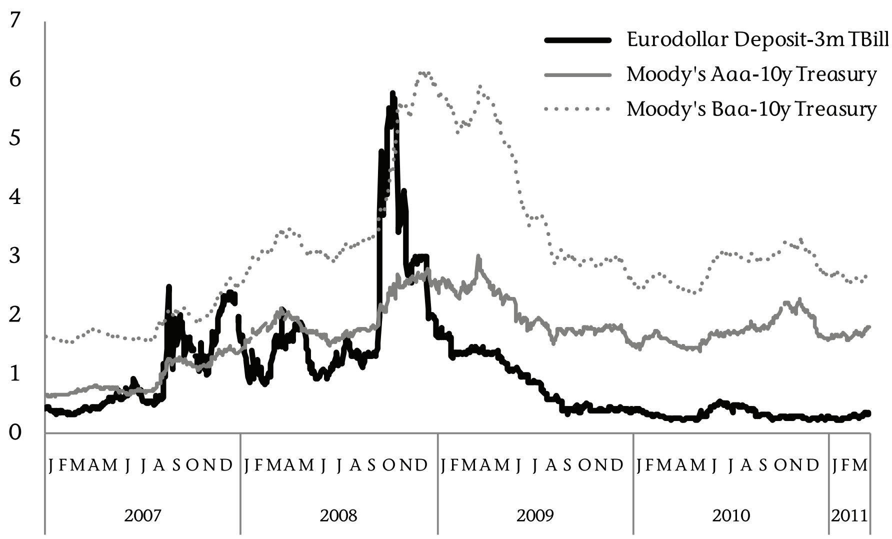
Financial Market Conditions

Financial and economic prospects elsewhere in the world (even outside our trading partners) can have a significant impact on Nova Scotia's economic outlook. In 2008 and 2009, the failure of several globally significant financial institutions resulted in dramatic restrictions on access to credit. This was transmitted throughout the world. Canada and Nova Scotia were hardly immune from the impacts of the contagion on credit conditions.

Fortunately, the immediate threats to the global financial system appear to have passed. Bond yield spreads that indicate the broad health of financial institutions, and availability of credit, have nearly returned to their pre-recession levels.

Figure 3 (Most) Credit Indicators Returning to Pre-Recession Levels

Yield Spread

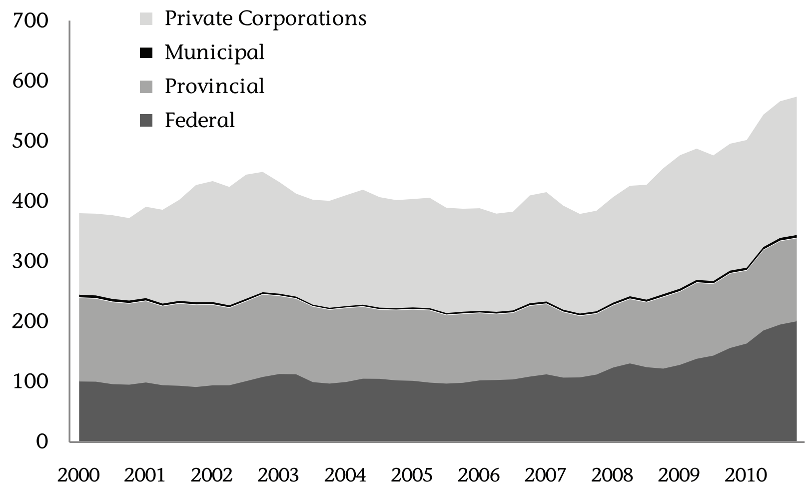


Source: US Federal Reserve

Many have noted that, during the crisis, Canadian institutions (financial and government) appeared more stable. Capital market indicators indicate that foreign portfolio investment in Canadian bonds rose by almost $190 billion from the fourth quarter of 2007 (the start of the US recession) through to the fourth quarter of 2010.

Figure 4 Global Investment in Canadian bonds during recession

$billions



Source: Statistics Canada (CANSIM 376-0042)

Sovereign debt problems in the Euro Area are not yet resolved, and this will continue to shine a positive light on Canadian assets.

There are a number of complex and ambiguous pressures on the value of the Canadian dollar, resulting from global capital and commodity markets. Although the Canadian dollar often follows commodity prices, the capital markets can also affect the currency.

Fortunately, capital market currency pressures do not carry the same inflationary pressures as commodity price growth. This type of currency appreciation improves Canada's purchasing power in global trade, and may moderate the need for monetary tightening over the medium term.

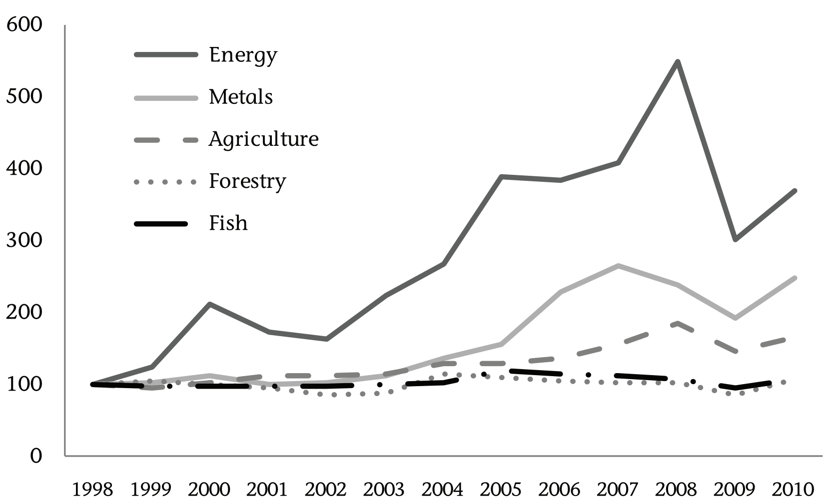
These global phenomena may seem far away from a small open economy like Nova Scotia. However, their influence can be profound by shaping the interest rates and trade that determine so much of Nova Scotia's economic activity.

Commodity Markets

Global conditions in commodity and manufacturing trade determine how Nova Scotia can generate income and improve living standards through interaction with the rest of the world. Nova Scotia exports a significant amount of commodities, notably seafood, lumber, pulp/paper, and natural gas. From 2008 to 2010, commodity prices experienced a significant correction, particularly for energy prices that grew dramatically in the pre-recession period. As a major commodity exporter, Canada's economic growth was significantly enhanced by increasing demand for the nation's energy, metal, and agricultural output.

Figure 5 Commodity Price Growth

Index 1998=100



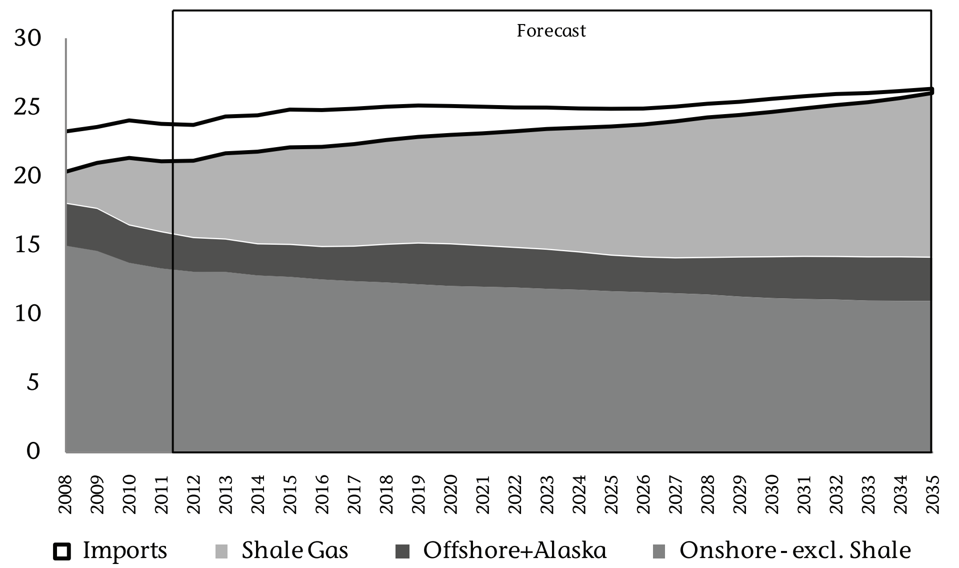
Source: Statistics Canada (CANSIM 176-0075)

Robust economic prospects for emerging markets are expected to drive commodity prices up further. However, Nova Scotia's forestry and fish-product exports have not enjoyed the same boom as other commodities. Even in energy, Nova Scotia may not be positioned to take advantage of the global demand for commodities that are expected to fuel economic development in Asia.

Until 2009, Nova Scotia's natural gas had been the leading export commodity. By this time, fundamental shifts in the natural gas supply were underway. The emergence of large recoverable quantities of shale gas in the United States dimmed the prospects for imported natural gas supplies.

Figure 6 Shale Gas Supplies Offset Imports

US Department of Energy (tcf)

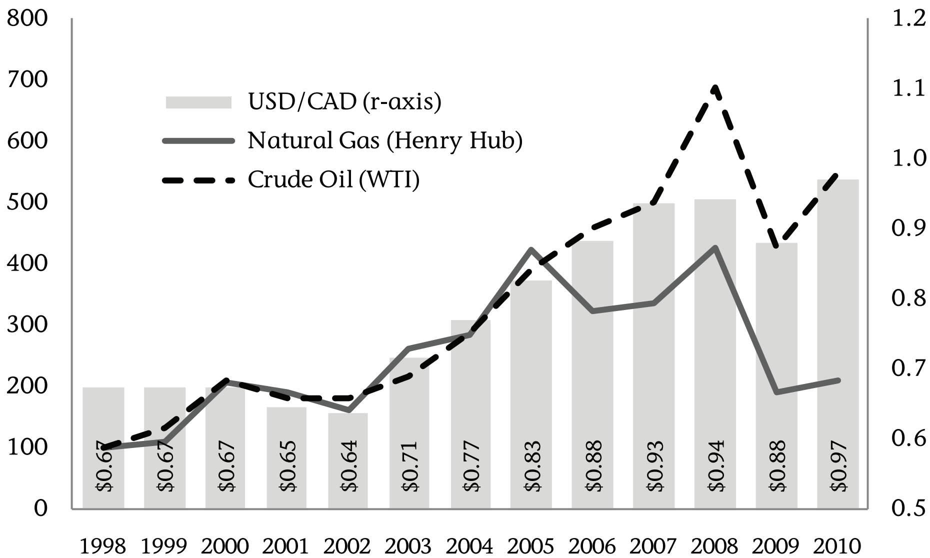


Source: US Energy Information Administration,
Annual Energy Outlook 2011 Early Release

Increasing volumes of crude oil production make this commodity increasingly important in determining the value of the Canadian dollar. Crude oil prices are expected to remain between $90 and $100 per barrel (USD West Texas Intermediate). Natural gas prices have fallen substantially, and may not return to their previous relationship with crude. The Canadian dollar used to be strongly driven by both natural gas and crude oil exports.

Figure 7 Energy Prices and the Canadian Dollar

L-axis: Commodity price index (1998=100), R-axis: Currency USD/CAD



Source: Statistics Canada (CANSIM 176-0075, 176-0049)

Natural gas prices supported robust exports up to 2008. (Not all of Nova Scotia's commodity exports enjoyed higher prices from 2002 to 2008.) While still a large export, lower-priced natural gas products cannot be expected to contribute to Nova Scotia's growth as they did before 2008. In the coming years, food-price inflation may affect seafood products. Nova Scotia's lumber products have recently recovered, although they are far from historic production levels. Construction and renovation in Canada have also improved lumber-sector prospects, and potential for growing exports to Asia from British Columbia forest industries may reduce supply in North America.

Canada's currency is expected to remain near par on the strength of global commodity demand. Some provinces may suffer as currency appreciation weakens the competitiveness of manufacturers and less-demanded commodity exports.

Interest Rate and Foreign Exchange Outlook

The Department of Finance monitors the interest rate perspectives of a number of private-sector forecasters. Through the height of the financial crisis, there were widely varying predictions about movements in Canadian interest rates. The 2011–2012 Nova Scotia Budget assumes that Canadian interest rates will begin to rise in the second half of 2011. This will exert modest pressure on key drivers of real activity (prime rate, mortgage rates) for 2011, but more substantial interest rate growth is expected for 2012.

The Department of Finance expectation for foreign exchange rates has been revised up from the 2010–11 Budget forecast, based on recent commodity market developments. The USD/CAD exchange rate is now forecast to remain slightly above par for the next two years.

Financial and Commodity Market Assumptions

	2010	2011	2012
USD/CAD exchange rate	1.03a	1.01	1.01
Natural Gas (USD/mmBTU, Henry Hub)	4.39a	4.35	4.80
Crude Oil (USD/bbl, WTI)	79a	93	94
Canadian Prime Lending Rate (%)	2.6a	3.6	5.2
5-Year Conventional Mortgage (%)	5.6a	5.5	6.8

a~actual

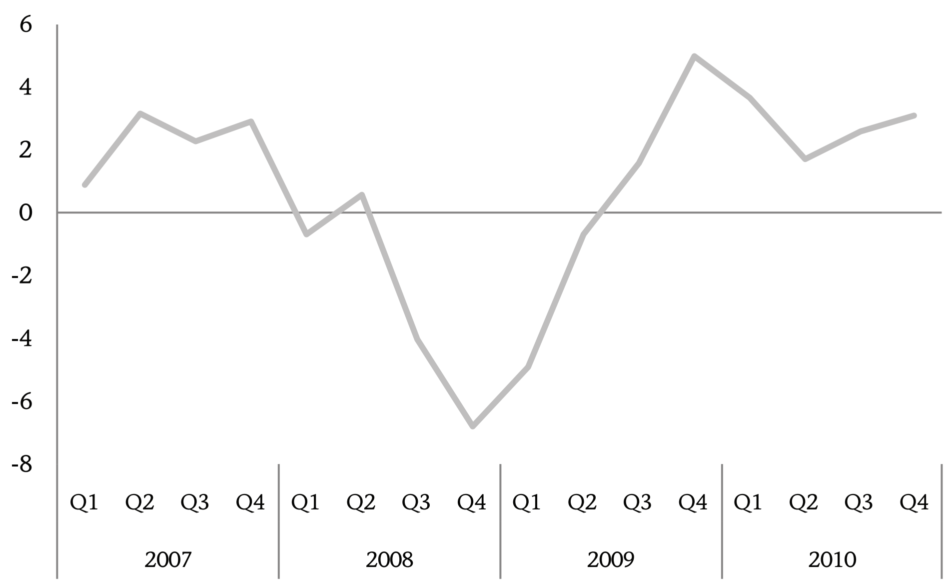
The Nova Scotia Budget's Financial and Commodity Market forecast is based on public data and information available up to March 9, 2011.

