Budget Assumptions and Schedules

for the fiscal year 2012–2013

The Honourable Graham Steele

Minister of Finance

NOVA SCOTIA

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Budgetary Information

Supplementary to the 2012–2013 Budget

BUDGET SUMMARY - *Schedule 1A*

STATEMENT OF OPERATIONS

($ thousands)

	2011-2012 Estimate	2011-2012 Forecast	2012-2013 Estimate
General Revenue Fund			
Revenues			
Ordinary Revenue	7,941,248	7,937,345	**8,350,830**
Ordinary Recoveries	582,751	581,554	**568,490**
Net Income from Government Business Enterprises	354,579	366,736	**350,993**
	8,878,578	**8,885,635**	**9,270,313**
Expenses			
Departmental Expenses	8,344,763	8,272,597	**8,534,646**
Tax Credits and Rebates	74,943	70,000	**73,500**
Pension Valuation Adjustment	31,761	42,991	**71,485**
Debt Servicing Costs	885,485	838,124	**881,701**
	9,336,952	**9,223,712**	**9,561,332**
	(458,374)	**(338,077)**	**(291,019)**
Consolidation and Accounting Adjustments for Government Units			
Consolidated Fund Consolidation Adjustments	70,554	79,621	**81,550**
Health and Hospital Boards Operations	2,854	898	**---**
Special Purpose Funds	(880)	366	**(637)**
Other Organizations	(3,711)	(3,605)	**(1,094)**
	68,817	**77,280**	**79,819**
Provincial Surplus (Deficit)	**(389,557)**	**(260,797)**	**(211,200)**

FISCAL PROJECTIONS 2011–2012 to 2015–2016

Schedule 1B

($millions)

	ESTIMATE *2011–2012*	***FORECAST*** *2011–2012*	***ESTIMATE*** *2012–2013*	***ESTIMATE*** *2013–2014*	***ESTIMATE*** *2014–2015*	***ESTIMATE*** *2015–2016*
General Revenue Fund						
Revenue	8,524.0	8,518.9	8,919.3	9,182.6	9,221.2	9,395.5
Net Income Government Business Enterprises	354.6	366.7	351.0	356.7	362.6	367.0
Total Revenue	**8,878.6**	**8,885.6**	**9,270.3**	**9,539.3**	**9,583.8**	**9,762.5**
Expenses						
Departmental Expenses	8,344.8	8,272.6	8,534.6	8,468.6	8,470.1	8,623.0
Affordable Living and Poverty Reduction Rebates	74.9	70.0	73.5	77.5	77.5	77.5
Pension Valuation Adjustment	31.8	43.0	71.5	104.1	114.7	130.6
Debt Servicing Costs	885.5	838.1	881.7	903.1	931.2	937.7
Total expense	9,337.0	9,223.7	9,561.3	9,553.3	9,593.5	9,768.8
	(458.4)	(338.1)	(291.0)	(14.0)	(9.7)	(6.3)
Consolidation Adjustments	68.8	77.3	79.8	29.4	29.4	29.4
Provincial Surplus (Deficit)	(389.6)	(260.8)	(211.2)	15.4	19.7	23.1
Net Debt	13,747.4	13,290.2	13,720.9	13,807.3	13,882.3	13,947.3
Nominal GDP	37,578.0	37,735.0	39,483.0	40,986.0	42,624.0	44,714.0
Debt-to-GDP Ratio	36.6%	35.2%	34.8%	33.7%	32.6%	31.2%

Four-Year Fiscal Plan

The government is in the third year of its four-year plan to return the province's operating budget to balance in 2013–2014.

The four-year fiscal plan anticipated a deficit for fiscal 2011–2012 of $389.6 million. The year-end forecast, delivered on March 20, 2012, indicates that the deficit will be $260.8 million, an improvement of $128.8 million from the budget estimate. The improvement is attributed to lower-than-estimated expenses, and revenue increases.

Government estimates the deficit for fiscal 2012–2013 will be $211.2 million, slightly lower than anticipated in last year's four-year fiscal plan.

Overview

Revenue increases estimated in fiscal 2012–2013 are primarily from growth in personal taxable income and in equalization. Growth in corporate revenues will slow as a result of planned tax reductions, while other revenues are tracking to moderate increases.

Nova Scotia's real GDP growth in 2011 is estimated to be 1.2 per cent, lower than expected at budget time. Real GDP for 2012 is expected to grow by 1.7 per cent, followed by 1.9 per cent in 2013, with the expectation of higher growth in the medium term as the combat vessel construction comes into production.

The province's debt-to-GDP ratio continues to improve. The ratio was 35.3 per cent for the fiscal year ended 2010–2011. It is forecast to be 35.2 per cent as of year-end 2011–2012, and is expected to decline further to 34.8 per cent in fiscal 2012–2013.

Continued spending discipline is a key component of the four-year fiscal plan. Departmental spending for 2011–2012, as outlined in the March 20, 2012 forecast update, is expected to come in below estimate. This budget includes increased departmental spending of 2.3 per cent over the 2011–2012 estimate, and 3.2 per cent over the 2011–2012 forecast. This is a significant decline in the growth rate compared with previous years. The government's expenditure management initiative will continue to plan for further efficiencies.

The province expects to return to balance in 2013–2014.

Medium-Term Revenue Outlook

(2012–2013 to 2015–2016)

Total revenues of $9.27 billion are expected to grow to $9.76 billion by 2015–2016. The increase is driven primarily by gains in personal income tax. There will be some positive aspects of the shipbuilding contracts in the medium term; the full impact will be apparent in the latter half of the decade.

Personal income tax revenues have returned to pre-recession growth levels and are expected to continue to post strong growth in line with labour income trends and improved yield on personal taxable income.

When the province returns to a fiscal balance the government will remove the fifth personal income tax bracket—21 per cent on taxable income above $150,000—with the fourth bracket (17.5 per cent) being applied on all taxable income over $93,000. At the same time, the 10 per cent surtax on provincial income taxes payable in excess of $10,000 will be reinstated. The net effect of these changes will be an annual reduction in revenues in the order of $30 to $35 million.

With respect to corporate income taxes, the province is seeing a sharp increase in the share of corporate taxable income being taxed at the lower small business rate. If this trend persists, the growth rate for corporate income tax revenues will slow. The three successive reductions of 0.5 per cent in the small business rate in 2011, 2012, and 2013 have the effect of reducing provincial revenues. In addition, offshore corporate income tax is declining due to lower natural gas production and prices; and a strong Canadian dollar relative to the U.S. dollar.

Harmonized Sales Tax (HST) revenue is projected to be $1.6 billion in 2012–2013. Higher HST rebates (e.g., Your Energy Rebate, public sector bodies, point-of-sale rebates for children's clothing, children's footwear, etc.) will partially offset growth in revenues over the medium term. Consumer expenditures account for almost 72 per cent of HST revenues, and growth in consumer expenditures is expected to remain relatively flat over the medium term. Residential housing investment growth remains strong, continuing to build upon exceptional growth in 2010.

Sable Offshore Energy Project royalty revenues have declined since 2008–2009, primarily due to the low market price for natural gas and declining levels of production. The strong Canadian dollar contributed to the decline. Natural gas prices are not expected to change over the medium term. Production volumes will continue to decline as the Sable Offshore Energy Project nears the end of its capacity. The accrual of abandonment costs that interest-holders can deduct against royalties has a significant negative impact on offshore revenues.

Deep Panuke production is scheduled to commence in July 2012. The province will receive approximately $2.5 million in royalty revenues in 2012–2013. While royalty revenues will increase over the medium term they will not approach the revenues generated from the Sable Offshore Energy Project.

Revenues from Tobacco Tax and Motive Fuel Tax are expected to remain relatively stable over the medium term. Consumption of gasoline and diesel oil is forecast to remain near current levels in the face of increasing world oil prices. While gasoline consumption is more sensitive to price, diesel oil consumption is more closely related to the level of commercial projects and economic growth in the province. Tobacco consumption is forecast to slowly decline as a result of increasing prices and a continued cessation trend.

Over the past three fiscal years, Equalization payments have been supported by Total Transfer Protection from the federal government to mitigate year-over-year declines in the total value of major federal transfers—Equalization, Canada Health Transfer, and Canada Social Transfer. The Equalization program is scheduled to be renewed in 2014–2015.

Beginning in the 2011–2012 fiscal year, the province began receiving payments under the Cumulative Best-of Guarantee. The province is forecast to continue to receive significant annual payments over the medium term. The "guarantee" essentially ensures that the province will do no worse under the Equalization formula put in place in 2007–2008 than it would under the formula in place when the Offshore Accord was signed in 2005—the "Interim" approach. The Guarantee is in effect from 2008–2009 to the end of 2019–2020, to coincide with the term of the Offshore Accord.

The province's Offshore Accord payments are on the decline as lower offshore natural resource revenues are being included in the Equalization formula. The first eight-year phase of the 2005 Offshore Accord ended in 2011–2012 with the province receiving $863.7 million, $830 million of which was paid in 2005 when the Offshore Accord was signed. The province is expected to qualify for the second phase of the Accord, which runs an additional eight years from April 1, 2013, until March 31, 2020. Payments under the second phase are forecast to be lower, given declining offshore royalty revenues.

In December 2011, the federal Minister of Finance announced his government's long-term plan with respect to the Canada Health Transfer (CHT). Presently, the national pool of cash available for the CHT is legislated to grow by 6 per cent a year until March 31, 2014, and the province's payment is based upon a combination of tax points and share of national population. Commencing April 1, 2014, calculation of the CHT will be an equal per-capita cash transfer with no reference to tax points. The 6 per cent annual escalator will remain in place for three additional years. However, commencing with the 2017–2018 fiscal year, the national pool of cash will only increase at the growth rate for national Nominal GDP.

The growth rate of CHT revenues for the province will slow beyond April 1, 2014, as Nova Scotia's declining share of the national population places downward pressure on these revenues over the medium term. Additional pressure on growth of these revenues will result if long-term Nominal GDP growth rates are less than 6 per cent.

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. The 2012 federal budget announced the federal government's intention to retain the 3 per cent escalator mechanism through to March 31, 2024.

Medium-Term Spending Outlook

Government continues with its commitment to hold the line on spending growth in the medium term, while remaining responsive to the needs and pressures that challenge some critical programs and industries key to the economy. Planned departmental spending is estimated to reach $8.5 billion by 2013–2014, a rise of 1.5 percent from two years earlier. This increase reflects those one-time strategic investments made by government that were necessary to protect the sustainability of our industries key to the economy into the future.

By Living Within Our Means, government has embarked upon a strategy of expenditure management both within its departments and in partnership with its public sector stakeholders.

Trends that saw overall spending growth of over 5 per cent per year from 2000–2001 to 2009–2010, including departmental spending growth of over 6 per cent during that same period, were held flat in 2011–2012. In 2012–2013, government continues to maintain spending discipline. Program spending growth has been contained to 2.3 per cent over last year's estimates. Once costs are removed for government investment in responding to the challenges in the Nova Scotia Agriculture College and the forestry industry, for example, growth in spending is at 0.9 per cent.

Over the ten years from 2000–2001 to 2009–2010, Health and Wellness expenses increased at an average of 7 per cent per year. This escalation 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. For 2011–2012, the growth in Health and Wellness costs was contained to 2 per cent and is expected to continue into 2012–2013 at 2.5 per cent. This year's more modest increase has been accomplished through reductions in targeted areas such as pharmaceutical services and Expenditure Management initiatives aimed at administrative efficiencies within both the Department and the District Health Authorities. It also reflects government's responsiveness to emerging pressures that are considered a priority to the health and well-being of Nova Scotians.

Over the ten years from 2000–2001 to 2009–2010, Community Services spending has increased at an average rate of 5 per cent per year. The 2012–2013 budget for the department represents growth of 1.2 per cent over 2011–2012 estimates. This growth excludes the reduction of $18.3 million related to the Federal Economic stimulus funding, which came to an end in 2011–2012.

The forestry industry is undergoing global change and Nova Scotia is no exception. The Bowater Mersey Pulp and Paper Investment (2011) Act received royal assent on December 15, 2011. The Act allows the province to work with its partners to create a sustainable solution for the Bowater Mersey Pulp and Paper Mill through the purchase of 10,000 hectares of land from the company and providing a $25 million forgivable capital loan to upgrade equipment at the mill. The province is also supporting the former NewPage Port Hawkesbury paper mill by allocating $12 million to the Forestry Infrastructure Fund and facilitating the purchase of the mill by a new operator. The province is providing an additional $5.8 million for 2012–2013 to continue to keep the mill in a "hot idle" state until September 2012.

In the P–12 system, we are expecting an enrolment decline of 1.7 per cent in 2012–2013. For fiscal 2012–2013, funding for Regional School Boards has been reduced by 1.3 per cent, which is equivalent to 75 per cent of the enrolment decline and results in a reduction of $13.4 million. The Regional School Boards will also be required to absorb the cost of wage increases and other inflationary pressures, similar to other Departments and Agencies in government. For 2012–2013, per-student funding has increased to $10,457.

A new memorandum was recently signed with the universities. In 2012–2013 grants to universities will be reduced by 3 per cent, or $10.4 million. Universities must also absorb any inflationary costs. Government has committed to a $25 million investment over 3 years for a University Excellence and Innovation Program to help support efforts to reduce costs through innovation and collaboration within this sector. This initiative is intended to help put the university sector on a more sustainable path for the future.

The Nova Scotia Agriculture College (NSAC), located in Truro, currently falls under the Department of Agriculture. In July 2012, NSAC will merge with Dalhousie University. The merger will combine and mobilize research, educational, and financial capacities of both institutions and will result in a one-time loss on disposal of capital assets, as well as transitional and fixed ongoing allocations for future costs.

Expenditure Management

The 2010–2011 budget presented Nova Scotia's four-year fiscal plan to achieve a balanced budget in 2013–2014. Important elements of the four-year plan are cost reductions and restraint through improved expenditure management. We are entering into the third year of the fiscal plan, and the government's expenditure management strategy is on track.

Continued prudent management of government expenditures will result in the elimination of a further $145 million in departmental expenses in 2012–2013. This is in addition to $54.3 million saved in the 2010–2011 budget and $170 million saved in 2011–2012.

Government introduced a more rigorous budget forecasting process this year. Treasury Board also continued its oversight of professional services spending through the Professional Services Directive, which requires Treasury Board approval for such spending over $250,000. High-value government contracts were reviewed by the new Contract Advisory Group, a committee of senior officials that provides advice to government departments on contract management improvements and best practices.

To enable longer-term sustainable savings, government is investigating better ways to address administrative costs through merging administrative services. The nine district health authorities and the IWK have announced the merger of several administrative services, which will bring estimated savings of approximately $7.6 million in 2012–2013, increasing to $41.5 million in subsequent years. In addition, the province is investigating improvements to its current shared services, with the potential to partner with the broader public sector in administrative areas such as procurement, information technology, and financial processing and asset management.

The 2011–2012 fiscal year was the final year of the government's Change and Innovation Fund, established in 2010–2011. A total of $17 million was invested in 12 projects. The projects will save $4 million in 2012–2013, with an expected annual savings of $11.3 million by 2013–2014. Projects include LED road lights, a crown lands management system, the access to business online service, a hospital bed utilization management system, and a staff scheduling system for hospitals.

Medium-Term Economic Outlook

The province's medium-term economic outlook forms the basis for revenue projections as well as the benchmark for assessing the relative size of government spending and debt. Any five-year economic projection is subject to forecast uncertainty, especially beyond the short term.

Early in 2011, there were positive sentiments about the potential for global economic recovery. Throughout the year, this optimism proved premature. Financial market stability was a necessary, but not a sufficient, condition to sustain full economic recovery. Global recovery has been moderated by the European sovereign debt crisis, commodity price volatility, natural disasters in Asia, and slowdowns in emerging economies.

Like most advanced economies, Nova Scotia's economic outlook has softened in the short run. Despite slower growth assumed for 2011, the pace of economic growth is expected to recover to near long-run trends. The Budget assumes slower economic growth from 2011 to 2013 because of persistent global uncertainty and fiscal austerity programs, but these effects are expected to be transitory. Canada's monetary policy is assumed to remain accommodative in the short run, but interest rates are assumed to rise to more neutral levels later

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in 2013 and in 2014. The Budget assumes that these short-run conditions will be followed by more permanent changes in Nova Scotia's economic structure.

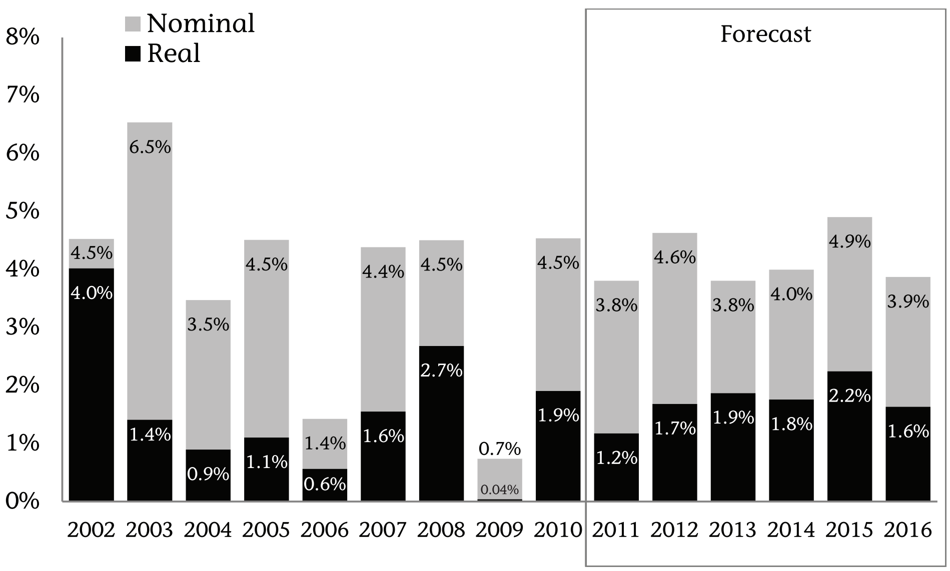
The combat vessel project at the Halifax Shipyard will have a lasting influence on the pace of economic growth and the structure of production in Nova Scotia. Although the biggest economic impacts are not expected until the latter half of the decade, work at the shipyard will start to have a noticeable impact on the pace of growth within the next five years, beginning in 2012–2013. Over the long term this project will affect more than just labour markets and household income; renewal of shipbuilding activity (and associated suppliers) has the potential to increase capital stock and improve productivity.

Nova Scotia's population is expected to decline slightly throughout the next five years. In addition, population aging is expected to cause a small decline in the size of the labour force. As economic growth returns to its historic pace, higher employment and a smaller labour force are anticipated to reduce the Nova Scotia unemployment rate.

The Budget's medium-term outlook does not incorporate any assumptions about other major investments that will have significant implications for the provincial economy when necessary regulatory approvals are secured (Donkin coal mine, Shell exploration license, Maritime link from Lower Churchill). In addition to boosting net capital stock, early indications are that these projects will influence labour market behavior and migration patterns during both the construction and operational phases.

Nova Scotia's Medium Term Outlook

GDP Annual Growth



Source: Statistics Canada CANSIM table 384-0002, NS Department of Finance

Medium-Term Debt Outlook

It is estimated that, by 2013–2014, the net debt of the province will be $13.8 billion, $1.1 billion lower than the $14.9 billion anticipated in the first "Back to Balance" budget of 2010–2011. This reduction occurs because of improved year-end results for fiscal years 2009–2010, 2010–2011, and 2011–2012, as compared to those predicted in the plan.

Gross debt service costs are estimated to be $881.7 million in 2012–2013, lower than was expected in the 2010–2011 four-year plan.

The Debt to Nominal Gross Domestic Product (GDP) ratio is estimated to be 34.8 per cent for 2012–2013, lower than last year and much lower than the 38.9 per cent that was anticipated in the "Back to Balance" budget of 2010–2011. By 2015–2016 the ratio is expected to decline to 31.2 per cent.

Financial Statistics

Supplementary to the 2012–2013 Budget

REVENUES BY SOURCE

Schedule 1C

($ thousands)

	ACTUAL 2008-2009	ACTUAL 2009-2010 (Restated)	ACTUAL 2010-2011	FORECAST 2011-2012	ESTIMATE 2012-2013
General Revenue Fund: Revenues					
Ordinary Revenue - Provincial Sources					
Tax Revenue:					
Personal Income Tax	1,818,415	1,827,643	1,957,829	2,061,800	2,195,300
Corporate Income Tax	352,476	362,886	408,687	369,445	398,450
Harmonized Sales Tax	1,174,966	1,187,177	1,478,876	1,581,800	1,642,900
Motive Fuel Tax	243,379	248,128	255,395	251,900	254,100
Tobacco Tax	147,654	199,149	211,856	211,100	211,000
Other Tax Revenue	165,207	172,608	176,288	175,595	157,640
	3,902,097	3,997,591	4,488,931	4,651,640	4,859,390
Other Provincial Revenue:					
Registry of Motor Vehicles	112,594	111,763	112,281	115,038	110,279
Royalties - Petroleum	451,795	125,634	172,683	117,955	27,672
Other Provincial Sources	125,389	137,333	135,822	129,040	124,576
Offshore Licenses Forfeitures	2,063	14,789	433	---	---
TCA Cost Shared Revenue - Provincial Sources	2,999	12,027	14,392	2,956	3,625
Other Fees and Charges	61,980	68,666	70,103	71,575	67,598
Prior Years' Adjustments - Provincial Sources	53,904	47,415	212,553	(77,411)	---
	810,724	517,627	718,267	359,153	333,750
Other Provincial Revenue:					
Interest Revenues	84,780	51,426	73,472	73,416	74,070
Sinking Fund Earnings	116,384	92,188	102,234	105,596	108,348
	201,164	143,614	175,706	179,012	182,418
Total - Provincial Sources	**4,913,985**	**4,658,832**	**5,382,904**	**5,189,805**	**5,375,558**
Ordinary Revenue - Federal Sources					
Equalization Payments	1,464,935	1,464,935	1,360,723	1,407,243	1,593,820
Canada Health Transfer	668,683	700,137	728,602	759,934	796,959
Canada Social Transfer	297,114	301,978	309,233	315,916	321,943
Offshore Oil and Gas Payments	105,884	180,072	227,225	167,755	146,059
Crown Share	95,114	79,386	29,717	26,726	19,628
Other Federal Sources	86,316	98,568	103,913	23,242	23,712
TCA Cost Shared Revenue - Federal Sources	36,366	108,772	92,072	47,160	73,151
Prior Years' Adjustments - Federal Sources	7,630	(5,831)	(1,710)	(436)	---
Total - Federal Sources	**2,762,042**	**2,928,017**	**2,849,775**	**2,747,540**	**2,975,272**
Total - Ordinary Revenue	**7,676,027**	**7,586,849**	**8,232,679**	**7,937,345**	**8,350,830**
Ordinary Recoveries -					
Provincial Sources	274,032	304,752	304,648	282,408	276,422
Federal Sources	184,723	312,224	302,700	299,146	292,068
Total - Ordinary Recoveries	**458,755**	**616,976**	**607,348**	**581,554**	**568,490**
Net Income from Government Business Enterprises					
Nova Scotia Liquor Corporation	212,613	219,363	223,159	220,548	224,451
Nova Scotia Gaming Corporation	133,394	127,160	123,840	133,100	112,600
Halifax-Dartmouth Bridge Commission	8,369	6,426	7,260	11,449	11,536
Highway 104 Western Alignment Corporation	5,204	5,782	2,960	1,639	2,406
	359,580	**358,731**	**357,219**	**366,736**	**350,993**
Total - Revenues	**8,494,362**	**8,562,556**	**9,197,246**	**8,885,635**	**9,270,313**