US Economy

The outlook for Nova Scotia's most important international trading partner is better than it appeared last summer. US GDP growth accelerated over the last half of 2010. The current account deficit has improved from 6.0 per cent of GDP in 2006 to 3.2 per cent in 2010.

Figure 8 US Real GDP Growth: Recession and Recovery

Real GDP quarterly growth, seasonally adjusted at annualized rates

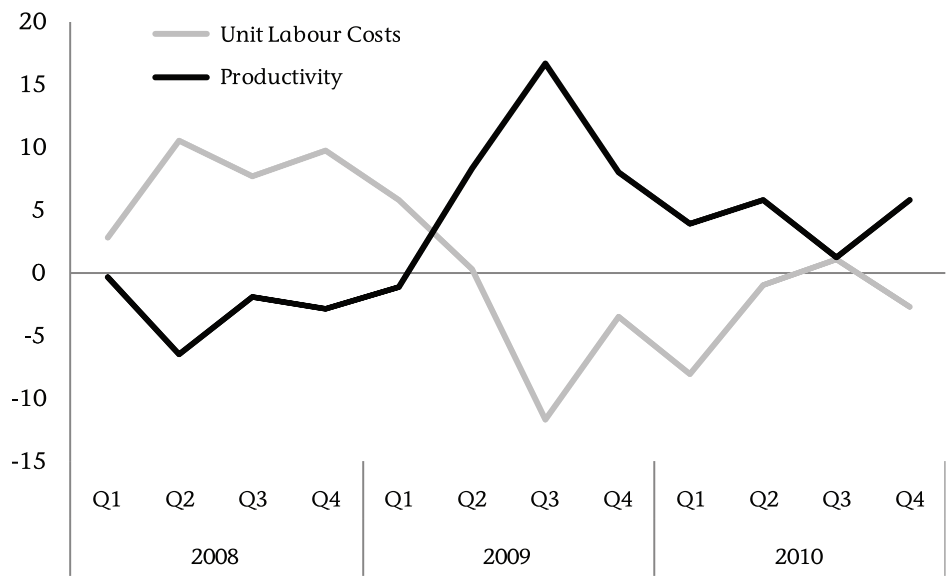


Source: US Bureau of Economic Analysis

Despite many headwinds (weak housing markets, disputes about fiscal restraint, ongoing current account imbalances), the US economy has posted strong manufacturing growth and productivity improvements, particularly in the restructured auto sector. With unit labour costs becoming increasingly competitive, the US is demonstrating remarkable economic resilience after a difficult recession.

Figure 9 US Manufacturing Productivity

Per cent change over last quarter, annualized rate



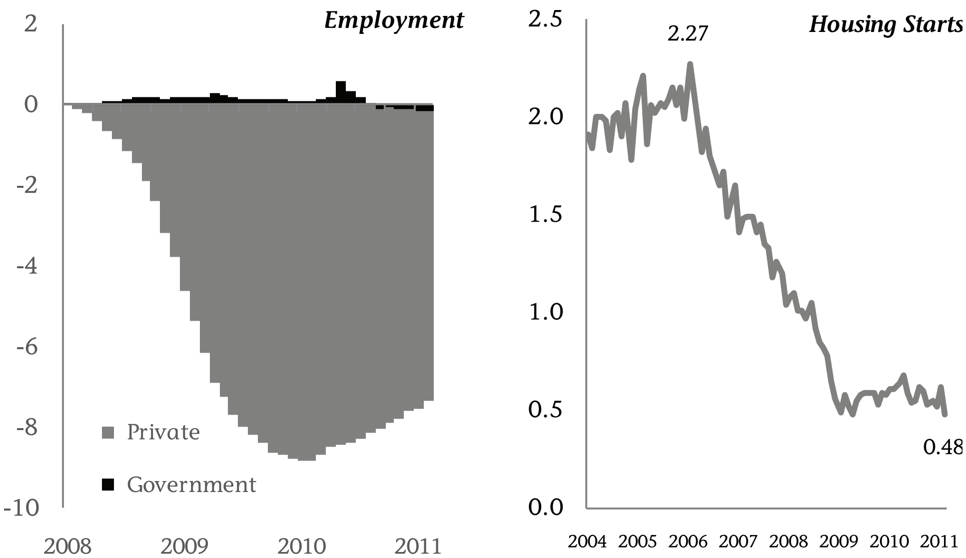
Source: US Bureau of Labor Statistics

In 2011, the US export sector is expected to be the primary source of growth. However, future growth depends on private domestic spending resuming its role as the driver of growth for the US economy. To date, the positive indicators for US production and exports have not translated into a significant rebound in either housing or employment.

Figures 10 & 11 US Employment and Housing Starts

Change in Employment from January 2008, seasonally adjusted at annualized rates

Housing starts, millions, seasonally adjusted at annualized rates

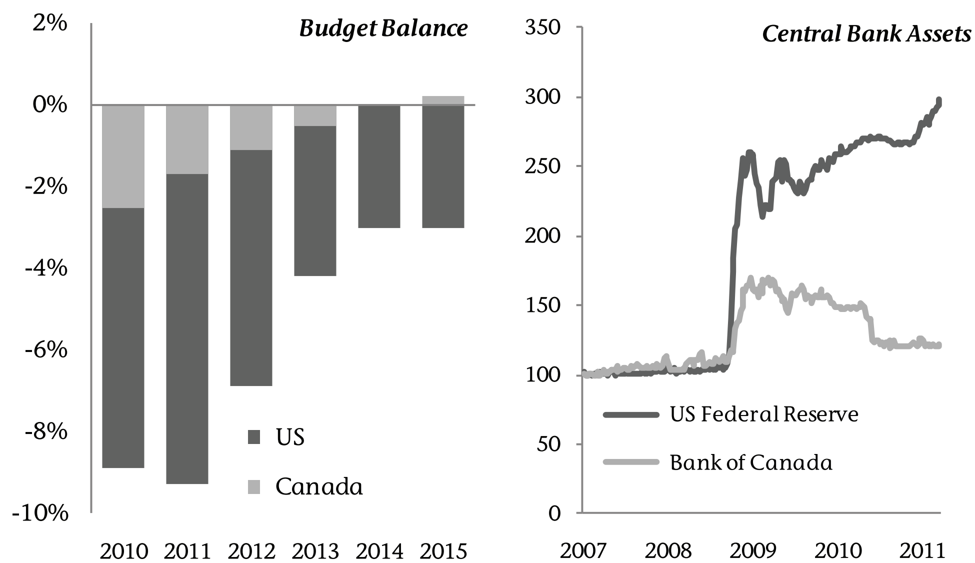


Source: US Bureau of Labor Statistics, US Department of Commerce

A full US recovery still depends on widespread growth in all sectors. For this reason, there is little anticipation that the US will end very accommodative monetary policy any time soon. Although political leaders continue to debate how to resolve the US Budget deficit, significant fiscal restraint is not expected to have a short-term impact on the US economic outlook.
At some point in the medium term, fiscal and monetary stimulus must come to an end. By this time, US economic growth requires renewed domestic investment and consumption spending.

Figures 12 & 13 US Fiscal and Monetary Policies Still Accommodative

Budget Balance share of GDP, Central Bank Assets index (January 2007=100)



Source: US Congressional Budget Office, US Federal Reserve, Finance Canada, Bank of Canada

The Department of Finance bases its outlook for the US on a consensus of private-sector forecasters. Based on private-sector consensus as of March 9, 2011, the 2011–2012 Budget assumes the following US economic growth:

US Economic Assumption

	2010	2011	2012
Real GDP, $2002 (% change)	2.8a	3.0	3.1
Private Sector – High		*3.6*	*3.9*
Private Sector – Low		*2.2*	*2.3*

The Nova Scotia Budget's US Economic Assumption is based on public data and information available up to March 9, 2011. The US economy actually grew by 2.9 per cent, in 2010, according to the latest revisions from the US Bureau of Economic Analysis.

Canadian Economic Review and Outlook

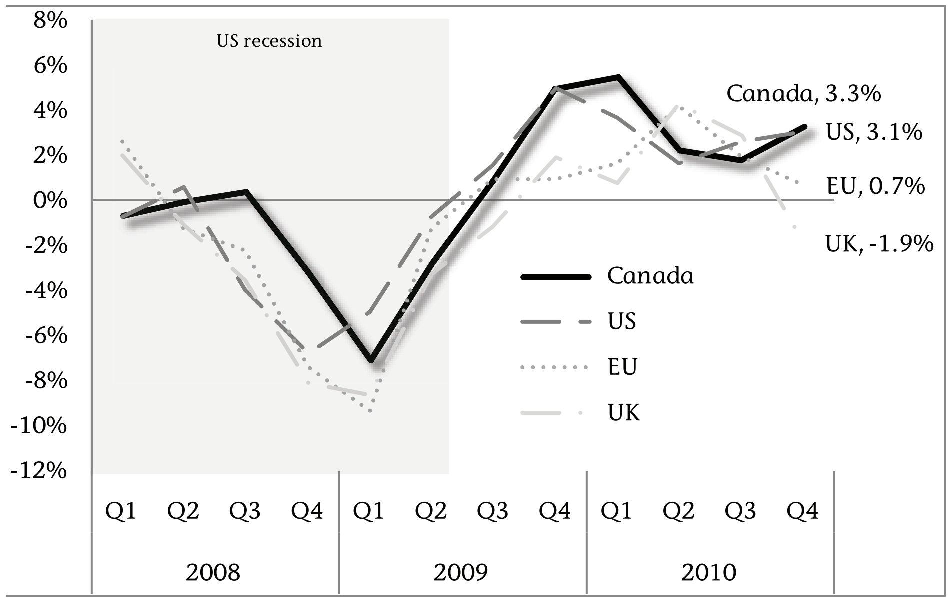
How Canada's Economy Influences the Nova Scotia Economy

Nova Scotia's exports and imports with the rest of the country exceed our trade with international partners. The performance of the rest of Canada has a direct influence on how much income Nova Scotia generates by trading with other provinces. In addition, national fiscal and monetary policies (determined for the rest of Canada) can have a profound influence on Nova Scotia's economy.

How did Canada's Economy Perform Last Year?

After falling by 2.5 per cent in 2009, Canada's real GDP recovered to grow by 3.1 per cent in 2010. Despite many claims that it was not as badly affected by the global recession as other industrialized economies, Canada's real GDP growth followed a very similar pattern to those nations that were more severely impacted by the recession.

Figure 14 Canada's Economic Growth in Recession and Recovery
Real GDP – quarterly growth, seasonally adjusted at annualized rates

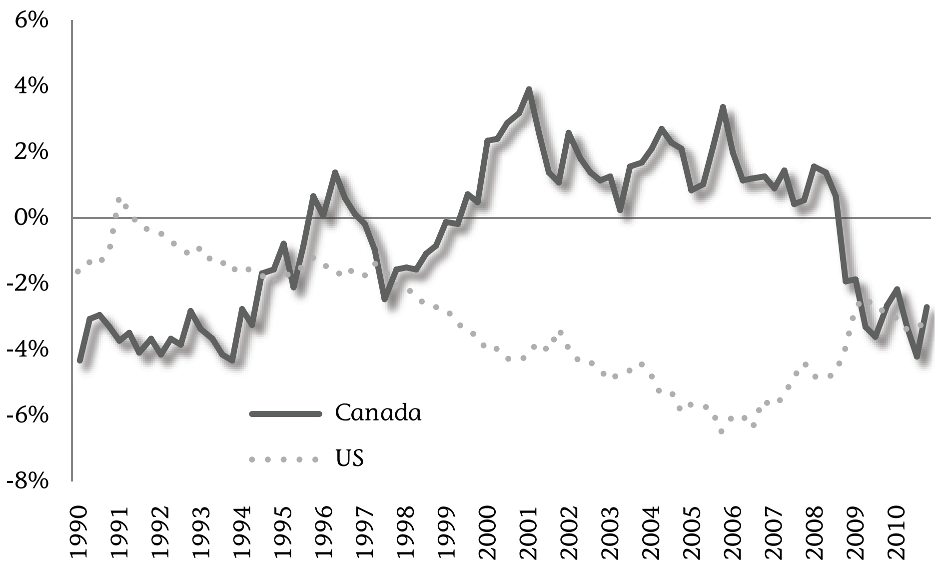


Source: Statistics Canada (13-019X), US Bureau of Economic Analysis,
UK Office of National Statistics, Eurostat

Both Canada and the US posted strong turnarounds in the second half of 2009 through the first half of 2010. Despite recessions of similar length and slowdown in GDP, recovery in the European Union and the United Kingdom was weighed down by sovereign debt uncertainties. While Europe and the UK continued to stall through the end of 2010, both Canada and the US posted strong growth in the last quarter, driven by external trade in both economies.