REVENUES BY SOURCE

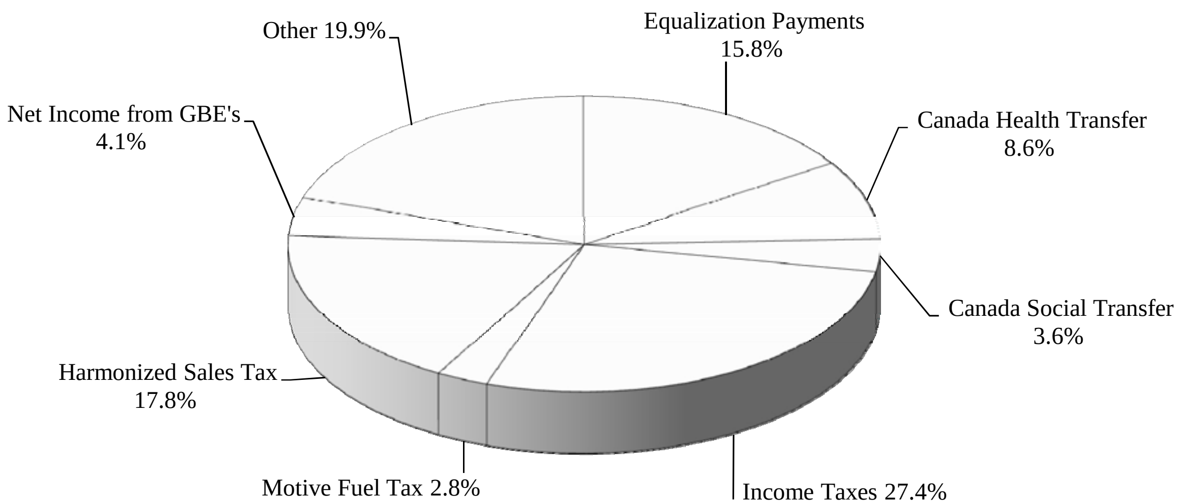
(as a percentage of Total Revenue)

Schedule 1C
(continued)

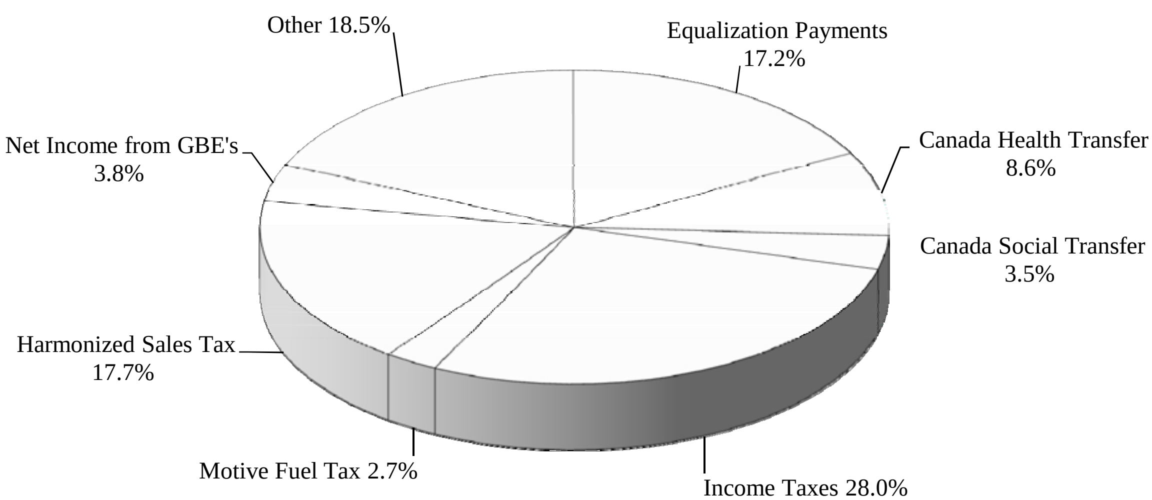
	ACTUAL 2008-2009	ACTUAL 2009-2010 (Restated)	ACTUAL 2010-2011	FORECAST 2011-2012	ESTIMATE 2012-2013
General Revenue Fund: Revenues					
Ordinary Revenue - Provincial Sources					
Tax Revenue:					
Personal Income Tax	21.4%	21.3%	21.3%	23.2%	23.7%
Corporate Income Tax	4.1%	4.2%	4.4%	4.2%	4.3%
Harmonized Sales Tax	13.8%	13.9%	16.1%	17.8%	17.7%
Motive Fuel Tax	2.9%	2.9%	2.8%	2.8%	2.7%
Tobacco Tax	1.7%	2.3%	2.3%	2.4%	2.3%
Other Tax Revenue	1.9%	2.0%	1.9%	2.0%	1.7%
	45.9%	46.7%	48.8%	52.4%	52.4%
Other Provincial Revenue:					
Registry of Motor Vehicles	1.3%	1.3%	1.2%	1.3%	1.2%
Royalties - Petroleum	5.3%	1.5%	1.9%	1.3%	0.3%
Other Provincial Sources	1.5%	1.6%	1.5%	1.5%	1.3%
Offshore Licenses Forfeitures	0.0%	0.2%	0.0%	---	---
TCA Cost Shared Revenue - Provincial Sources	0.0%	0.1%	0.2%	0.0%	0.0%
Other Fees and Charges	0.7%	0.8%	0.8%	0.8%	0.7%
Prior Years' Adjustments - Provincial Sources	0.6%	0.6%	2.3%	-0.9%	---
	9.5%	6.0%	7.8%	4.0%	3.6%
Other Provincial Revenue:					
Interest Revenues	1.0%	0.6%	0.8%	0.8%	0.8%
Sinking Fund Earnings	1.4%	1.1%	1.1%	1.2%	1.2%
	2.4%	1.7%	1.9%	2.0%	2.0%
Total - Provincial Sources	**57.8%**	**54.4%**	**58.5%**	**58.4%**	**58.0%**
Ordinary Revenue - Federal Sources					
Equalization Payments	17.2%	17.1%	14.8%	15.8%	17.2%
Canada Health Transfer	7.9%	8.2%	7.9%	8.6%	8.6%
Canada Social Transfer	3.5%	3.5%	3.4%	3.6%	3.5%
Offshore Oil and Gas Payments	1.2%	2.1%	2.5%	1.9%	1.6%
Crown Share	1.1%	0.9%	0.3%	0.3%	0.2%
Other Federal Sources	1.0%	1.2%	1.1%	0.3%	0.3%
TCA Cost Shared Revenue - Federal Sources	0.4%	1.3%	1.0%	0.5%	0.8%
Prior Years' Adjustments - Federal Sources	0.1%	-0.1%	0.0%	0.0%	---
Total - Federal Sources	**32.5%**	**34.2%**	**31.0%**	**30.9%**	**32.1%**
Total - Ordinary Revenue	**90.4%**	**88.6%**	**89.5%**	**89.3%**	**90.1%**
Ordinary Recoveries -					
Provincial Sources	3.2%	3.6%	3.3%	3.2%	3.0%
Federal Sources	2.2%	3.6%	3.3%	3.4%	3.2%
Total - Ordinary Recoveries	**5.4%**	**7.2%**	**6.6%**	**6.5%**	**6.1%**
Net Income from Government Business Enterprises					
Nova Scotia Liquor Corporation	2.5%	2.6%	2.4%	2.5%	2.4%
Nova Scotia Gaming Corporation	1.6%	1.5%	1.3%	1.5%	1.2%
Halifax-Dartmouth Bridge Commission	0.1%	0.1%	0.1%	0.1%	0.1%
Highway 104 Western Alignment Corporation	0.1%	0.1%	0.0%	0.0%	0.0%
	4.2%	**4.2%**	**3.9%**	**4.1%**	**3.8%**
Total - Revenues	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

REVENUES BY SOURCE

2011-2012 FORECAST



2012-2013 ESTIMATE



EXPENSES BY DEPARTMENT

Schedule 1D

($ thousands)

	ACTUAL 2008-2009 (Restated)	ACTUAL 2009-2010 (Restated)	ACTUAL 2010-2011	FORECAST 2011-2012	ESTIMATE 2012-2013
Agriculture	65,984	70,978	64,274	63,907	63,949
Communities, Culture and Heritage	---	---	---	54,694	58,665
Community Services	890,631	944,934	958,427	976,845	977,924
Economic and Rural Development	91,012	73,356	80,190	---	---
Economic and Rural Development and Tourism	---	---	---	117,539	187,353
Education	1,261,885	1,279,286	1,312,490	1,130,023	1,112,830
Energy	35,881	24,677	30,110	30,055	29,568
Environment	27,907	42,581	47,427	26,994	26,385
Finance	27,085	27,123	31,076	34,407	38,990
Fisheries and Aquaculture	7,311	8,654	12,818	8,338	8,799
Health and Wellness	3,165,806	3,371,565	3,591,335	3,758,800	3,861,513
Health Promotion and Protection	87,666	85,042	104,691	---	---
Justice	262,071	277,805	278,922	298,086	306,723
Labour and Advanced Education	67,410	146,328	169,532	341,532	346,208
Assistance to Universities	485,468	450,359	93,545	388,068	347,619
Natural Resources	86,829	92,373	93,776	99,897	95,685
Public Service	157,602	184,026	165,905	169,843	174,314
Seniors	1,693	1,903	1,734	1,889	1,871
Service Nova Scotia and Municipal Relations	244,388	278,665	292,630	260,764	275,909
Tourism, Culture and Heritage	61,356	62,930	60,736	---	---
Transportation and Infrastructure Renewal	381,343	378,286	405,067	412,415	421,617
Restructuring Costs	154,861	159,594	78,667	98,501	198,724
Gain (Loss) on the Disposal of Assets	(1,076)	---	370	---	---
Total Program Expenses	**7,563,113**	**7,960,465**	**7,873,722**	**8,272,597**	**8,534,646**
Tax Credits and Rebates	---	---	48,860	70,000	73,500
Pension Valuation Adjustment	85,066	86,410	(25,696)	42,991	71,485
Debt Servicing Costs	866,641	822,744	843,149	838,124	881,701
Total Expenses	**8,514,820**	**8,869,619**	**8,740,035**	**9,223,712**	**9,561,332**

EXPENSES BY DEPARTMENT

Schedule 1D
(continued)

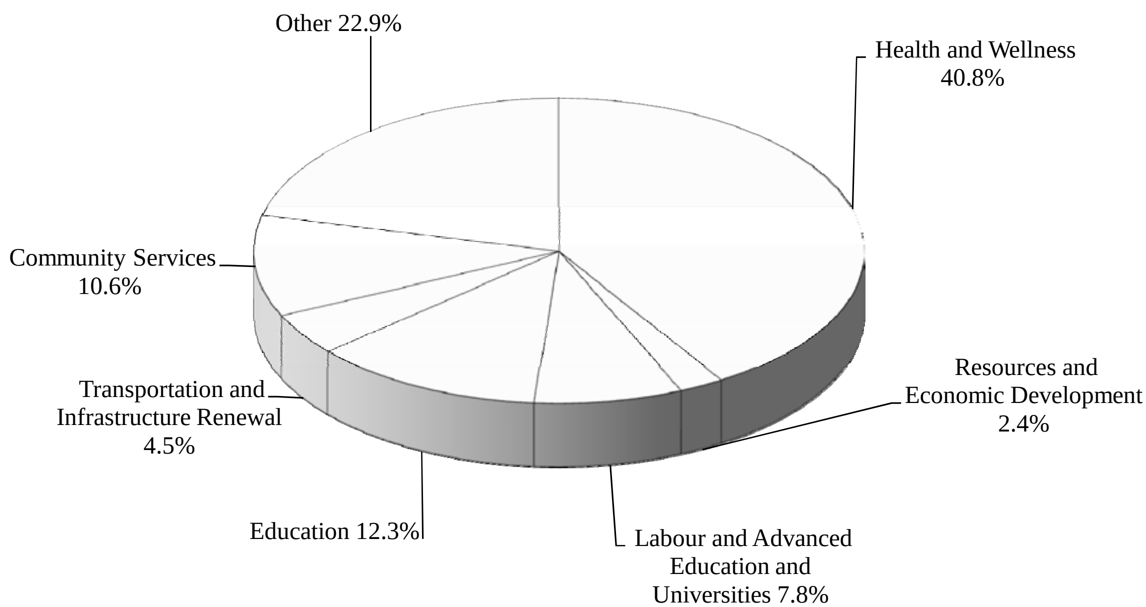
(as a percentage of Total Expenses)

	ACTUAL 2008-2009 (Restated)	ACTUAL 2009-2010 (Restated)	ACTUAL 2010-2011	FORECAST 2011-2012	ESTIMATE 2012-2013
Agriculture	0.8%	0.8%	0.7%	0.7%	0.7%
Communities, Culture and Heritage	---	---	---	0.6%	0.6%
Community Services	10.5%	10.7%	11.0%	10.6%	10.2%
Economic and Rural Development	1.1%	0.8%	0.9%	---	---
Economic and Rural Development and Tourism	---	---	---	1.3%	2.0%
Education	14.8%	14.4%	15.0%	12.3%	11.6%
Energy	0.4%	0.3%	0.3%	0.3%	0.3%
Environment	0.3%	0.5%	0.5%	0.3%	0.3%
Finance	0.3%	0.3%	0.4%	0.4%	0.4%
Fisheries and Aquaculture	0.1%	0.1%	0.1%	0.1%	0.1%
Health and Wellness	37.2%	38.0%	41.1%	40.8%	40.4%
Health Promotion and Protection	1.0%	1.0%	1.2%	---	---
Justice	3.1%	3.1%	3.2%	3.2%	3.2%
Labour and Advanced Education	0.8%	1.6%	1.9%	3.7%	3.6%
Assistance to Universities	5.7%	5.1%	1.1%	4.2%	3.6%
Natural Resources	1.0%	1.0%	1.1%	1.1%	1.0%
Public Service	1.9%	2.1%	1.9%	1.8%	1.8%
Seniors	0.0%	0.0%	0.0%	0.0%	0.0%
Service Nova Scotia and Municipal Relations	2.9%	3.1%	3.3%	2.8%	2.9%
Tourism, Culture and Heritage	0.7%	0.7%	0.7%	---	---
Transportation and Infrastructure Renewal	4.5%	4.3%	4.6%	4.5%	4.4%
Restructuring Costs	1.8%	1.8%	0.9%	1.1%	2.1%
Gain (Loss) on the Disposal of Assets	0.0%	---	0.0%	---	---
Total Program Expenses	**88.8%**	**89.7%**	**90.1%**	**89.7%**	**89.3%**
Tax Credits and Rebates	---	---	0.6%	0.8%	0.8%
Pension Valuation Adjustment	1.0%	1.0%	-0.3%	0.5%	0.7%
Debt Servicing Costs	10.2%	9.3%	9.6%	9.1%	9.2%
Total Expenses	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

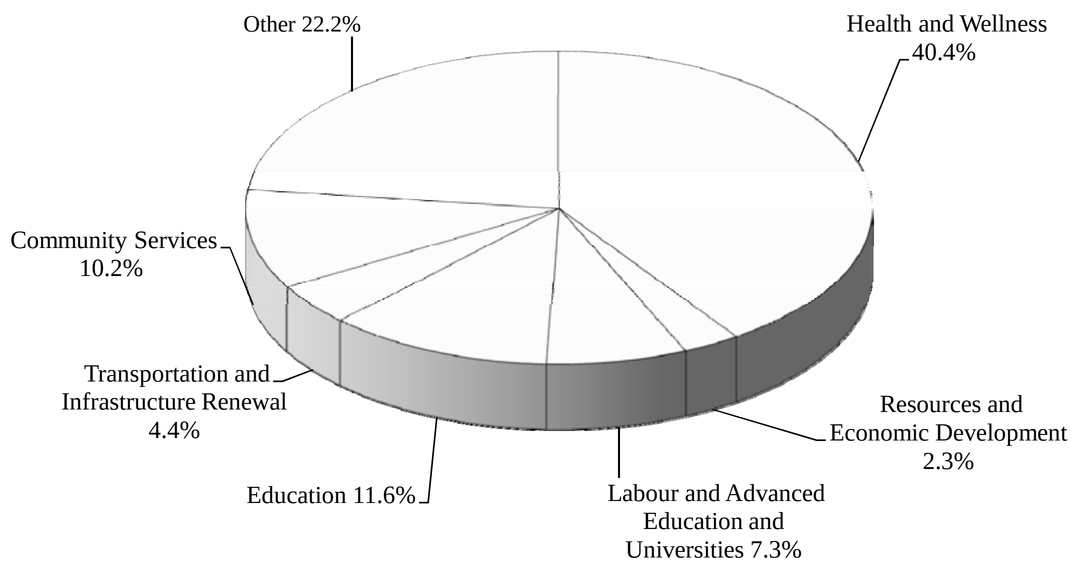
TOTAL EXPENSES BY DEPARTMENT

Chart 1B

2011-2012 FORECAST



2012-2013 ESTIMATE



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

	Estimate 2011–2012	**Estimate 2012–2013**
Personal Income Tax:		
Political Tax Credit	632	654
Volunteer Firefighter & Ground Search and Rescue	3,677	3,869
Labour Sponsored Venture Capital Corporation	174	129
Equity Tax Credit	7,530	7,624
Graduate Retention Rebate	24,873	11,228
Affordable Living Tax Credit	71,943	70,000
Poverty Reduction Credit	3,000	3,500
Healthy Living Tax Credit	1,757	1,798
Total	**113,586**	**98,802**

	2011–2012	**2012–2013**
Corporate Income Tax:		
Political Tax Credit	51	51
Scientific Research & Experimental Development	27,243	29,890
New Small Business Tax Holiday	83	156
Digital Media Tax Credit	5,924	5,924
Film Industry Tax Credit	22,881	21,938
Small Business Rate	113,538	205,700
Total	**171,720**	**254,658**

	2011–2012	**2012–2013**
Harmonized Sales Tax:		
Public Sector Rebates	122,060	135,541
Printed Book Rebate	13,255	13,708
First-time Homebuyers Rebate	896	2,500
Disability Rebates	123	81
Volunteer Fire Equipment Rebate	70	215
Your Energy Rebate	87,888	102,364
Children’s Clothing Rebate	8,012	4,933
Children’s Footwear Rebate	1,174	827
Children’s Diapers Rebate	547	301
Feminine Hygiene Rebate	1,873	1,029
Total	**235,898**	**261,499**

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

2012–2013

NOVA SCOTIA

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Report of the Auditor General to the House of Assembly on the Estimates of Revenue for the fiscal year ending March 31, 2013 used in the preparation of the April 3, 2012 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, 2013 are the responsibility of the Department of Finance and have been prepared by departmental management using assumptions with an effective date of March 1, 2012 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 $9,270,313,000 as described in the financial forecast of Revenues By Source (Schedule 2A of the Nova Scotia Budget Assumptions and Schedules) (the 2012-13 revenue estimates). My examination did not include, and my opinion does not cover, the budget speech or the 2012-13 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 2012-13 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 2012-13 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 2012-13 revenue estimates; and
- the 2012-13 revenue estimates as presented reflect fairly such assumptions; and
- the 2012-13 revenue estimates comply with presentation and disclosure standards established by the Canadian Institute of Chartered Accountants.

Since the 2012-13 revenue estimates are based on assumptions regarding future events, actual results will vary from the information presented and the variance may be material. Accordingly I express no opinion as to whether the revenue estimates will be achieved.

JR Lapointe

Jacques R. Lapointe, CA
Auditor General

Halifax, Nova Scotia
April 2, 2012

REVENUES BY SOURCE

Schedule 2A

($ thousands)

	ESTIMATE *2012-2013*
General Revenue Fund: Revenues	
Ordinary Revenue - Provincial Sources	
Tax Revenue:	
Personal Income Tax	2,195,300
Corporate Income Tax	398,450
Harmonized Sales Tax	1,642,900
Motive Fuel Tax	254,100
Tobacco Tax	211,000
Other Tax Revenue	157,640
	4,859,390
Other Provincial Revenue:	
Registry of Motor Vehicles	110,279
Royalties - Petroleum	27,672
Other Provincial Sources	124,576
TCA Cost Shared Revenue - Provincial Sources	3,625
Other Fees and Charges	67,598
	333,750
Investment Income:	
Interest Revenues	74,070
Sinking Fund Earnings	108,348
	182,418
Total - Provincial Sources	**5,375,558**
Ordinary Revenue - Federal Sources	
Equalization Payments	1,593,820
Canada Health Transfer	796,959
Canada Social Transfer	321,943
Offshore Oil and Gas Payments	146,059
Crown Share	19,628
Other Federal Sources	23,712
TCA Cost Shared Revenue Federal Sources	73,151
Total - Federal Sources	**2,975,272**
Total - Revenues	**8,350,830**
Ordinary Recoveries -	
Provincial Sources	276,422
Federal Sources	292,068
Total - Ordinary Recoveries	**568,490**
Net Income from Government Business Enterprises	
Nova Scotia Liquor Corporation	224,451
Nova Scotia Gaming Corporation	112,600
Halifax-Dartmouth Bridge Commission	11,536
Highway 104 Western Alignment Corporation	2,406
	350,993
Total - Revenues	**9,270,313**

NOVA SCOTIA

BUDGET ASSUMPTIONS —
April 3, 2012

Revenue Outlook

In 2012–2013, Nova Scotia's total General Revenue Fund revenue, including Net Income from Government Business Enterprises, is estimated to be $9,270.3 million, an increase of $391.7 million or 4.4 per cent compared to the 2011–2012 budget estimate.

Ordinary Revenue from provincial sources is up $136.6 million or 2.6 per cent, while federal sources are up $273.0 million or 10.1 per cent over the 2011–2012 budget estimate.