Figure 15 Current Account Balances—Canada and the US

Share of GDP, Quarterly at Annualized Rates

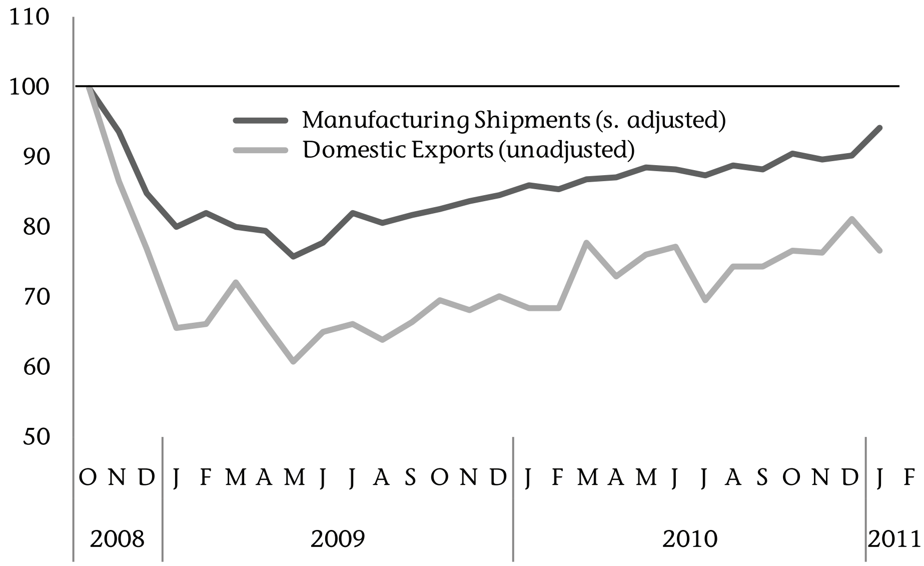


Source: Statistics Canada (CANSIM 376-0005, 13-019x),
US Bureau of Economic Analysis, IMF

Despite a strong fourth quarter in 2010, Canada's international economic performance has yet to return to pre-recession levels. While the US has considerably improved its current account balance, Canada's international receipts and payments have remained stuck at the same levels as were observed during the recession. This has reversed eight years of current account surpluses.

Figure 16 Canada's Manufacturing and Domestic Exports

Index (October 2008 = 100)

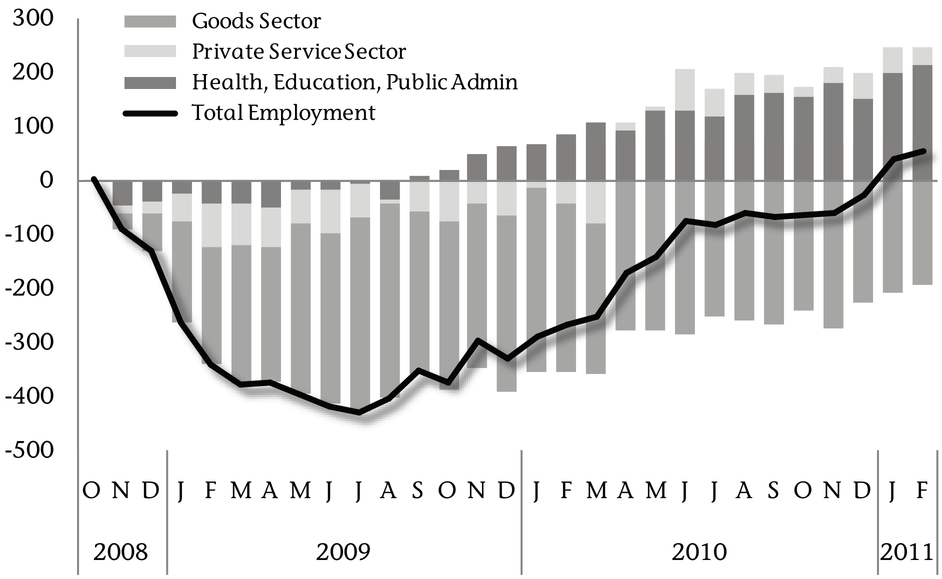


Source: Statistics Canada (CANSIM 304-0014, 228-0034)

Canada's manufacturing and domestic exports still remain well below levels observed in the pre-recession period.

Figure 17 Canada's Employment Recovery

Change in employment from October 2008 (000s)

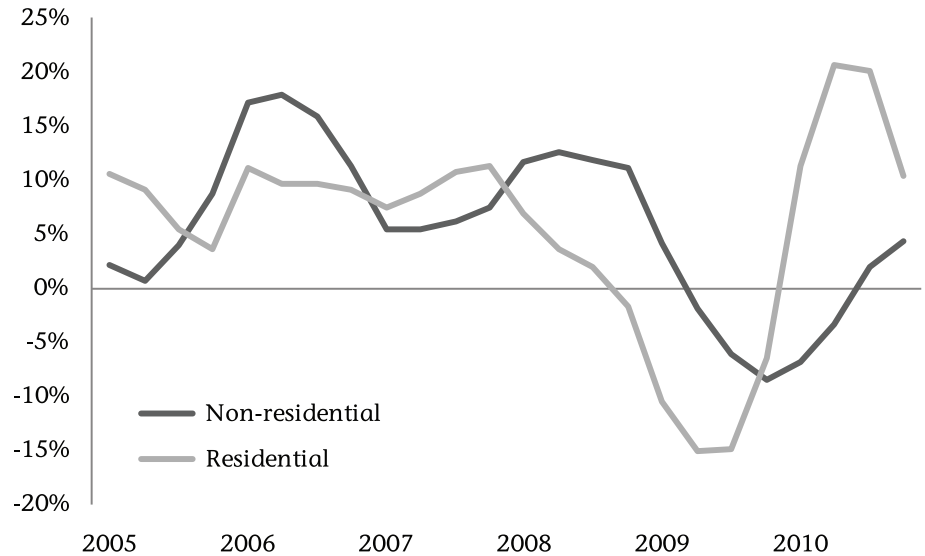


Source: Statistics Canada (CANSIM 282-0001)

Canada's domestic economic performance has been more robust. Domestic demand in 2010 finished at a pace of 4.7 per cent (annualized, $ 2002 chained). Canada's employment levels have recently returned to their pre-recession peak (established in October 2008), although the goods sectors have yet to make up employment losses from the recession. Private-service and public-service employment growth has more than compensated for overall employment losses.

Figure 18 Canada's Construction Investments

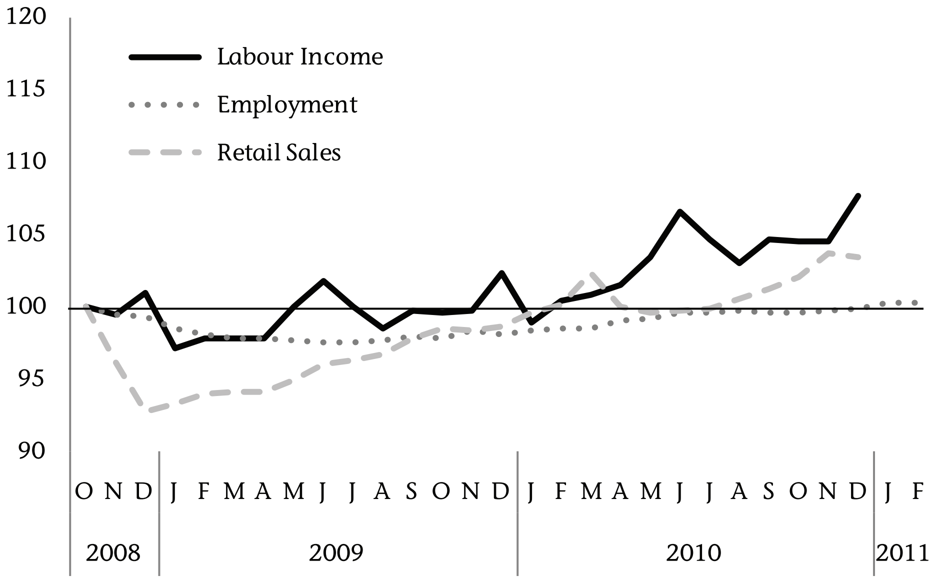
Growth in past 12 months



Source: Statistics Canada (CANSIM 026-0013, 026-0016)

In construction activities, Canada's housing sector appears to have emerged from the recession with residential construction rising above pre-recession levels throughout much of 2010. Despite government stimulus initiatives, non-residential construction in Canada has remained below pre-recession levels.

Figure 19 Canada's Income and Spending
Index October 2008=100. Employment and Retail Sales are seasonally adjusted, Labour Income is unadjusted



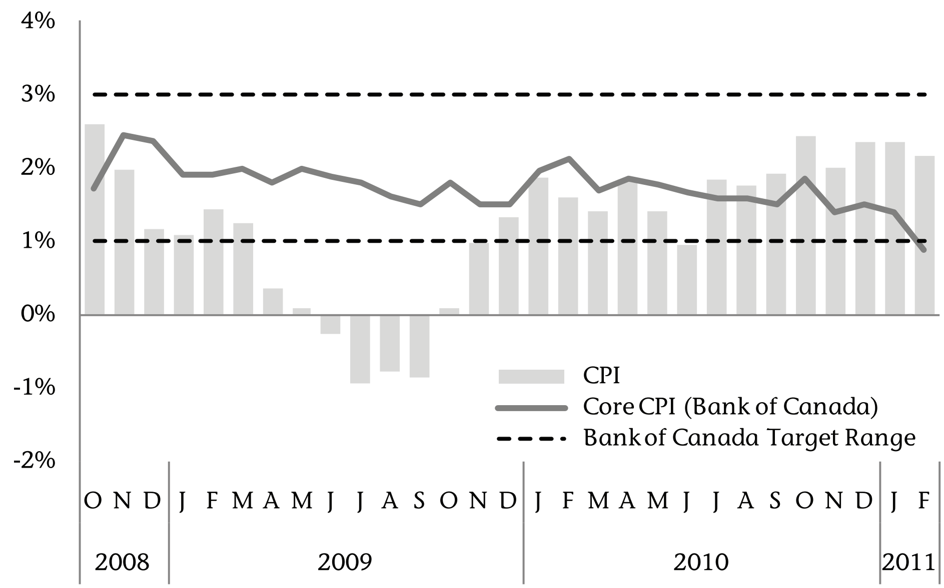
Source: Statistics Canada (CANSIM 080-0020, 282-0001, 13-021X)

Based on strong domestic expenditures and recent upturns in trade performance, the latest indicators of Canada's economic recovery are encouraging. Labour income and retail spending grew beyond pre-recession levels in early-to-mid-2010, while employment recovered by the beginning of 2011. Recovery in domestic conditions is important to stabilizing Canada's outlook through an expansionary period.

To date, Canada's recovery has not been marked by significant consumer price inflation, and core inflation remains well within the Bank of Canada's target range.

Figure 20 Consumer Price Inflation in Canada

Growth in Last 12 Months



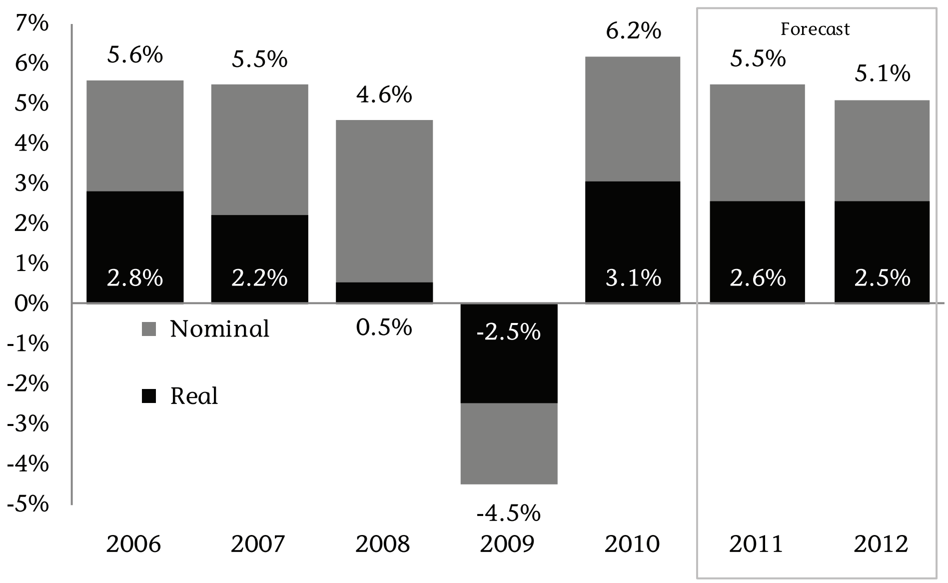
Source: Statistics Canada (CANSIM 326-0020)

What is the Outlook for the Canadian Economy?

Canada's resurgent economic growth in the last quarter of 2010 was a surprise to many observers. As a result, many forecasters have upgraded their outlook for the Canadian economy over the next two years. The 2011–2012 Budget assumption is that Canada will continue to recover from the recession, but the pace of expansion is not expected to match the results from 2010.