Ordinary Recoveries from provincial sources are down $1.8 million or 0.6 per cent, while federal sources are down $12.5 million or 4.1 per cent from the 2011–2012 budget estimate.

Net Income from Government Business Enterprises is down $3.6 million or 1.0 per cent from last year's budget estimate.

Ordinary Revenue—Provincial Sources

Tax Revenue

Personal Income Tax (PIT)

Nova Scotia's 2012–2013 estimate for Personal Income Tax is $2,195.3 million, up $214.0 million or 10.8 per cent from the 2011–2012 budget estimate.

The increase is driven by growth in Nova Scotia's personal taxable income, augmented by a higher growth in the yield on taxable income and a lower growth in personal income tax credits in Budget 2012–2013. Taxable income is projected to grow by 4.3 per cent in 2012 and in 2013, surpassing the average growth of 3.1 per cent in 2011 and 2012 in the 2011–2012 budget estimate. Improved labour market conditions are expected to lead to a stronger growth in salaries and wages in 2012 and 2013.

Corporate Income Tax (CIT)

Nova Scotia's 2012–2013 estimate for Corporate Income Tax is $398.5 million, up $4.7 million or 1.2 per cent from the 2011–2012 budget estimate.

On average, higher national taxable income and lower cost of credits in 2012 and 2013 from the 2011–2012 budget estimate are mainly responsible for the increase. The growth in Corporate Income Tax will be constrained by a lower Nova Scotia share of national taxable income.

The full impact of the second decrease of 0.5 per cent in the small business corporate income tax rate effective January 1, 2012, will reduce corporate income tax revenues, as will the further reduction of the small business corporate income tax rate to 3.5 per cent effective January 1, 2013.

Included in the Corporate Income Tax estimate is the estimate for the offshore corporate income tax of $3.1 million in 2012–2013, down $1.0 million or 24.0 per cent from the 2011–2012 budget estimate due to lower natural gas production, lower prices, and a strong Canadian dollar relative to the US dollar.

Harmonized Sales Tax (HST)

Net HST is estimated to total $1,642.9 million in 2012–2013, up $21.7 million or 1.3 per cent from the 2011–2012 budget estimate, primarily as a result of growth in the tax base.

Growth in consumer expenditures is forecasted to be 3.6 per cent in 2012 and in 2013, an improvement compared to growth of 2.1 per cent in 2011. Consumer expenditures represent over 70 per cent of the HST tax base. Taxable housing expenditure growth is expected to persist, growing 5.0 per cent in each of 2012 and 2013 after significant growth in 2010 and a slower rate of growth in 2011.

HST rebates are forecasted to increase in 2012–2013 relative to the 2011–2012 budget estimate. Higher rebates are driven mainly by increases in Your Energy Rebate program costs as a result of higher energy prices. The cost of the Your Energy Rebate program is expected to grow by $14.4 million or 16.5 per cent over the 2011–2012 budget estimate. Other HST rebates are also estimated to increase.

Increasing the HST rebate on new homes for first-time home buyers will reduce HST revenues by $1.5 million in 2012–2013.

Motive Fuel Tax

Motive Fuel Tax is projected to total $254.1 million in 2012–2013, an increase of $0.4 million or 0.2 per cent from the 2011–2012 budget estimate.

Gasoline consumption is estimated to rise by 0.8 per cent while diesel oil consumption is estimated to increase by 2.0 per cent. Average 2012–2013 retail prices for gasoline are estimated at $1.23 per litre and $1.21 per litre for diesel oil. Labour income is expected to grow 3.8 per cent over 2011–2012, and this is understood to affect consumer habits.

Tobacco Tax

Tobacco Tax revenues are projected to total $211.0 million in 2012–2013, a decrease of $2.1 million or 1.0 per cent from the 2011–2012 budget estimate.

Declining consumption of cigarettes (down 1.1 per cent) and fine cut tobacco (down 2.3 per cent) are contributing to the decrease. Higher tobacco product prices (up 1.5 per cent) and the continued cessation trend are weakening demand.

NOVA SCOTIA

Other Tax Revenue

Other Tax Revenue includes such items as Corporations Capital Tax, Capital Tax on Non-financial Institutions, Casino Win Tax, levy on sale of used vehicles, tax on insurance premiums, and a tax on gypsum. The total for these items is estimated at $157.6 million for 2012–2013, down $3.6 million or 2.2 per cent from the 2011–2012 estimate.

Other Provincial Revenue

Registry of Motor Vehicles

Revenue generated by the Registry of Motor Vehicles is estimated at $110.3 million for 2012–2013, down $0.6 million or 0.6 per cent from the 2011–2012 estimate. The variance is primarily a result of the timing of drivers' licenses and vehicle registrations that are renewed for multi-year terms.

Royalties—Petroleum

Offshore petroleum royalties are estimated to be $27.7 million in 2012–2013, a decrease of $82.7 million or 74.9 per cent from the 2011–2012 budget estimate.

World market prices for natural gas remain at historically low levels, and production volume is projected to decline in both 2012 and 2013. 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 expected to commence in July 2012. The 2012–2013 budget estimate includes $2.5 million in petroleum royalties from Deep Panuke.

Other Provincial Sources

Revenue from Other Provincial Sources is estimated at $124.6 million for 2012–2013, up $0.6 million or 0.5 per cent from the 2011–2012 estimate.

This revenue source includes such items as pharmacare premiums; Nova Scotia Securities Commission fees; registration revenue for deeds, companies, and property; and various other licenses and permits. The primary reason for the increase is higher revenue generated at the Securities Commission from fees, and at Health and Wellness from pharmacare premiums.

Tangible Capital Asset (TCA) Cost Shared Revenue — Provincial Sources

TCA Cost Shared Revenue from provincial sources is estimated at $3.6 million for 2012–2013, up from $3.1 million in 2011–2012. The increase results from municipal funding for Bedford High School, partially offset by a reduction due to the completion of the Queen Elizabeth High School demolition.

Other Fees and Charges

Revenue generated from Other Fees and Charges is estimated at $67.6 million for 2012–2013, an increase of $2.7 million or 4.2 per cent over the 2011–2012 estimate.

Investment Income

Interest Revenues

Interest Revenues are estimated to be $74.1 million for 2012–2013, down $22.5 million or 23.3 per cent from the 2011–2012 estimate. This decrease results primarily from a change in the accounting treatment of asset swaps, which has an equal offsetting implication on gross debt-servicing costs.

Sinking Fund Earnings

Sinking Fund Earnings are projected to total $108.3 million in 2012–2013, an increase of $3.5 million or 3.4 per cent from the 2011–2012 budget estimate.

Ordinary Revenue—Federal Sources

Equalization Payments

Equalization revenues are composed of three separate fiscal equalization payments.

Firstly, the Equalization estimate reflects the province's adoption of the Expert Panel formula for equalization payments, estimated to be $1,268.0 million in 2012–2013, an increase of $101.1 million or 8.7 per cent above the 2011–2012 budget estimate. This primarily reflects lower levels of offshore royalties being included in the Equalization formula and higher growth in the pool of cash available for distribution.

Secondly, the federal government is also providing Total Transfer Protection (TTP) 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 2011–2012. Payments made under the TTP are deemed to be fiscal equalization payments and are estimated to be $13.5 million in 2012–2013, a decline of $144.1 million or 91.5 per cent from the 2011–2012 budget estimate. This reflects the year-over-year increases in the three major transfers.

Thirdly, as part of a clarification reached with the Government of Canada on October 10, 2007, commencing with the 2008–2009 fiscal year Nova Scotia is entitled to receive an additional payment from the federal government if the cumulative value of the equalization formula in effect at the time the Offshore Accord was signed (the Interim approach) exceeds the cumulative value of the Expert Panel approach. This is known as the Cumulative Best-of Guarantee.

The Cumulative Best-of Guarantee payment is estimated to be $312.3 million in 2012–2013, an increase of $294.3 million from the 2011–2012 budget estimate. This increase is primarily the result of the Interim approach having an annual 3.5 per cent escalator mechanism, while the Expert Panel approach has caps on both payments and overall growth. The reduced Total Transfer Protection (TTP) payment in 2012–2013 compared to 2011–2012 also contributes to the variance.

Canada Health Transfer (CHT)

In 2012–2013 the total provincial entitlement for CHT comprises a provincial per capita allocation of a fixed national entitlement. The 2012–2013 national CHT amount that is available in cash and tax points is estimated to be $43.3 billion, of which the fixed national pool of cash to be distributed to provinces is $28.6 billion. Under an agreement reached in 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 $797.0 million in 2012–2013, an increase of $38.0 million or 5.0 per cent over the 2011–2012 budget estimate. The estimate of the province's cash entitlement reflects the federal government's calculation of the province's share of national population, and personal and corporate income tax.

Canada Social Transfer (CST)

Nova Scotia's 2012–2013 cash entitlement for CST is estimated to be $321.9 million, an increase of $6.9 million or 2.2 per cent over the 2011-2012 budget estimate.

This entitlement is based on an equal per capita cash provincial allocation of a fixed national entitlement which stands at $11.9 billion for 2012–2013. 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

NOVA SCOTIA

3.0 per cent a year through to the end of the 2013–2014 fiscal year.

Offshore Oil and Gas Payments

Offshore Oil and Gas Payments are estimated to be $146.1 million in 2012–2013, a decrease of $21.7 million or 12.9 per cent from the 2011–2012 budget estimate. The decrease reflects the declining offshore royalties included in the equalization formula. These payments are now recorded on a cash basis since payments to date have surpassed the $830 million advance payment made to the province in 2005.

Crown Share

The Crown Share adjustment payment is estimated to be $19.6 million in 2012–2013, a decrease of $2.0 million or 9.4 per cent from the 2011–2012 budget estimate. The decrease reflects declining offshore natural resource royalty revenues.

Other Federal Sources

Other Federal Sources are estimated to be $23.7 million in 2012–2013, a decrease of $4.9 million or 17.1 per cent from the 2011–2012 budget estimate.

The estimate for Other Federal Sources includes $9.6 million in Building Canada funding, a $4.0 million drawdown from the Public Safety Trust Fund, $2.3 million in statutory funding, $6.8 million from the federal Wait Times Reduction transfer, and $1.0 million in Health Infoway funding.

The $4.9 million variance results primarily from reductions in Building Canada funding of $4.5 million, the completion of the Knowledge Infrastructure Trust funding which was $4.6 million, and the Human Papilloma Virus Trust funding of $0.7 million last year, partially offset by new funding from the Public Safety Trust of $4.0 million, and Health Infoway, which had no funding in 2011–2012.

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

The estimate of TCA Cost Shared Revenue from federal sources is $73.2 million for 2012–2013. This represents an increase of $5.4 million in revenue compared to the 2011–2012 budget estimate. The increase in TCA Cost Shared Revenue primarily relates to drawdowns from provincial/territorial base funding and the Building Canada Fund.

Ordinary Recoveries

Ordinary Recoveries are projected to total $568.5 million in 2012–2013, a decrease of $14.3 million or 2.4 per cent from the 2011–2012 budget estimate. Provincial source recoveries are down $1.8 million to $276.4 million, while federal sources are down $12.5 million to $292.1 million.

NOVA SCOTIA

Key Tax Measures—Personal Income Taxes

Removal of Provincial Income Taxes for GIS Recipients

Effective for the 2010 taxation year and successive taxation years, 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 return $7.7 million in taxes to Nova Scotia's seniors in 2012–2013.

Fifth Tax Bracket and Elimination of the Personal Income Tax Surtax

Effective January 1, 2010, the 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, the government also introduced the removal of 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 $60.6 million in revenues in 2012–2013 and affect approximately 6,000 tax filers, while the removal of the surtax will save 25,000 tax filers a total of $30.4 million in 2012–2013, resulting in a net impact of $30.2 million in revenues for 2012–2013.

Increases to Disability, Dependant, and Spousal Amounts

Effective January 1, 2012, the government will implement significant changes to three non-refundable tax credits.

The disability amount will be increased from $5,035 to $7,341. This is a non-refundable credit claimed by tax filers who have disabilities or who have dependants with disabilities. The increase will provide total savings of $1.5 million in 2012–2013, with an average benefit of $75 to approximately 20,000 tax filers.

The dependant amount will be increased from $7,201 to $8,481, allowing filers to claim the same amount as the Basic Personal Amount. This is a non-refundable credit claimed by tax filers with no spouse or common-law partner and who have a dependant child under the age of 18. The income threshold is $720 and the credit is reduced dollar-for-dollar for the dependant's income in excess of the threshold. The increase will provide total savings of $1.4 million in 2012–2013, with an average benefit of $99 to approximately 14,000 tax filers.

The spousal amount will be increased from $7,201 to $8,481 to match the Basic Personal Amount. This is a non-refundable credit claimed by tax filers with a spouse or common-law partner. The increase will provide total savings of $4.6 million in 2012–2013 with an average benefit of $103 to approximately 44,000 tax filers.

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 February 29, 2012. They have both been extended for a 10-year period to February 28, 2022.

Key Tax Measures—Business Taxes

Small Business Corporate Income Tax

For the third consecutive year, the government will reduce the small business corporate income tax rate. Effective January 1, 2013, the rate will be reduced from 4.0 per cent to 3.5 per cent.

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 was further reduced to 4.0 per cent. The combined impact of the rate decreases will save small businesses an additional $21.5 million in 2012–2013, and $30.0 million per year upon full implementation. Small businesses currently save more than $200 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 Nova Scotia's 2006–2007 budget, the province's Large Corporations Tax (LCT) on capital of non-financial institutions is being phased out through annual reductions of 0.05 per cent. The tax rate will decline by the last 0.05 per cent and be eliminated on July 1, 2012.

Key Tax Measures—Consumption Taxes

Affordable Living Tax Credit

The province will continue to offer an Affordable Living Tax Credit to low-income households. For the average low-income household, the credit more than offsets the impact of the HST rate increase that took place July 1, 2010. In addition, the province will increase payments effective July 1, 2012.

The credit is paid quarterly in July, October, January and April of each year. Effective July 1, 2012, the maximum rebate is $255 per household plus $60 per dependant child for households earning less than $30,000 per year. For households earning more than $30,000, the credit will be reduced by $0.05 per $1.00 of income and will be completely phased out at a household income of $35,100. As with the federal government's Goods and Services Tax credit, individuals need to file an income tax return to be eligible to receive the HST credit.

HST Rebate on New Homes for First-Time Home Buyers

The province currently provides a rebate of 18.75 per cent (to a maximum of $1,500) of the provincial portion of the HST on new homes purchased by first-time home buyers. First-time home buyers are defined as individuals who have not owned and occupied a home in the past five years.

The rebate will increase where the Agreement of Purchase and Sale is entered into on or after April 1, 2012. The rebate will provide additional savings of $1.5 million to first-time home buyers.

The rebate is also available on the purchase of land, services, and materials for owner-built homes.

Point-of-Sale (POS) Rebates of HST

Since July 1, 2010, the government has provided 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).

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Sensitivity

Revenue estimates that 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 its judgment as to the most probable set of economic conditions.

As these variables change throughout the year and as more information becomes available, there may be a material impact, either negative or positive, on the revenue forecasts. 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 January 31, 2012.

Revenue Source	Key Variables
Personal Income Taxes	• provincial level of personal 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

Additional Information

In addition to the key economic and fiscal assumptions contained in the 2012–2013 revenue estimates, the following information should also be taken into account when interpreting the revenue estimates.

The revenue estimates for 2012–2013 are considered to have been prepared on a basis consistent with accounting policies currently used by the province to record and/or recognize revenue for purposes of its Consolidated Fund. As a result, revenues for certain government service organizations, which 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 2012–2013 using a combination of current internal and external models and other information available. Every effort has been made to ensure the integrity of the results of the models and other information. As actual or more current information becomes available, adjustments may be necessary to the projection of revenues.

The revenue forecasted to be received through federal transfer payment programs pursuant to the Federal-Provincial Fiscal Arrangements Act incorporates official information released by the federal government as of December 16, 2011. In addition, CHT & CST revenue estimates 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 2011–2012.

Government Business Enterprises—Net Income

Nova Scotia Liquor Corporation

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 $224.5 million in 2012–2013. This is a decrease of 1.6 per cent compared to the 2011–2012 net income estimate of $228.1 million. The net income is projected on net sales of $601.7 million for 2012–2013 as compared to $599.1 million for 2011–2012.

The following are some of the key highlights of this year's business priorities:

- Continue to strengthen commitments with local winery and craft brewery associations.
- Continue to explore ways of addressing customer preferences for a more customized and personal shopping experience, which would include offering Air Miles, providing digital services, and improving the wine category experience.
- Introduce new technology at the point of sale to verify the legitimacy of ID, providing employees better means to focus on the prevention of selling to minors.
- Develop a comprehensive organizational health strategy.
- Continue to review the efficiency and effectiveness of organizational processes and controls, and implement solutions to improve the control framework.

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Nova Scotia Gaming Corporation

Nova Scotia Gaming Corporation's (NSGC) net income is budgeted to be $112.6 million in 2012–2013, $0.3 million lower than the 2011–2012 estimate of $112.9 million. Budgeted revenue will decline, primarily due to the impact of mandatory usage of the My-Play System on 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 video lottery terminals.

Halifax-Dartmouth Bridge Commission

The 2012–2013 Halifax-Dartmouth Bridge Commission budget estimate of $11.5 million is $1.8 million higher than 2011–2012, primarily as a result of the second phase of the toll increase which comes into effect April 1, 2012. The toll increase of $0.10 is for MacPass users only. There was no increase in cash tolls.

Highway 104 Western Alignment Corporation

Highway 104 Western Alignment Corporation's budget estimate for 2012–2013 of $2.4 million is $1.4 million lower than 2011–2012, mostly as a result of changes under the International Financial Reporting Standards (IFRS). Major maintenance items previously expensed are now capitalized and the amortization method has changed.

Overview of Treasury Management

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

The Department of Finance is responsible for managing Nova Scotia's gross financial market debt portfolio, which is estimated at $15.0 billion as of March 31, 2012. 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 $3.3 billion and are subtracted from gross financial market debt to result in a net financial market debt of $11.8 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. This budget shows that the government intends to incur a modest budgetary deficit of $211.2 million in 2012–2013, followed by balanced budgets thereafter.

The management of the debt portfolio and borrowing program must consider the external financial and economic environment. Entering 2012–2013, global financial markets continue to face considerable uncertainty. While recent developments in Greece and other economic data have provided some optimism that the worst of the financial crisis is over, work remains to be done. The dominant issue continues to be the Euro Area, where, recognizing the risk to the global economy and financial system of a break-up of the

Euro currency, policymakers have gone to great lengths to support Greece and other peripheral European countries. However, investors may remain unconvinced that a long-lasting solution has been found. This loss of faith is reminiscent of the collapse in confidence in 2008, when the global economy contracted sharply with no certainty on the outcome.

The budget and Public Accounts, collectively referred to as financial statements of the province, are presented on a full accrual basis. In contrast, Treasury Management is the cash side of government operations. 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 2011–2012, the province had a $530 million increase in net financial market debt, due to the budgetary deficit, net acquisition of tangible capital assets, and on-lending activities of the General Revenue Fund. The province estimates that net financial market debt will increase by about $500 million in 2012–2013 due to the budgetary deficit, the net acquisition of tangible capital assets, and on-lending to crown corporations.

Nova Scotia's ratio of net debt to nominal gross domestic product at market prices is forecasted at 35.2 per cent as at March 31, 2012, compared to 35.3 per cent a year earlier.

Nova Scotia Credit Ratings

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

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

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Canadian Provincial Ratings March 2012

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

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

Structure of the Debt Portfolio

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

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

1. Primary Issuance Market

The Province of Nova Scotia expects to incur a budgetary deficit of $211.2 million in 2012–2013, 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, and provide on-lending to crown corporations, and for other non-budgetary purposes.

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

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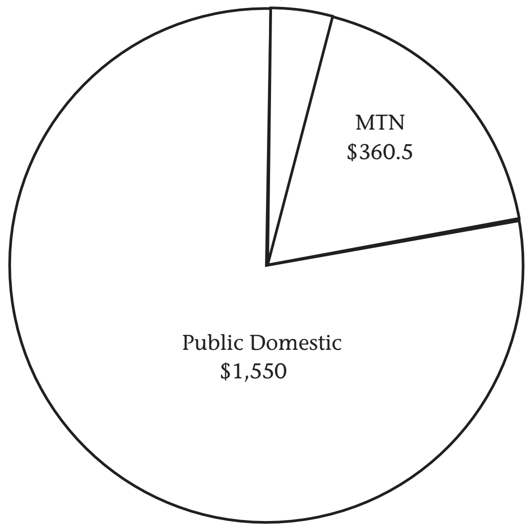
Chart 3A: General Revenue Fund Debt Portfolio— Issuance Profile, 2011–2012
($ millions)



In the fiscal year 2011–2012, the province borrowed $1,988.9 million, an increase over borrowing requirements of $1,613 million estimated in the budget. However, the province did not draw the $494 million from discretionary sinking funds as provided for in the 2011–2012 budget, thereby raising borrowing requirements by that amount. Market conditions and opportunities, particularly for long-term debt issuance, were favourable in 2011–2012. The borrowing completed in 2011–2012 includes $450 million of pre-borrowing for 2012–2013. The decrease in the borrowing requirements in 2011–2012 was due to the improvement in the deficit to $260.8 million from a budgeted $389.6 million deficit, forecast capital advances to crown corporations were $144.2 million lower in 2011–2012 than budget estimates, and net TCA requirements were lower by $87 million. The province met its borrowing requirements in fiscal year 2011–2012 by raising $1,550 million by way of six domestic public market issues and

$360.5 million under the Medium Term Note program, and by rolling over a $78.4 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.

The Debt Management Committee, an advisory committee to the Minister of Finance, has had a policy guideline over the past number of years to increase the portion of long-term debt in the gross financial market debt portfolio. The ultimate goal is to structure the maturity profile to withstand adverse changes in economic and fiscal circumstances. While long-term interest rates in Canada have generally been falling since peaking in the early 1990s, the province has only begun to issue long-term debt in recent years. Interest rates in Canada and the US fell during the 2008–2009 credit crisis and the European crisis in late 2010, and continued to fall even further in late 2011 and early 2012. Government of Canada benchmark interest rates by early 2012 had declined significantly, with interest rates in 5-, 10- and 30-year terms having declined by ~120/140/130 basis points compared to a year earlier (1.2%, 1.4%, 1.3%), respectively. The province took advantage of these very low long-term interest rates to borrow $1,050 million in the 30-year term by way of the public domestic market, and borrowed $345.5 million in the 50-year term (with a coupon rate of 3.50 per cent) by way of private placements.

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, 2012, 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 $151 million with the General Revenue Fund.