Figure 21 Canada's Economic Outlook

GDP annual growth (per cent)



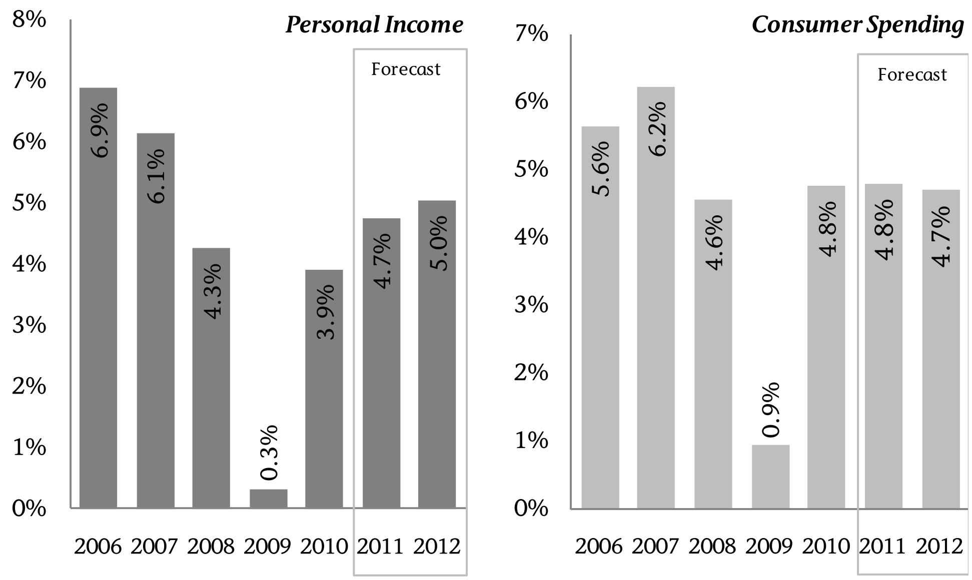
Source: Statistics Canada (13-019X), Nova Scotia Departmenet of Finance

Real GDP is expected to rise by 2.6 per cent in 2011, and by 2.5 per cent in 2012. Nominal GDP growth is forecasted to be 5.5 per cent this year, followed by 5.1 per cent.

Canada's employment recovery will continue, fostering better domestic spending as households become more confident. In 2011 and 2012, employment is expected to grow faster than 2 per cent, adding over 750,000 jobs. In combination with labour force growth, Canada's unemployment rate is expected to fall to 7.3 per cent in 2011 and to 6.6 per cent by 2012. As a result, Canadian personal income and consumer spending are expected to return to their long-run growth trends.

Figures 22 & 23 Canada's Personal Income and Consumer Spending Outlook

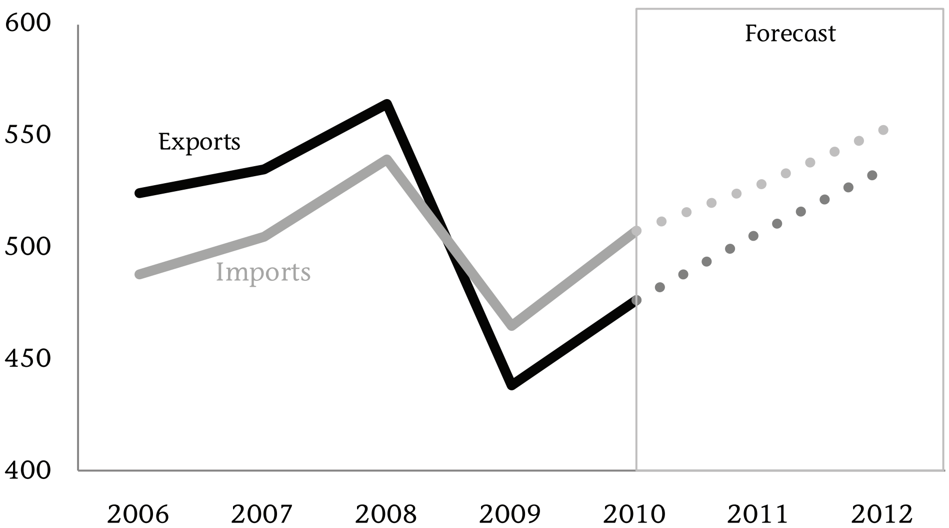
Growth (nominal)



Although Canada's household sector is expected to return to its previous patterns, the same cannot be said of government expenditures. Unlike households, Canada's governments have consistently stated the need to get balance sheets in order. As both federal and provincial governments make the difficult choices to get budgets back to balance, the growth in government current and capital spending will be considerably slower than previous trends.

Figure 24 Canada's Trade Outlook

$billions, nominal

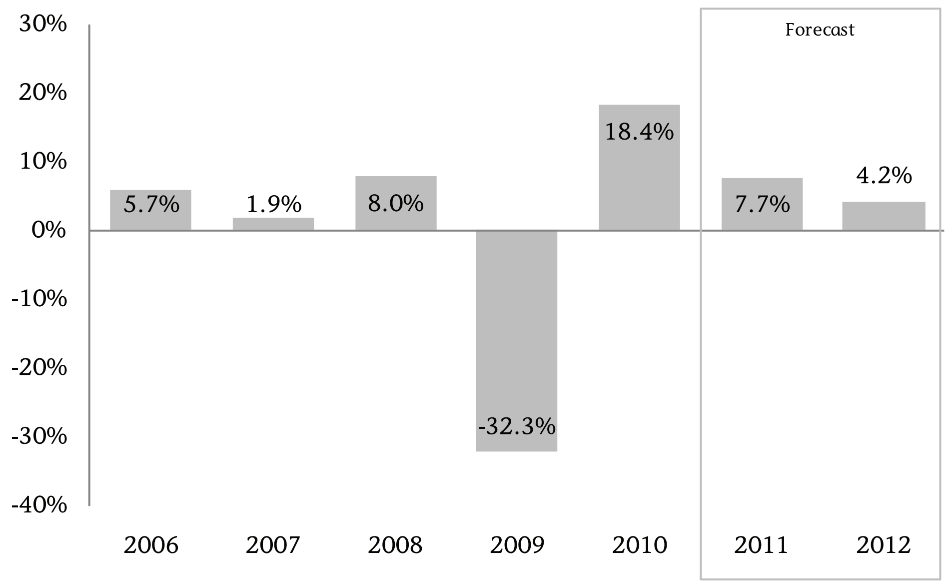


Source: Statistics Canada (13-019X), Nova Scotia Department of Finance

In the trade sector, Canada's commodities are expected to enjoy continued strong demand as the global economy expands. Although Canada's exporters appear to have resolved to live with the dollar near par with the US currency, the adjustment has not been easy. For the immediate outlook, Canada's exports are expected to fall short of currency-fuelled import spending. As a result, net trade will remain a consistent drag on economic growth over the immediate future (for the first time since the early 1990s).

Figure 25 Canada's Corporate Profit Outlook

Growth (nominal)

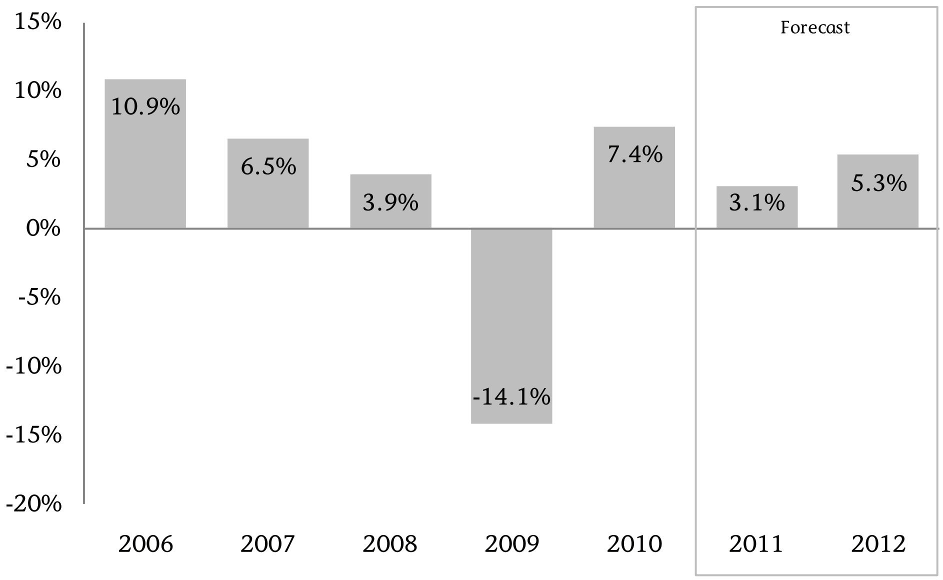


Source: Statistics Canada (13-019X), Nova Scotia Department of Finance

With exports recovering, Canada's businesses have started to return to profitability. National corporate profits grew by 18.4 per cent in 2010, and are currently forecast by the Nova Scotia Department of Finance to grow by 7.7 per cent in 2011 and by 4.2 per cent in 2012. This growth does not offset the 32.3 per cent drop in corporate profits during 2009, and still leaves profits well below the peaks observed in 2008. In fact, corporate profits are not expected to recover to pre-recession levels for several years.

Figure 26 Canada's Business Investment Outlook

Growth (nominal)



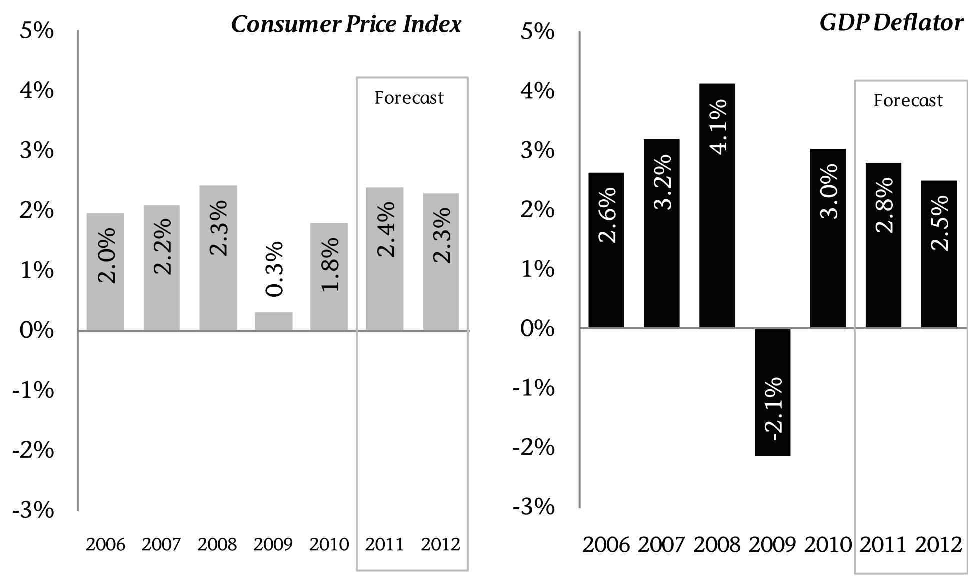
Source: Statistics Canada (13-019X), Nova Scotia Department of Finance

With Canada's corporate profits still on the rebound, business investment levels are also expected to post modest growth in 2011 and 2012. Most of the recovery observed in 2010 was concentrated in the housing sector, and the blistering pace of residential investment growth is not expected to continue. Despite the opportunity to import cheaper machinery and capital equipment with a higher currency, business investment is expected to remain measured.

Rising commodity demand is expected to overwhelm the effects of higher currency on prices. As a result, the 2011–2012 Budget assumes that Canada's consumer price index will rise by 2.4 per cent in 2011 and by 2.3 per cent in 2012. The broader price indication from the GDP deflator is expected to grow by 2.8 per cent in 2011, followed by 2.5 per cent in 2012.

Figures 27 & 28 Canada's Price Outlook

Per cent growth



Source: Statistics Canada (CANSIM 326,0021, 13-019X),
Nova Scotia Department of Finance

Private-Sector Consensus

Canada's Real GDP (per cent growth)

	2011	2012
High	3.2	3.1
Average	**2.7**	**2.8**
Low	2.2	2.5

The Department of Finance outlook for the Canadian economy remains lower than the private-sector consensus as of March 9, 2011, particularly the outlook for 2012.

Canada's Economic Outlook

	2010	2011	2012
Real GDP, 2002$ (% change)	3.1a	2.6	2.5
Nominal Gross Domestic Product (% change)	6.2a	5.5	5.1
Employment (% change)	1.4a	2.3	2.1
Unemployment Rate (%)	8.0a	7.3	6.6
Personal Income (% change)	3.9a	4.7	5.0
Consumer Price Index (% change)	1.8a	2.4	2.3
Retail Sales (% change)	5.1a	5.3	5.0
Corporation Profits before Taxes (% change)	18.4a	7.7	4.2
Exports of Goods and Services (% change)	8.7a	6.3	5.6

a ~ actual

The Nova Scotia Budget's Canada Economic Outlook is based on public data and information available up to March 9, 2011, as well as the March 22 Federal Budget expenditure plan.

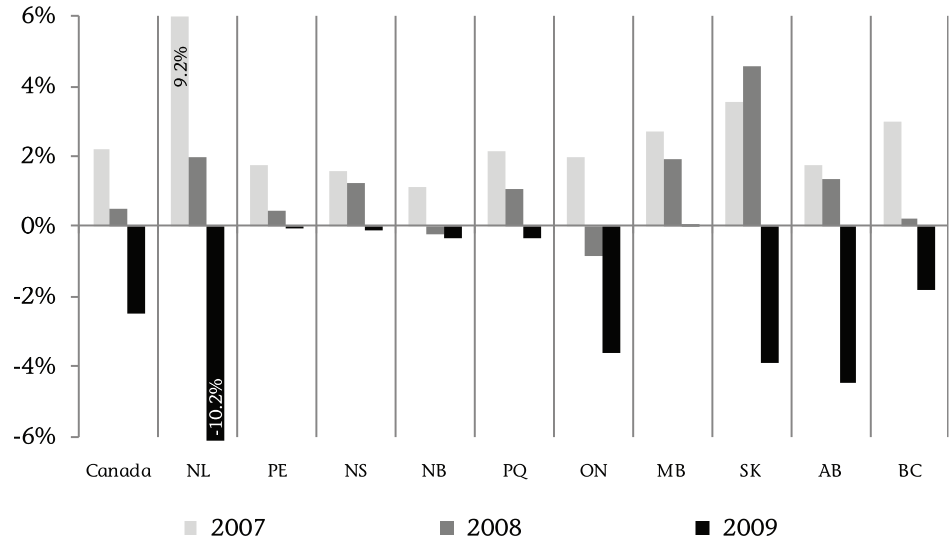
Nova Scotia's Economic Review and Outlook

How did Nova Scotia's Economy Perform Last Year?