There were also entities that are not part of the Consolidated Entity that invested $40.8 million 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 2012–2013 are expected to be $1.2 billion, and the province expects to raise a further $450 million in short-term debt, for total borrowing requirements of $1.6 billion. The Department of Finance does not anticipate drawing down discretionary sinking funds in 2012–2013. Over the past number of years, the province has been aggressively borrowing monies at long-term fixed interest rates to take advantage of the low interest rates observed during that period, and to protect the budgetary position from rising interest rates. As a consequence of that long-term strategy, the province has maintained a low level of short-term debt. The increase in short-term debt in 2012–2013 will return the short-term debt position to normal levels. Schedule 3B also shows the projected borrowing program for 2013–2014 to 2015–2016. The borrowing program starts with the provincial budgetary deficit that increases requirements or a surplus that reduces requirements. There are numerous cash versus accrual adjustments (non-budgetary items) that need to be made to determine the actual cash requirements of the 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 2012–2013 are $219 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.

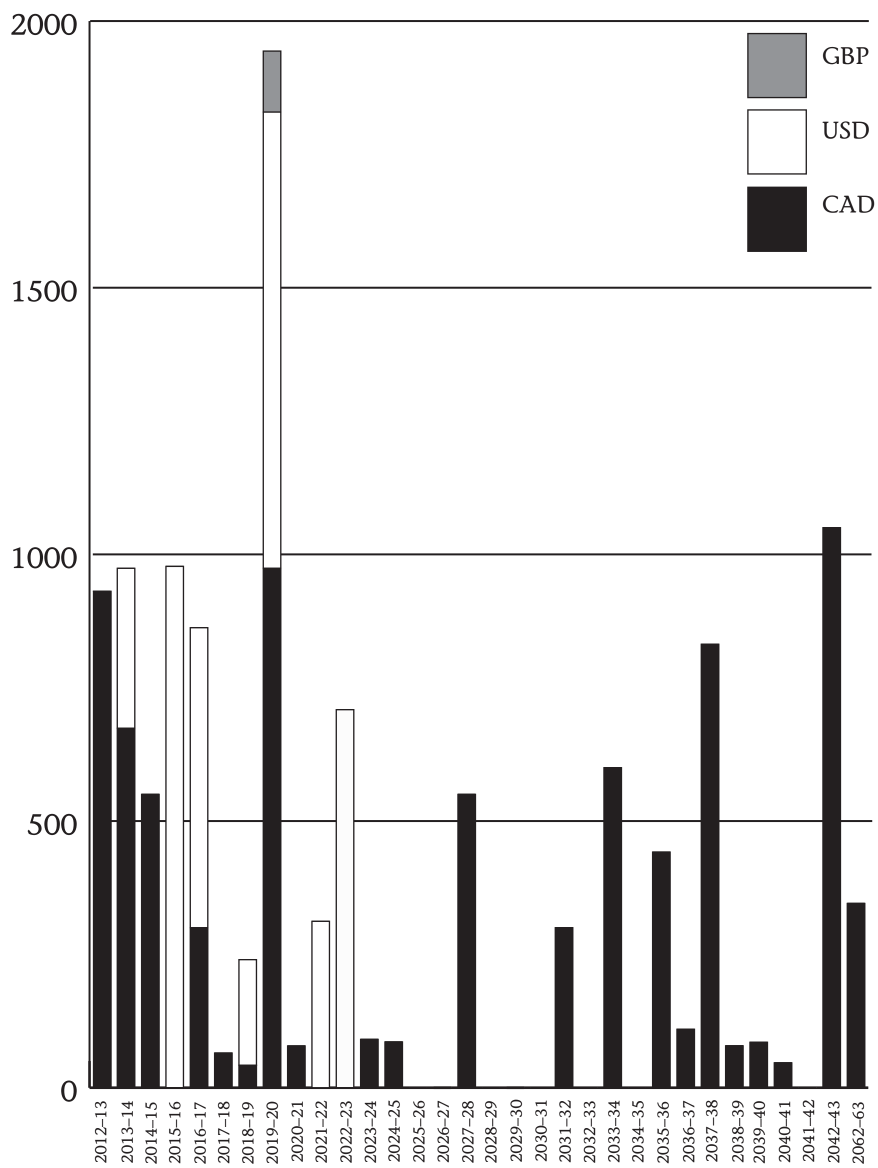
The province demonstrated access to capital markets in fiscal year 2011–2012 by efficiently raising the monies required to complete the borrowing program in the Canadian domestic market. The province issued six domestic public debt issues, the largest domestic borrowing program in the history of the province. The province continues to maintain access to a diversity of borrowing sources, both domestically and in foreign markets. This access is a key factor in achieving lower financing costs and maintaining a broad demand for Nova Scotia debt issues.

The province maintains documentation with the Securities and Exchange Commission (SEC) in the United States to provide access to the US and global bond markets. Although Nova Scotia maintains documentation to borrow in foreign markets, the domestic Canadian debt market is expected to be the primary source of funding for the province's borrowing program in 2012–2013. The province attempts to maintain a presence in the domestic public debt markets with liquid benchmark issues. The domestic Medium Term Note (MTN) program is maintained to add flexibility to the domestic borrowing programs.

2. Maturity Schedule

The Province of Nova Scotia's gross financial market debt consists of Canadian fixed-coupon marketable bonds, foreign currency–denominated fixed-coupon marketable bonds (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 US Global issue that was completed in July 2010 and matures in 2015 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, 2012, the average term to maturity of the gross financial market debt portfolio was 13.6 years, up from 11.0 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 four years are $955.6 million in the fiscal year 2012–2013, $999.7 million in the fiscal year 2013–2014, $578.1 million in the fiscal year 2014–2015, and $1,007.6 million in the fiscal year 2015–2016 (see Schedule 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 for the province 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 financial market debt portfolio since late 2007. By way of background, the province historically carried large foreign currency exposures, which peaked at over seventy per cent in the mid-1990s. While the province has no foreign currency exposure at this time, Section 44 of the Finance Act continues to limit this exposure, stating: “Unless the foreign currency exposure of the public debt is less than twenty per cent, no further transactions that increase foreign currency exposure may be executed. No borrowing in a foreign currency may be executed that cause the foreign currency exposure of the public debt to exceed twenty per cent."

4. Interest Rate Mix

The financial market debt portfolio's exposure to floating interest rates was increased over the past year, and ended the year at 12.5 per cent on March 31, 2012. 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 by its extensive derivative capabilities.

The current level of floating interest rate debt is temporarily below the mid-point of the province's floating interest rate exposure policy, and the Department of Finance intends to raise the level of floating interest rate debt in 2012–2013. 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 financial market debt outstanding. The Department of Finance targets the mid-point of the policy range, which implies that a 1 per cent increase in interest rates relative to budget assumptions would increase debt-servicing costs by $15 million.

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

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market risks in financial instruments for the purpose of hedging, transferring risk, arbitraging interest rate differences, and adjusting portfolio risks. These transactions can often be more effective and done at a lower cost in derivative than would be possible in the cash market.

At March 31, 2012, the province's use of derivatives was for two purposes: (1) the hedging of foreign currency debt issues to Canadian dollars, and (2) asset–liability management purposes. The latter derivative transactions are designed to protect the provincial budgetary surplus from changes in interest rates associated with the Department of Finance's on-lending program to crown corporations.

Currently, the province is party to approximately $5.6 billion notional face value of derivative transactions, down by $965 million due to the maturity of a USD Global debt issue ($795 million CDN-equivalent) and other actions during the 2011–2012 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.

During fiscal 2011–2012, one of the province's derivative counterparties was downgraded by a major credit rating agency to "Baa1". This rating is below the province's minimum threshold for derivative counterparties and triggered a "ratings event" as defined by the swap agreements in place between the province and its counterparties. As a result, the derivative positions in place with the counterparty were assigned to a more highly rated entity.

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Structure of Debt Management and Sinking Funds

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

As of March 31, 2003, funds held for public issues without a sinking fund bond covenant were also moved to the Sinking Fund General. The province continues to make sinking fund instalments for those debentures that contain sinking fund bond covenants. On those issues, annual sinking fund instalments generally range from one to three per cent of the par value 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, 2012, the estimated book value of the sinking funds was $2,538 million, of which $1,729 million was held in sinking funds established by way of bond covenant, and $809 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 Public Debt Management Fund (PDMF)) are to manage interest rates, manage short-term liquidity, and assist in the refunding of maturing debt, while at the same time providing an appropriate level of investment return to the General Revenue Fund.

The assets of the sinking funds and PDMF are invested in high-quality investments. Those investment guidelines are subject to approval by the Debt Management Committee. All assets were invested either in federal or provincial debt obligations. Corporate bonds with a credit rating of at least "AA-" may be held in the sinking funds, but at March 31, 2012, there were no corporate bond holdings. The Sinking Fund General also holds $48 million of debt of the Halifax-Dartmouth Bridge Commission. The PDMF is typically invested in Government of Canada and provincial bonds. At March 31, 2012, 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, 2012, held a portfolio of $729.5 million NSMFC debentures in the General Revenue Fund, down from $754 million from a year earlier. The NSMFC asset portfolio held by the Department of Finance, along with sinking funds and PDMF, are netted against the gross financial market debt of the province to arrive at net financial market debt.

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Debt-Servicing Costs

Gross debt-servicing costs comprise the following items:

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

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

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

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

	Estimate 2011–12	Forecast 2011–12	Estimate 2012–13	Estimate 2013–14	Estimate 2014–15	Estimate 2015–16
Interest on Long-term Debt	737.7	707.4	735.1	725.0	744.7	739.7
General Interest	29.0	5.2	1.0	11.1	16.2	16.0
Interest on Pension, Retirement and Other Obligations	118.8	125.6	145.6	167.1	170.2	182.0
Gross Debt-Servicing Costs	**885.5**	**838.1**	**881.7**	**903.1**	**931.2**	**937.7**
Less: Sinking Fund Earnings	104.8	105.6	108.3	107.7	103.3	104.8
Net Debt-Servicing Costs	**780.7**	**732.5**	**773.4**	**795.4**	**827.9**	**832.9**

In 2012–2013, the province will incur $145.6 million in debt-servicing costs related to the accrual of interest on pension, retirement, and other obligations. The province accounts for its pension obligations and related expenses on an accrual basis in accordance with PSAB Section 3250, using 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 fiscally responsible approach that alleviates the effects of significant market fluctuations, both positive and negative, and helps maintain stability and predictability in the budget process.

As noted above, the province has established mandatory sinking funds on some debt issues and maintains discretionary sinking funds for liability management purposes. The interest on those sinking funds is 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 Farm Loan Board. The General Revenue Fund earns interest on those monies lent to crown corporations and other investments in amounts of $73.4 million in the 2011–2012 forecast, and $74.1 million in the 2012–2013 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 also be subtracted from gross debt-servicing costs.

Debt-Servicing Costs—Assumptions and Sensitivity Analysis

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

With the elimination of the province's foreign currency exposure, the main factor in debt-servicing cost sensitivity is the overall level of Canadian short-term interest rates and 10-year Canada bond yields during the fiscal year. Sensitivity to these variables (the amount by which debt-servicing costs would change if a variable changed from the assumed level for a full year) is $15 million if Canada Treasury Bills were a full percentage point higher relative to the assumed level, and $6 million if 10-year Canada bond yields rose by one percentage point.

Risk Management

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

In 2011 the Auditor General of Nova Scotia conducted a follow-up audit of the control framework of Liability Management & Treasury Services, Capital Markets Administration, and the Compliance & Reporting divisions of the Department of Finance.