Nova Scotia's economy did not suffer the same damage as the Canadian economy during the recession of 2009. Real GDP fell only slightly (-0.1 per cent) and nominal GDP grew by 0.7 per cent.

Figure 29 Provincial GDP growth

Real GDP Growth (Per cent)



Source: Statistics Canada (CANSIM 384-0002, 13-019X)

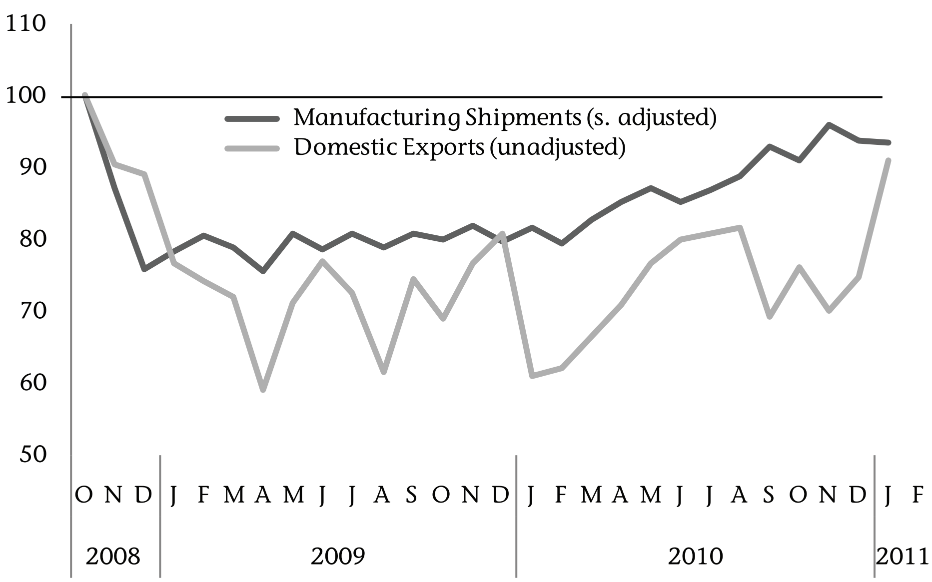
Although the Provincial Economic Accounts for 2010 will not reveal Nova Scotia's GDP until later in the year, there have been a number of indicators that suggest Nova Scotia has recovered from the global slowdown. However, other indicators suggest that some effects of recession continue to linger.

Nova Scotia is largely a service economy: over three-quarters of GDP is produced in service industries and over 80 per cent of workers are employed in service industries. Service industries are generally more stable than goods producing sectors. Despite their smaller size, the performance of manufacturing, merchandise exports, and construction provide current insights into how Nova Scotia's economy grew during 2010.

Starting from the month of peak pre-recession employment (October 2008), Nova Scotia's manufacturing shipments declined by almost 25 per cent in 2 months. Lumber production, in particular, suffered during the collapse of US housing markets. Nova Scotia's domestic exports fell even further, weighed down by natural gas and gypsum. Throughout much of 2009, these measures of economic output remained depressed. During 2010, both manufacturing shipments and domestic exports staged a recovery. Although they have not yet reached pre-recession levels, growth in goods sectors indicates that Nova Scotia may be enjoying the benefits of broader economic recovery.

Figure 30 Nova Scotia's Manufacturing and Domestic Exports

Index October 2008=100



Source: Statistics Canada (CANSIM 304-0015, 228-0034)

The strong rebound in construction—especially residential construction—was somewhat of a surprise. Nova Scotia's residential construction investments grew by 17.6 per cent in 2010, while non-residential construction grew by 15.1 per cent. Non-residential construction was supported by government stimulus investments, while residential construction activities apparently took advantage of incentives for new housing and renovation. In addition, a number of mid-sized residential developments got underway in Halifax during 2010.

Figure 31 Construction in Nova Scotia
Growth in past 12 months

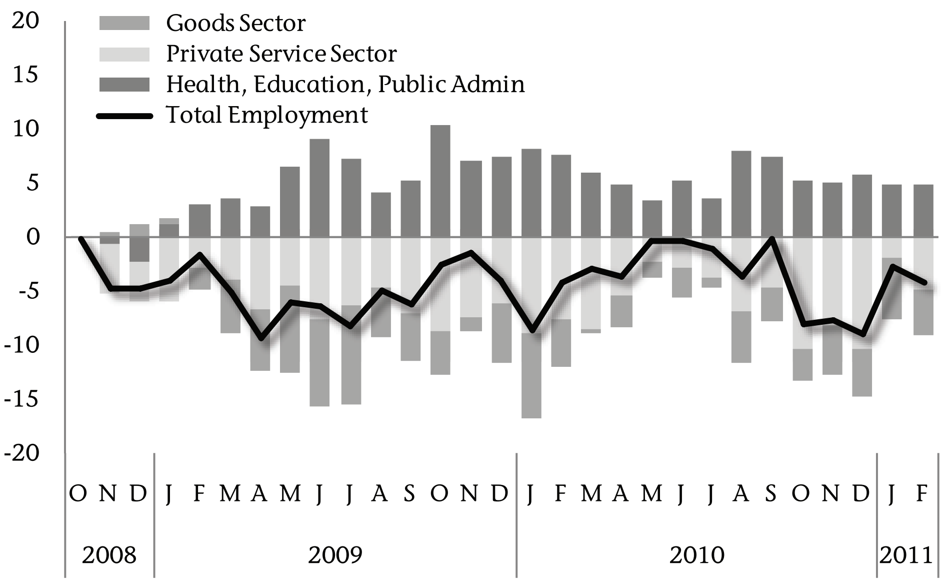
Source: Statistics Canada (CANSIM 026-0013, 026-0016)

The strong rebound in construction certainly benefited employment in this sector. However, the stimulus effect on the construction sector does not appear to be passing through into higher employment in other sectors.

In the first half of 2010, Nova Scotia enjoyed a prolonged (if unhurried) recovery in employment. However, the last half of 2010 featured large swings in employment, despite continued operation of major anchor employers.

Figure 32 Nova Scotia's Employment Recovery

Change in employment from October 2008 (000s, seasonally adjusted)

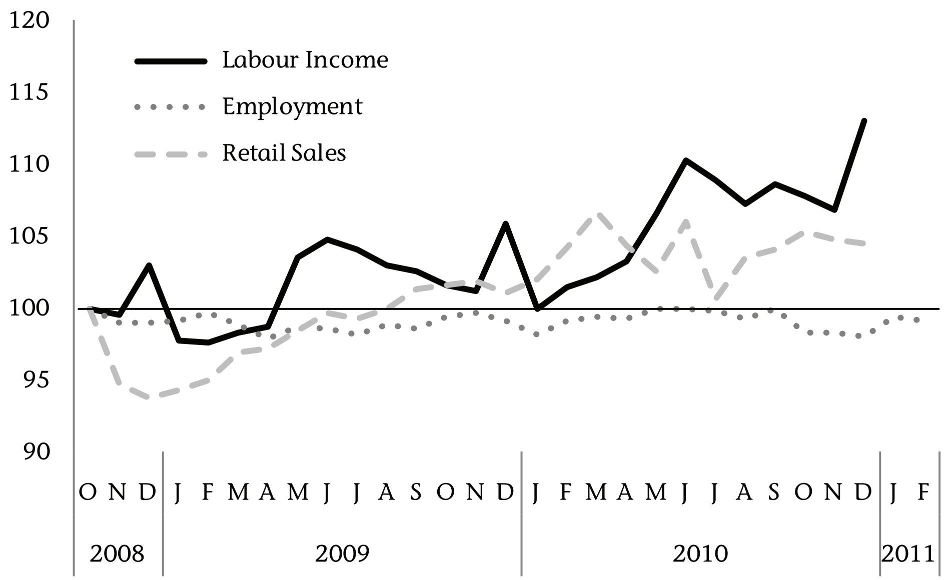


Source: Statistics Canada (CANSIM 282-0001)

There have been a number of mid-sized closures and employment dislocations throughout 2010. To date, Nova Scotia has not sustainably returned to pre-recession employment peaks. Employment growth since October 2008 has been largely concentrated in the public sector, health, and education. Private service industries and goods industries have not recovered to their pre-recession employment levels.

Even though Nova Scotia's employment levels have not returned to their pre-recession peak, other indicators of household living standards are positive. Labour income enjoyed a particularly strong year in 2010—growing by 4.7 per cent—while retail sales (an early indicator of overall consumer spending) grew by 5.0 per cent.

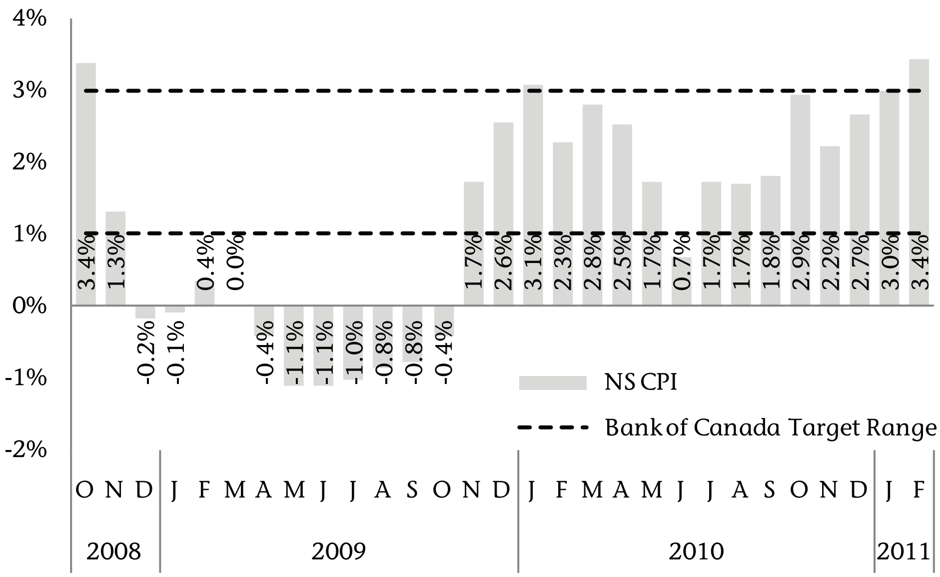
Figure 33 Nova Scotia's Income and Spending
Index October 2008=100. Employment and Retail Sales are seasonally adjusted, Labour Income is unadjusted



Source: Statistics Canada (CANSIM 080-0020, 282,0001, 382-0006)

Part of the growth in retail sales values can be attributed to consumer prices. After declining through much of 2009, Nova Scotia's consumer prices started rising again at the beginning of 2010. Compared with the same month in the previous year, Nova Scotia's consumer price index grew quite rapidly during the heating season of 2010. This reflects a recovery in oil prices, which makes up a disproportionate share of heating costs in the province. Through the summer months Nova Scotia's consumer price index growth was fairly modest, staying below 2 per cent from May through September (despite changes to the HST that took effect on July 1). Through part of the heating season at the end of 2010 and the beginning of 2011, consumer prices are up again as fuel oil price growth again affects household budgets.

Figure 34 Nova Scotia's Consumer Price Inflation
Growth in the last 12 months, seasonally unadjusted.
Target range only applies to national core CPI growth.



Source: Statistics Canada (CANSIM 326-0020)

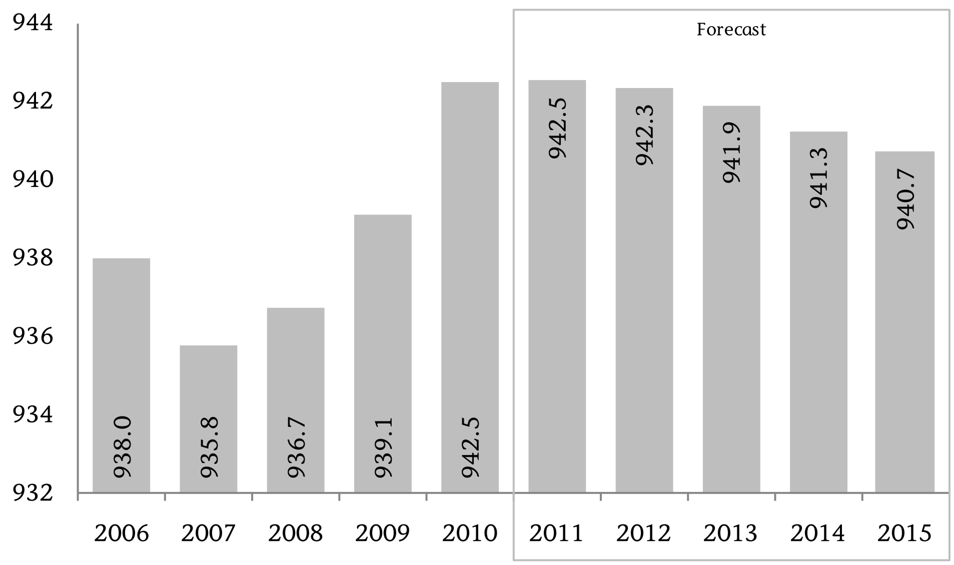
Overall, Nova Scotia's economy largely avoided the recession of 2009, experiencing only a slight decline in real GDP. In 2010, this suggests that Nova Scotia's economy will not experience the same recovery as other provinces that were more severely affected. The indications are mixed—strong construction, labour income, and retail spending offset by middling results in prices, employment, manufacturing, and exports. The 2011–12 Budget assumes that Nova Scotia's real GDP grew by 2.1 per cent in 2010 (4.9 per cent on a nominal basis).

Nova Scotia's Demographic Outlook

The Department of Finance has revised its demographic projections for Nova Scotia. The revised demographic base case for 2010 is somewhat more optimistic than the 2009 projection. Although population is still expected to decline over the forecast period, the pace of the decline is slowed considerably after revised assumptions on interprovincial migration and immigration.

Figure 35 Nova Scotia's Short-Term Population Projection

Population history and projection (000s)



Source: Statistics Canada (CANSIM 051-0001), Nova Scotia Department of Finance

The Nova Scotia Budget's Provincial Demographic Outlook forecast is based on public data and information available up to December 22, 2010.

In the 1970s, 1980s, and 1990s, natural population growth was a source of considerable increase for Nova Scotia before becoming more neutral in the 2000s. Over the next 10 years, natural population is expected to turn into a steady drain on population as the baby boom generation ages.

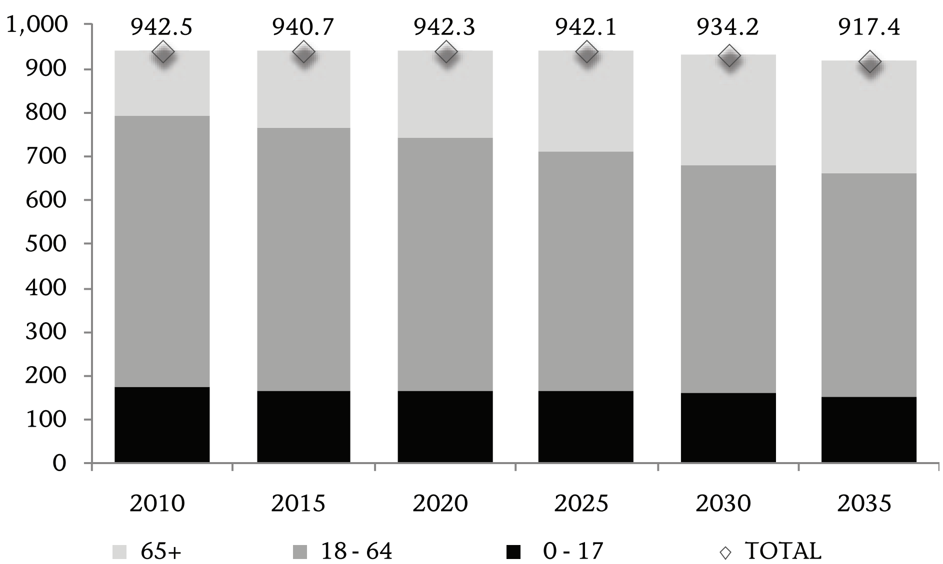
Interprovincial migration had actually been a small source of population growth for Nova Scotia during the 1970s and 1980s, but this trend turned negative in the last 20 years. It is expected that over the next 25 years, net interprovincial outmigration will continue with the same volume each decade as was observed in the last 10 years.

Of the major population components, only immigration is expected to be a continuing source of population growth in the future. In fact, the revised demographic projection assumes stronger immigration growth in the next 10 years as government policy moves to higher immigration targets. However, this also assumes that the historic relationship between immigration and subsequent net interprovincial migration continues.

While Nova Scotia's population outlook is more positive—suggesting population stability rather than decline—the underlying demographics still foretell an aging population and increasing dependency ratios. Regardless of the size of the population, the age composition of the population will be a critical determinant of labour market outcomes and program spending pressures over the coming decades.

Figure 36 Nova Scotia's Long-Term Demographic Outlook

Population projection (000s)



Source: Nova Scotia Department of Finance

NOVA SCOTIA

Nova Scotia's Economic Outlook

After two years of uncertainty during dramatic economic upheavals, Nova Scotia's economic outlook is expected to stabilize around long-run trends. In the absence of major changes among key employers, the province's growth will be determined by a few developments: fiscal consolidation, commodity price inflation, tightening labour supply, and global economic recovery.

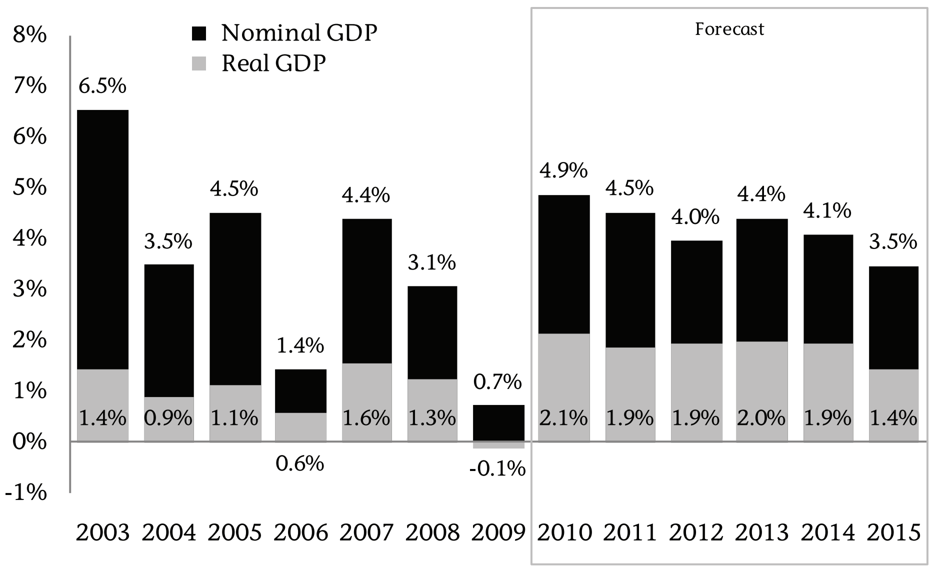
In the coming two years, Nova Scotia's economy (real GDP) is expected to grow slightly faster than recent trends — 1.9 per cent in each of 2011 and 2012. Nominal GDP is expected to grow by 4.5 per cent in 2011, followed by 4.0 per cent in 2012 as broad price indicators slow.

Over the medium term, Nova Scotia's real GDP growth is expected to be more consistent with longer term trends, growing by 1.8 per cent on average from 2010–15. This is about the same pace at which the economy grew from 1990–2009, although nominal growth of 4.1 per cent is slightly faster than the long-run trend 3.8 per cent.

This economic outlook is more positive than the medium-term projections in the 2010–11 Budget. Stronger results than expected for 2010 combine with a more stable population outlook to partially offset the impacts of fiscal restraint in the medium term.

Figure 37 Nova Scotia's Medium-Term Economic Outlook

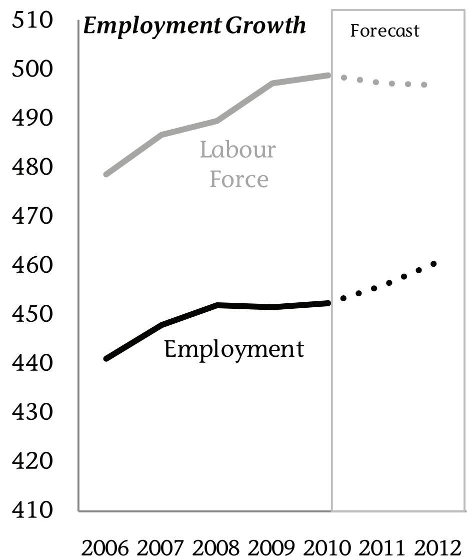
Per cent growth, Gross Domestic Product

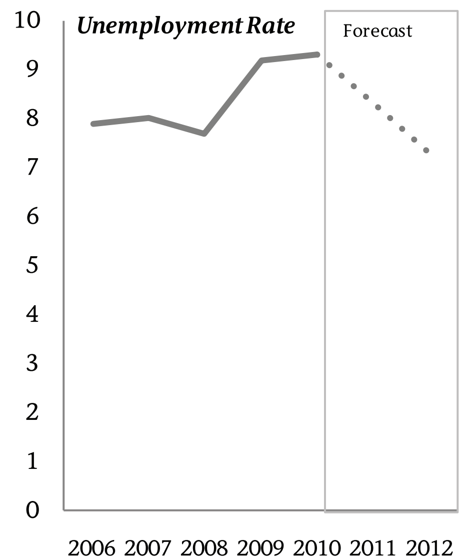


Source: Statistics Canada (CANSIM 384-0002), Nova Scotia Department of Finance

Nova Scotia's economic outlook reflects the response of the province's businesses and households to broader global conditions. Financial and commodity markets influence Nova Scotia's interest rate and foreign exchange environment. Global, US, and Canadian economic performance determines the demand for Nova Scotia's traded products as well as the availability and cost of critical imports. When Nova Scotia's entrepreneurs and families respond to these conditions, they generate the income and expenditures that set our overall wealth and material standard of living.

Figures 38 & 39 Nova Scotia's Employment Outlook
Employment and Labour Force in 000s,
Unemployment Rate as a share of Labour Force



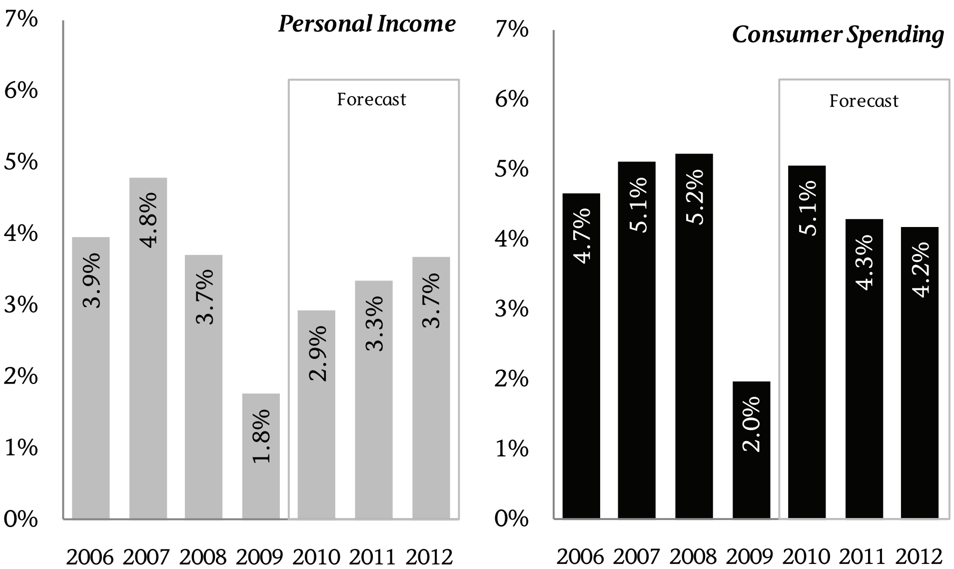


Source: Statistics Canada (CANSIM 282-0002), Nova Scotia Department of Finance

The provincial demographic forecast is more positive, but Nova Scotia's relatively low labour force participation rate is not expected to improve in the short run. With a stable and aging population, Nova Scotia's labour force is expected to decline slightly in the next two years. With modest employment recovery (<10,000 new jobs by 2012), Nova Scotia's unemployment rate is projected to fall in 2011 and to reach 7.3 per cent by 2012.

Figures 40 & 41 Nova Scotia's Personal Income and Consumer Spending Outlook

Per cent growth, nominal

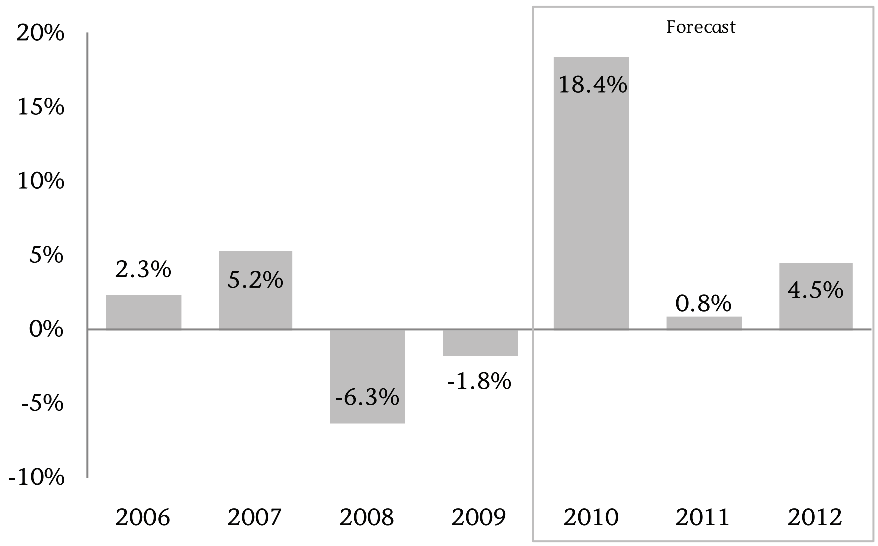


Source: Statistics Canada (CANSIM 384-0002, 384-0012), Nova Scotia Department of Finance

With employment growth and a shrinking labour supply, the Nova Scotia Budget assumes that wage pressures will emerge in 2011 and in 2012. As a result, labour income growth will continue to grow near or above long-run trend levels in 2011 and 2012. Personal income will also return to its long-run trends, but only in 2012.

Figure 42 Nova Scotia's Investment Outlook

Business Gross Fixed Capital Formation (per cent growth)

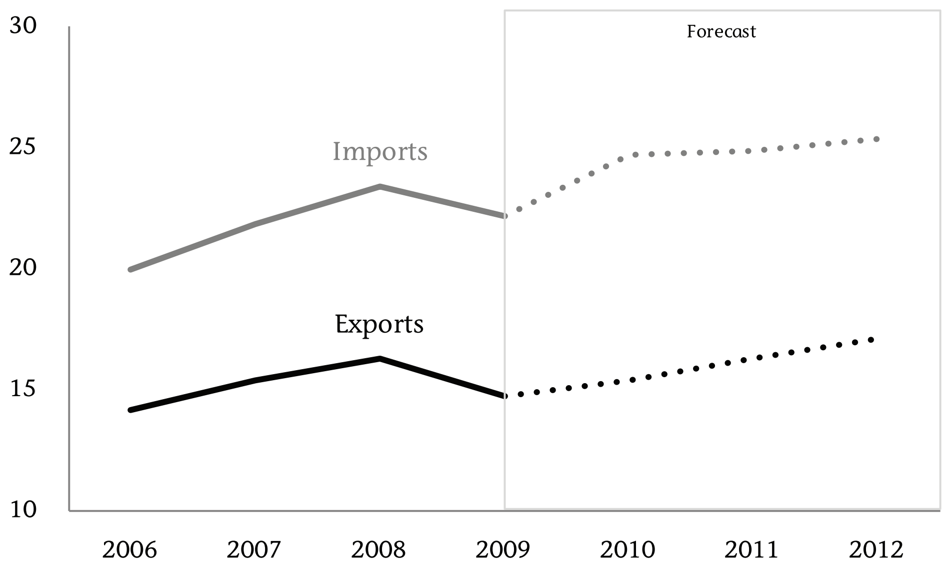


Source: Statistics Canada (CANSIM 384-0002), Nova Scotia Department of Finance

After posting extraordinary growth in 2010, Nova Scotia's residential investment levels are expected to fall in 2011, stabilizing overall business investment. In the short-term outlook, the Budget assumes no new major project investments beyond Deep Panuke and the winding down of government stimulus. Although several medium-sized residential developments around Halifax will continue, these will not repeat the surge in business investment observed in 2010.

Figure 43 Nova Scotia's Trade Outlook

$billions current

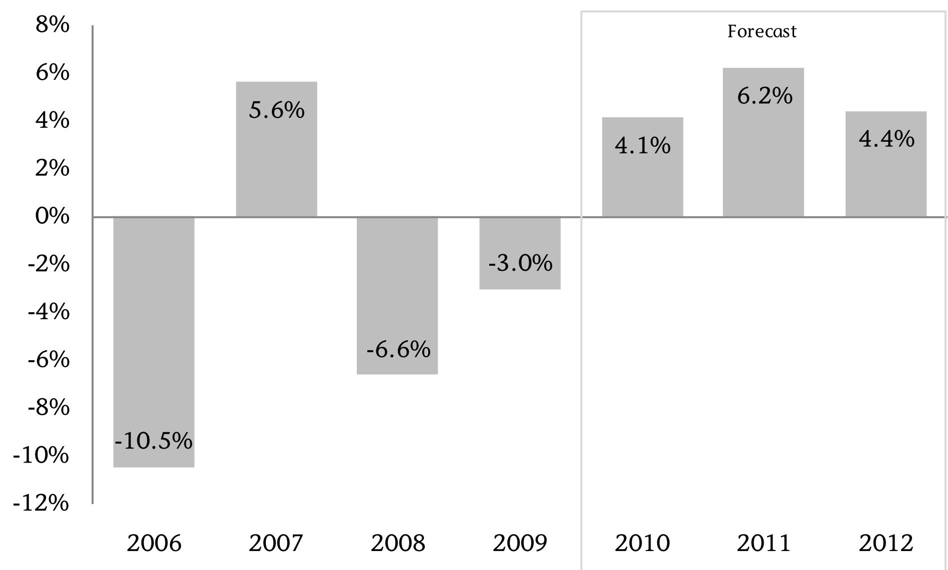


Source: Statistics Canada (CANSIM 384-0002), Nova Scotia Department of Finance

Nova Scotia's imports and exports declined (along with most global trade volumes) in 2009. In 2010, the Nova Scotia Department of Finance estimates that imports returned more rapidly than exports—widening the trade gap. The start of production from the Deep Panuke offshore energy development later in 2011 will boost exports, while exports will rise more slowly over the medium term.

Figure 44 Nova Scotia's Corporate Profit Outlook

Per cent growth, nominal

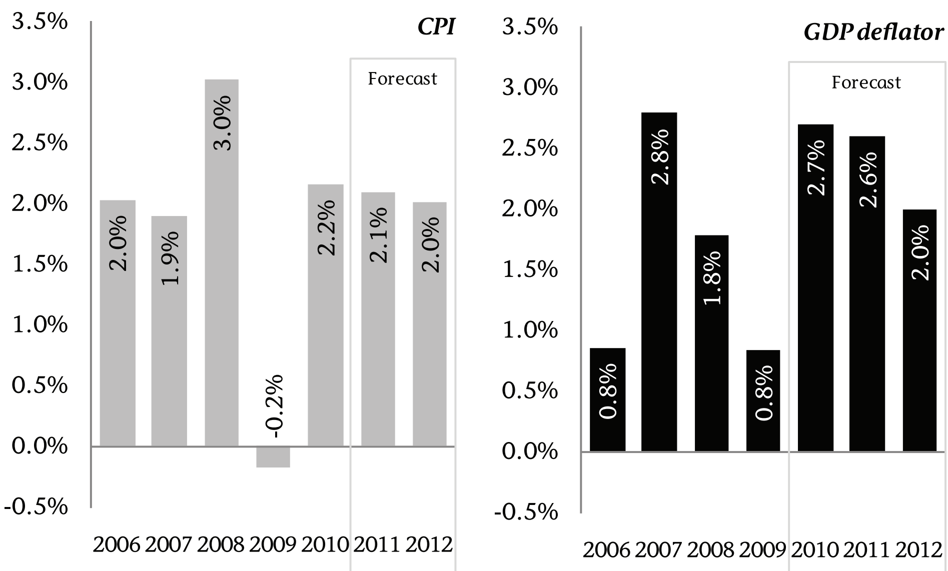


Source: Statistics Canada (CANSIM 384-0001), Nova Scotia Department of Finance

Nova Scotia businesses did not suffer anywhere near the drop in profits experienced across Canada (-32.3 per cent), nor did they drop by as much as the decline in provincial export sales (-9.3 per cent). After this stable performance, Nova Scotia corporate profits are not expected to rebound as much from their -3.0 per cent decline in 2009. Corporate profits can be highly sensitive to specific events or changes in the provincial economy. Nevertheless, the 2011–12 Budget assumes a period of stability and corporate profit growth that is consistent with long-run trends.

Nova Scotia's price levels (GDP deflator) are expected to grow faster than in recent years, driven by international commodity price pressure as well as domestic wage rates. While these price increases affect household living standards, they also increase provincial revenue projections.

Figures 45 & 46 Nova Scotia's Price Outlook
Annual growth



Source: Statistics Canada (CANSIM 326-0021, 384-0002),
Nova Scotia Department of Finance

Private-Sector Consensus

Nova Scotia Real GDP (per cent growth)

	2011	2012
High	2.1	2.3
Average	**1.8**	**2.0**
Low	1.5	1.8

The Department of Finance outlook for the Nova Scotia economy is generally consistent with the private-sector consensus as of March 9, 2011.

NOVA SCOTIA

Nova Scotia Economic Outlook

	2010	2011	2012
Real GDP, 2002$ (% change)	2.1	1.9	1.9
Nominal Gross Domestic Product (% change)	4.9	4.5	4.0
Employment (% change)	0.2a	0.8	1.0
Unemployment Rate (%)	9.3a	8.3	7.3
Personal Income (% change)	2.9	3.3	3.7
Consumer Price Index (% change)	2.2a	2.1	2.0
Retail Sales (% change)	5.0a	4.5	4.1
Corporation Profits before Taxes (% change)	4.1	6.2	4.4
Exports of Goods and Services (% change)	4.1	6.2	4.6

a~actual

The Nova Scotia Budget's Provincial Economic Outlook is based on public data and information available up to March 9, 2011, as well as the province's fiscal plan.

Forecast Risks

Global Risks

Global economic conditions have an indirect influence on the performance of the Canadian and Nova Scotian economies. As we saw in 2008 and 2009, global events can have an overwhelming influence on domestic economic conditions.

In the short term, the 2011–12 Budget outlook could be influenced by the interaction of commodity trade/prices, currencies, and capital markets. There is a growing consensus that the recent recession was a temporary interruption in the long-term growth of commodity prices. If commodity prices rise faster than anticipated, it could have material consequences for Nova Scotia's economy—through adjusting to a higher Canadian dollar and less competitive exports or through greater price inflation that erodes living standards and asset values. However, Nova Scotia's commodity exports might finally enjoy the price appreciation that has eluded them through the first part of the commodity cycle.

The performance for the US economy is particularly important for Nova Scotia's trade sector. Although forecasters are generally optimistic about continuing recovery in the US, a number of factors could reduce the outlook for the American economy. Higher oil prices could slow the US recovery. US domestic spending may fail to take over when public stimulus is withdrawn. Repairing domestic balance sheets could take longer than anticipated, further stifling domestic spending, especially if US consumers and businesses boost savings in anticipation of fiscal consolidation efforts. Recent home price declines in the US suggest that problems in housing and construction may not be resolved yet.

Many of these risks are interrelated and may ultimately offset one another. For example, higher currency from commodity price growth may obviate the need for the Bank of Canada to raise interest rates and quell inflation.

There is a more singular risk that the Japanese economy will suffer ongoing effects from the earthquake, tsunami, and nuclear crisis. This may reduce commodity price pressures from a key commodity importer. It may also constrain capital-market-led growth in asset prices as the nation rebuilds, drawing on its own savings rather than providing capital to the rest of the world.

Domestic Risks

The performance of the Canadian and Nova Scotian economies depends on a number of assumptions about domestic conditions. Changes to these conditions could result in materially different economic outcomes in 2011 and 2012.

Canada's federal and provincial governments are currently dealing with substantial budget deficits. As each province and the federal government implements fiscal consolidation measures, there will be significant impacts on domestic spending. The Nova Scotia Budget assumes that the federal government continues with the expenditure plan recently announced in its March 22 Budget statement. The Nova Scotia Budget also reflects the four-year fiscal plan. Should governments change their fiscal plans by accelerating or slowing fiscal consolidation, the economic forecast could change. Slower achievement of fiscal consolidation could boost short-run nominal GDP. Faster achievement of fiscal consolidation could reduce nominal GDP. There are more complex interactions between government spending and economic performance in the medium to long term.

The Bank of Canada currently observes that the Canadian economy is performing better than expected in the latter half of 2010. While this may signal future interest rate increases, there are a number of downside risks in Canada's performance that could delay interest rate hikes. If the US economy starts to struggle again, Canada's trade sector will suffer in parallel. However, the resurgence of US trade and manufacturing is exposing weak productivity growth in Canada and questions about the domestic economy's adaptation to a higher currency. If the central bank raises interest rates faster than assumed in the Budget, this could stall provincial investment and consumption performance. Alternatively, if Canada's economy stumbles, the Bank of Canada may hesitate to raise rates, easing conditions for investment and consumption in Nova Scotia.

In the pre-recession period, Nova Scotia experienced considerable net interprovincial out-migration as young people left for other parts of Canada. This outflow stopped during the recession and even reversed direction. The demographic projections underlying the 2011–12 Nova Scotia Budget anticipate further out-migration to other provinces, but at a slower pace than was observed in 2004–08. If this out-migration is more severe than expected, Nova Scotia's labour income, consumption, and GDP could suffer in the short run. Alternatively, increased retention of current Nova Scotians would boost income and GDP for the province.

Nova Scotia's employment outlook is positive compared with recent employment stability. The province's labour force is expected to decline, but this presumes that the participation rate remains stable. If wage growth attracts greater labour force participation, the labour force might grow. This may affect the unemployment rate. In addition, employment growth may be more positively affected by the 2011 Census.

In preparing the Budget assumptions, the Department of Finance does not incorporate major new project investments until they are clearly underway and expected to have an impact in the short run. As a result, the development of new investment projects is a clear upside risk to the longer term provincial economic forecast.

Economic Forecasting Process

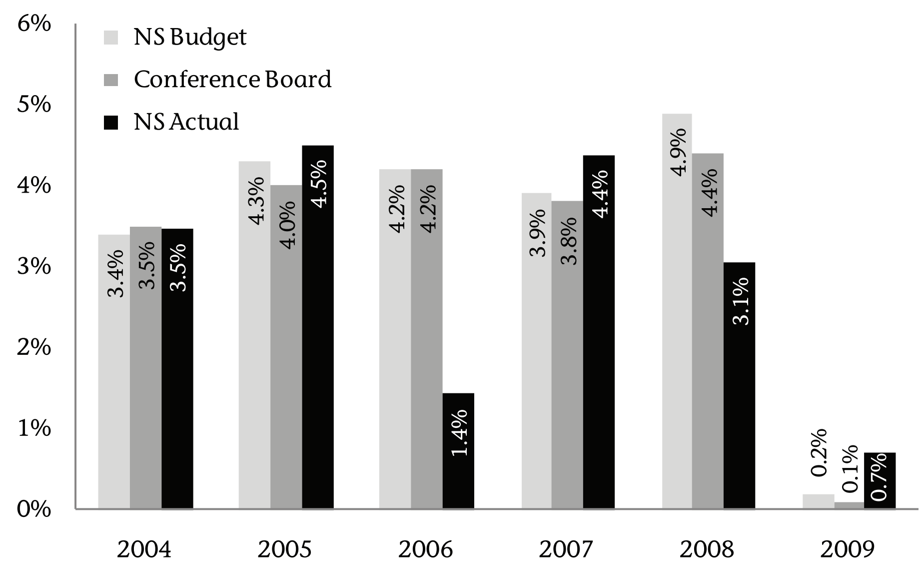
Section 56(3)(b) of the Finance Act requires the Minister of Finance to present the major economic assumptions made in preparing the fiscal plan. The Nova Scotia Department of Finance prepares economic forecasts as part of the fiscal planning process. The provincial forecast generates results in the standard income and expenditure account format.

The results of the provincial economic forecast are intended to provide a reasonable basis for fiscal planning. Economic forecasts help inform the Minister of Finance and Treasury Board of the potential size of tax bases. The economic forecast also provided the Minister and Treasury Board with context on the size of government expenditures relative to the entire value of production in the province.

Forecasting is a difficult exercise at the best of times. Any time a forecast is prepared, unforeseen and unforeseeable events in the future will undermine the accuracy of any forward-looking statement. For example, a paper mill strike in 2006 dramatically reduced nominal GDP growth below the Budget economic assumption.

Figure 47 Forecast Performance

Nova Scotia Nominal GDP: Budget Assumption vs Actual



Source: Nova Scotia Department of Finance, Conference Board, Statistics Canada (CANSIM 384-0002)

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.

The Department of Finance uses a proprietary econometric forecasting model to project the key indicators of the Nova Scotia economy. The model also incorporates internal details about the upcoming fiscal plan. 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 Nova Scotia economy's performance. In addition, staff identify conditions that are expected to deviate from historical trends and make appropriate adjustments to reflect these off-trend events (e.g., recent government stimulus investments).

Forecasting is both a difficult and an important part of the Budget planning process. So the Department of Finance conducts challenge and review sessions to validate the economic forecast and make adjustments where necessary. In the months leading up to the Budget, the Department of Finance presents confidential draft forecasts to internal experts, 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 participate in challenge sessions to benefit fully from the expertise of outside economists. This gives senior management an external perspective on whether the economic forecast is a reasonable basis for fiscal planning before the forecast is approved by Treasury Board for use in the Budget.

After the economic forecast has been challenged, reviewed, and approved by Treasury Board, 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 appropriate approvals. The OAG 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

Supplementary to the 2011–2012 Budget

Schedule 3E

Nova Scotia's Economic Performance and Outlook – Key Indicators

	2003	2004	2005	2006	2007
Nominal Gross Domestic Product at Market Prices ($ millions)	28,851	29,853	31,199	31,644	33,031
Growth rate	*6.5%*	*3.5%*	*4.5%*	*1.4%*	*4.4%*
Real Gross Domestic Product at Market Prices (chained 2002 $ millions)	27,464	27,710	28,016	28,174	28,611
Growth rate	*1.4%*	*0.9%*	*1.1%*	*0.6%*	*1.6%*
Personal Income ($ millions)	24,437	25,394	26,638	27,689	29,016
Growth rate	*2.8%*	*3.9%*	*4.9%*	*3.9%*	*4.8%*
Personal Expenditure on Consumer Goods and Services ($ millions)	18,998	19,786	20,649	21,611	22,713
Growth rate	*5.0%*	*4.1%*	*4.4%*	*4.7%*	*5.1%*
Retail Sales* ($ millions)	10,015	10,301	10,527	11,141	11,616
Growth rate	*1.8%*	*2.9%*	*2.2%*	*5.8%*	*4.3%*
Residential Investment ($ millions)	1,712	1,897	2,027	2,179	2,337
Growth rate	*14.4%*	*10.8%*	*6.9%*	*7.5%*	*7.3%*
Consumer Price Index (2002=100)	103.4	105.3	108.2	110.4	112.5
Growth rate	*3.4%*	*1.8%*	*2.8%*	*2.0%*	*1.9%*
Corporation Profits Before Taxes ($ millions)	2,796	3,093	3,248	2,908	3,071
Growth rate	*15.5%*	*10.6%*	*5.0%*	*-10.5%*	*5.6%*
Business Investment ($ millions, excluding residential)	3,236	3,101	3,132	3,099	3,217
Growth rate	*-6.9%*	*-4.2%*	*1.0%*	*-1.1%*	*3.8%*
Exports of goods and services ($ millions)	13,818	14,454	14,798	14,137	15,376
Growth rate	*3.7%*	*4.6%*	*2.4%*	*-4.5%*	*8.8%*
Imports of goods and services ($ millions)	18,329	19,062	19,835	19,951	21,841
Growth rate	*0.5%*	*4.0%*	*4.1%*	*0.6%*	*9.5%*
Population ('000s July 1)	937.5	939.4	937.9	938.0	935.8
Growth rate	*0.3%*	*0.2%*	*-0.2%*	*0.0%*	*-0.2%*
Labour Force ('000s annual average)	474.5	483.7	482.1	478.8	486.7
Growth rate	*1.5%*	*1.9%*	*-0.3%*	*-0.7%*	*1.6%*
Participation Rate (per cent, annual average)	63.0%	63.8%	63.3%	62.6%	63.5%
Percentage change	*0.5%*	*0.8%*	*-0.5%*	*-0.7%*	*0.9%*
Employment ('000s, annual average)	431.4	441.0	441.6	441.0	448.0
Growth rate	*2.1%*	*2.2%*	*0.1%*	*-0.1%*	*1.6%*
Unemployment Rate (per cent, annual average)	9.1%	8.8%	8.4%	7.9%	8.0%
Percentage change	*-0.5%*	*-0.3%*	*-0.4%*	*-0.5%*	*0.1%*

		Forecast			Average (CAGR)	Average (CAGR)
2008	**2009**	**2010**	**2011**	**2012**	**2003–2007**	**2008–2012**
34,041	34,283	35,952	37,578	39,064	3.4%	3.5%
3.1%	*0.7%*	*4.9%*	*4.5%*	*4.0%*		
28,969	28,931	29,542	30,095	30,672	1.0%	1.4%
1.3%	*-0.1%*	*2.1%*	*1.9%*	*1.9%*		
30,094	30,623	31,519	32,572	33,766	4.4%	2.9%
3.7%	*1.8%*	*2.9%*	*3.3%*	*3.7%*		
23,897	24,367	25,599	26,694	27,808	4.6%	3.9%
5.2%	*2.0%*	*5.1%*	*4.3%*	*4.2%*		
12,089	12,102	12,706	13,280	13,821	3.8%	3.4%
4.1%	*0.1%*	*5.0%*	*4.5%*	*4.1%*		
2,381	2,254	2,651	2,515	2,633	8.1%	2.6%
1.9%	*-5.3%*	*17.6%*	*-5.1%*	*4.7%*		
115.9	115.7	118.2	120.7	123.1	2.1%	1.5%
3.0%	*-0.2%*	*2.2%*	*2.1%*	*2.0%*		
2,867	2,780	2,895	3,074	3,210	2.4%	2.9%
-6.6%	*-3.0%*	*4.1%*	*6.2%*	*4.4%*		
2,822	2,856	3,400	3,587	3,746	-0.1%	7.3%
-12.3%	*1.2%*	*19.1%*	*5.5%*	*4.4%*		
16,255	14,736	15,344	16,296	17,052	2.7%	1.2%
5.7%	*-9.3%*	*4.1%*	*6.2%*	*4.6%*		
23,385	22,156	24,636	24,871	25,366	4.5%	2.1%
7.1%	*-5.3%*	*11.2%*	*1.0%*	*2.0%*		
936.7	939.1	942.5	942.5	942.3	0.0%	0.1%
0.1%	*0.3%*	*0.4%*	*0.0%*	*0.0%*		
489.4	497.0	498.8	497.3	496.8	0.6%	0.4%
0.6%	*1.6%*	*0.4%*	*-0.3%*	*-0.1%*		
63.6%	64.3%	64.2%	63.9%	63.8%	63.3%	64.4%
0.1%	*0.7%*	*-0.1%*	*-0.3%*	*-0.1%*	*average*	
452.0	451.4	452.5	456.1	460.7	0.9%	0.5%
0.9%	*-0.1%*	*0.2%*	*0.8%*	*1.0%*		
7.7%	9.2%	9.3%	8.3%	7.3%	8.4%	8.5%
-0.3%	*1.5%*	*0.1%*	*-1.0%*	*-1.0%*	*average*	

CAGR – Compound Annual Growth Rate

* 2010 does not include retail sales revisions of March 22, 2011.

Schedule 3F

Canada's Economic Performance and Outlook – Key Indicators

	2003	2004	2005	2006	2007
Nominal Gross Domestic Product at Market Prices ($ millions)	1,213,175	1,290,906	1,373,845	1,450,405	1,529,589
Growth rate	*5.2%*	*6.4%*	*6.4%*	*5.6%*	*5.5%*
Real Gross Domestic Product at Market Prices (chained 2002 $ millions)	1,174,592	1,211,239	1,247.807	1,283,033	1,311,260
Growth rate	*1.9%*	*3.1%*	*3.0%*	*2.8%*	*2.2%*
Personal Income ($ millions)	931,773	984,164	1,035,586	1,106,832	1,174,683
Growth rate	*3.7%*	*5.6%*	*5.2%*	*6.9%*	*6.1%*
Personal Expenditure on Consumer Goods and Services ($ millions)	686,552	719,917	758,966	801,742	851,603
Growth rate	*4.7%*	*4.9%*	*5.4%*	*5.6%*	*6.2%*
Retail Sales ($ millions)	331,143	346,455	365,994	389,459	412,565
Growth rate	*3.6%*	*4.6%*	*5.6%*	*6.4%*	*5.9%*
Residential Investment ($ millions)	72,714	82,965	89,604	98,214	108,289
Growth rate	*10.8%*	*14.1%*	*8.0%*	*9.6%*	*10.3%*
Consumer Price Index (2002=100)	102.8	104.7	107.0	109.1	111.5
Growth rate	*2.8%*	*1.8%*	*2.2%*	*2.0%*	*2.2%*
Corporation Profits Before Taxes ($ millions)	144,501	168,219	186,585	197,286	200,943
Growth rate	*6.9%*	*16.4%*	*10.9%*	*5.7%*	*1.9%*
Business Investment ($ millions, excluding residential)	135,376	146,790	165,992	185,168	193,596
Growth rate	*3.4%*	*8.4%*	*13.1%*	*11.6%*	*4.6%*
Exports of goods and services ($ millions)	462,473	495,980	519,435	524,075	534,718
Growth rate	*-3.5%*	*7.2%*	*4.7%*	*0.9%*	*2.0%*
Imports of goods and services ($ millions)	416,856	440,314	468,270	487,674	505,055
Growth rate	*-2.7%*	*5.6%*	*6.3%*	*4.1%*	*3.6%*
Population ('000s July 1)	31,639.7	31,940.7	32,245.2	32,576.1	32,929.7
Growth rate	*0.9%*	*1.0%*	*1.0%*	*1.0%*	*1.1%*
Labour Force ('000s annual average)	16,948.0	17,154.3	17,293.5	17,516.7	17,884.2
Growth rate	*2.3%*	*1.2%*	*0.8%*	*1.3%*	*2.1%*
Participation Rate (per cent, annual average)	67.5%	67.5%	67.1%	67.0%	67.4%
Percentage change	*0.7%*	*0.0%*	*-0.4%*	*-0.1%*	*0.4%*
Employment ('000s, annual average)	15,662.9	15,921.8	16,124.7	16,410.2	16,805.6
Growth rate	*2.4%*	*1.7%*	*1.3%*	*1.8%*	*2.4%*
Unemployment Rate (per cent, annual average)	7.6%	7.2%	6.8%	6.3%	6.0%
Percentage change	*-0.1%*	*-0.4%*	*-0.4%*	*-0.5%*	*-0.3%*

			Forecast		Average (CAGR)	Average (CAGR)
2008	2009	2010	2011	2012	2003–2007	CAGR 2008–2012
1,599,608	1,527,258	1,621,529	1,710,341	1,797,678	6.0%	3.0%
4.6%	*-4.5%*	*6.2%*	*5.5%*	*5.1%*		
1,318,055	1,285,604	1,325,085	1,359,278	1,393,842	2.8%	1.4%
0.5%	*-2.5%*	*3.1%*	*2.6%*	*2.5%*		
1,224,653	1,228,407	1,276,473	1,337,095	1,404,478	6.0%	3.5%
4.3%	*0.3%*	*3.9%*	*4.7%*	*5.0%*		
890,351	898,728	941,419	986,607	1,032,978	5.5%	3.8%
4.6%	*0.9%*	*4.8%*	*4.8%*	*4.7%*		
427,896	415,413	436,521	459,759	482,917	5.6%	3.1%
3.7%	*-2.9%*	*5.1%*	*5.3%*	*5.0%*		
107,304	98,152	111,768	113,556	121,392	10.5%	3.1%
-0.9%	*-8.5%*	*13.9%*	*1.6%*	*6.9%*		
114.1	114.4	116.5	119.3	122.0	2.1%	1.1%
2.3%	*0.3%*	*1.8%*	*2.4%*	*2.3%*		
216,970	146,897	173,908	187,299	195,165	8.6%	-2.6%
8.0%	*-32.3%*	*18.4%*	*7.7%*	*4.2%*		
206,270	171,242	177,594	184,698	192,733	9.4%	-1.7%
6.5%	*-17.0%*	*3.7%*	*4.0%*	*4.4%*		
563,948	438,553	476,507	506,743	535,013	3.7%	-1.3%
5.5%	*-22.2%*	*8.7%*	*6.3%*	*5.6%*		
539,012	464,722	507,320	528,120	552,414	4.9%	0.6%
6.7%	*-13.8%*	*9.2%*	*4.1%*	*4.6%*		
33,316.0	33,720.2	34,108.8			1.0%	
1.2%	*1.2%*	*1.2%*				
18,203.9	18,329.0	18,525.1	18,803.0	19,047.4	1.4%	1.1%
1.8%	*0.7%*	*1.1%*	*1.5%*	*1.3%*		
67.7%	67.1%	67.0%	67.0%	67.1%	67.3%	64.4%
0.3%	*-0.6%*	*-0.1%*	*0.0%*	*0.1%*	*average*	
17,087.4	16,813.1	17,041.0	17,432.9	17,799.0	1.8%	1.4%
1.7%	*-1.6%*	*1.4%*	*2.3%*	*2.1%*		
6.1%	8.3%	8.0%	7.3%	6.6%	6.8%	8.5%
0.1%	*2.2%*	*-0.3%*	*-0.7%*	*-0.7%*	*average*	

CAGR – Compound Annual Growth Rate