The Auditor General concluded the following: “The governance and control framework in these divisions provides for the identification of major risks that impact investment activity. These risks are controlled through policies related to borrowing limits and credit ratings; compliance with these policies is monitored on a daily basis. In addition, the province’s Debt Management Committee provides adequate oversight and challenge to the activities of these divisions, and reports its results to the Minister of Finance on an annual basis.”

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Schedule 3B: Projected Borrowing Requirements ($ millions)

	Estimate 2011–12	Forecast 2011–12	Estimate 2012–13	Estimate 2013–14	Estimate 2014–15	Estimate 2015–16
Budgetary (surplus)/deficit	389.6	260.8	211.2	(15.4)	(19.7)	(23.1)
Net Capital Advances	288.4	145.1	283.7	62.0	62.0	62.0
NSMFC Repayments	(96.2)	(24.9)	(98.7)	(83.6)	(79.5)	(79.3)
Tangible Capital Assets: Net Cash	289.3	202.0	219.5	101.9	94.7	88.1
Other Non-Budgetary Transactions[1]	89.1	(54.8)	(103.0)	(166.7)	(225.3)	(259.2)
Cash Operating Requirements	**960.3**	**528.3**	**512.7**	**(101.8)**	**(167.7)**	**(211.6)**
Cash Debt Retirement	1,603.9	1,603.9	955.6	999.7	578.1	1,007.6
Mandatory Sinking Fund (SF) Income	92.6	85.5	86.6	85.2	85.9	88.1
Mandatory SF Contributions	37.6	37.6	44.1	36.2	36.2	36.2
Mandatory SF Withdrawals	—	—	—	(299.9)	—	(205.7)
Net Mandatory SF Requirements	130.2	123.1	130.6	(178.4)	122.2	(81.4
Discretionary Fund Income	12.2	20.1	21.8	22.5	17.3	16.7
Discretionary Fund Contributions	—	—	—	—	—	—
Discretionary Fund Withdrawals	(494.0)	—	—	—	—	—
Net Discretionary Fund Requirements	(481.8)	20.1	21.8	22.5	17.3	16.7
Total Requirements	2,212.6	2,275.4	1,620.7	742.0	549.9	731.3
Change in Short-Term Borrowing (inc)/dec	(600.0)	(286.5)	(450.0)	—	—	—
Total Borrowing Requirements	**1,612.6**	**1,988.9**	**1,170.7**	**742.0**	**549.9**	**731.3**

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

NOVA SCOTIA

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

	Estimate 2011–12	Forecast 2011–12	Estimate 2012–13	Estimate 2013–14	Estimate 2014–15	Estimate 2015–16
Gross Debt						
Opening Balance	14,373.2	14,373.2	15,021.7	15,588.2	15,247.0	15,139.4
Borrowing Program	1,611.6	1,988.9	1,170.7	742.0	549.9	731.3
Debt Retirement	(1,603.9)	(1,603.9)	(955.6)	(999.7)	(578.1)	(1,007.6)
Change in Other Unfunded Debt1	600.0	263.5	351.3	(83.6)	(79.5)	(79.3)
Closing Balance	**14,980.9**	**15,021.2**	**15,588.2**	**15,247.0**	**15,139.4**	**14,783.9**
Mandatory Sinking Funds						
Opening Balance	1,606.1	1,606.1	1,729.2	1,859.9	1,681.5	1,803.6
Instalments	37.6	37.6	44.1	36.2	36.2	36.2
Earnings	92.6	85.5	86.6	85.2	85.9	88.1
Sinking Fund Withdrawals	—	—	—	(299.9)	—	(205.7)
Closing Balance	**1,738.3**	**1,729.2**	**1,859.9**	**1,681.5**	**1,803.6**	**1,722.3**
Discretionary Funds						
Opening Balance	788.5	788.5	808.6	830.3	852.8	870.2
Instalments	—	—	—	—	—	—
Earnings	12.2	20.1	21.8	22.5	17.3	16.7
Fund Withdrawals	(494.0)	—	—	—	—	—
Closing Balance	**296.0**	**808.6**	**830.3**	**852.8**	**870.2**	**886.9**
NSMFC Assets						
Opening Balance	754.4	754.4	729.5	630.8	547.1	467.7
Repayments	(96.2)	(96.2)	(98.7)	(83.6)	(79.5)	(79.3)
Advances	—	71.3	—	—	—	—
Closing Balance	**658.2**	**729.5**	**630.8**	**547.1**	**467.7**	**388.4**
Net Financial Market Debt	**12,288.3**	**11,754.4**	**12,267.3**	**12,165.5**	**11,997.9**	**11,786.4**

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.

NOVA SCOTIA

Schedule 3D: Projected Net Debt ($ millions)

	Estimate 2011–12	Forecast 2011–12	Estimate 2012–13	Estimate 2013–14	Estimate 2014–15	Estimate 2015–16
Net Debt – Opening Balance	**13,068.5**	**12,827.3**	**13,290.2**	**13,720.9**	**13,807.3**	**13,882.3**
Add (Deduct):						
Provincial Surplus on an Expense basis	389.6	260.8	211.2	(15.4)	(19.7)	(23.1)
Increase in the Net Book Value of Tangible Capital Assets	289.3	202.1	219.5	101.9	94.7	88.1
Inventories and prepaid expenses	—	—	—	—	—	—
Change in Net Debt	678.9	462.9	430.7	86.5	74.9	65.0
Net Debt—Closing Balance	**13,747.4**	**13,290.2**	**13,720.9**	**13,807.3**	**13,882.3**	**13,947.3**

Economic Assumptions

Highlights

Nova Scotia's real GDP is expected to grow by 1.7 per cent in 2012, followed by 1.9 per cent in 2013. Real economic growth for 2011 is currently estimated to be 1.2 per cent.

Like most advanced economies, Nova Scotia's economic performance in 2011 was muted by uncertainty from the European sovereign debt crisis and slow recovery in the US from the distressed housing sector. Nova Scotia's households also experienced fluctuations in employment, prices, and retail spending in 2011. In addition, Nova Scotia faced restructuring in the paper sector just as new opportunities emerged for long-term growth from a Federal shipbuilding contract for combat vessels.

Many jurisdictions have reduced their short-term economic growth outlook, based on global uncertainties. Nova Scotia has reduced its forecast for economic growth over the short run compared with the 2011–2012 Budget assumptions. However, after global uncertainties are resolved, government budgets are back to balance, and the forestry sector has found sustainable production again, Nova Scotia's economy is expected to have many years of stable growth with the combat vessel construction.

After years of volatility around a stable average, employment is expected to grow in 2012 and in 2013. With a stable labour force, the unemployment rate is projected to decline.

Global Economic 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.

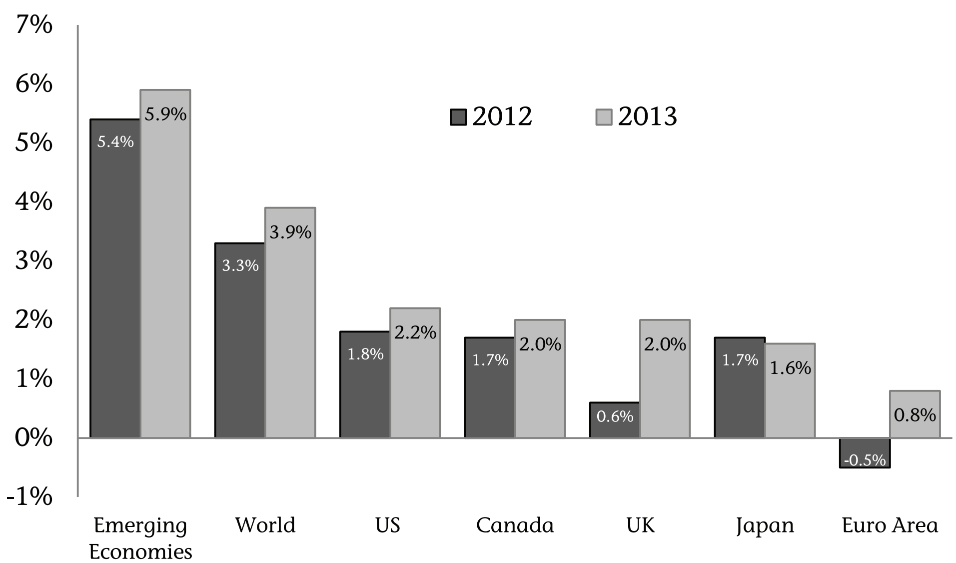
Global Economic Outlook

There has been a deterioration in global economic growth prospects and financial conditions over the past year. Euro Area stability issues resurfaced in the spring of 2011, and deepened considerably in the fall despite new measures introduced earlier in the year. Investors increased risk premiums for some peripheral Euro Area countries, resulting in a financial market tightening; this has since lessened given various measures by the European Central Bank (ECB), European Union (EU), and International Monetary Fund (IMF). Combined with sovereign debt restructuring and increased fiscal consolidation, the Euro Area is expected to suffer a mild recession in 2012. At the same time, the recovery in advanced countries has been slower than expected, and high unemployment prevailed for most of last year.

The Bank of Canada has noted that the global economy has entered a new phase characterized by the withdrawal of fiscal stimulus and a modest recovery supported by private sector demand. However, it is not clear that the pickup in private demand has materialized to sustain the recovery. Although economic growth in the US, Canada, and the UK is expected to quicken in 2013, prospects for 2012 remain dimmed by uncertainty.

Growth in emerging and developing economies also appears to have slowed more than expected in the second half of 2011, as Japanese supply chains and Thai industrial production have not yet recovered from natural disasters. Chinese economic growth is moderating, although recent information points to a soft landing—maintaining a slower pace of growth while easing inflationary pressures.

Figure 1 Global Economic Outlook
Real GDP growth (per cent)



Source: International Monetary Fund, World Economic Outlook January 2012

A number of temporary factors led to slower-than-expected global growth in the first half of last year. The Middle East/North African region was shaken by political and social conflict, and there was a sharp rise in oil/commodity prices. As well, major global production disruptions occurred as a result of the disaster in Japan. In North American economies, higher growth in the second half of the year partly reflected a reversal of these temporary factors but is not expected to continue.

The deepening crisis in Europe and slower-than-expected growth in advanced, emerging, and developing countries has resulted in a significant downward revision to the consensus outlook from the previous year. The IMF's latest World Economic Outlook (WEO) update anticipates overall world economic growth of 3.3 per cent in 2012 and 3.9 per cent in 2013. This is considerably slower than the 4.5 per cent pace that was projected for 2012 in last year's WEO.

NOVA SCOTIA

A number of supports were implemented to address slower recovery in the labour markets in Europe and North America. In November 2011, the Government of Canada announced new measures to extend employment insurance premiums and work-share programs. The Bank of Canada put interest rate increases on hold, citing the additional risks posed by financial market instability in Europe. The US Federal Reserve Board extended the length of time it expects economic conditions to warrant especially low policy rates, now expecting economic conditions to warrant low interest rates through 2014. The US Federal Open Market Committee (FOMC) also pursued a second round of quantitative easing (dubbed QE2) in the first half of the year. This program was followed by "Operation Twist" in the fall, a further attempt to drive down long-term interest rates and stimulate the economy. The European Central Bank and the Bank of England have also recently engaged in further quantitative easing, and the US Federal Reserve Board is coordinating with Central Banks to ensure that more funding is available, particularly to those in the Euro Area.

Following the considerable effort by many countries to sustain growth through the recession with quantitative easing and loose monetary policy, there may be limited room in advanced countries for additional support going forward.

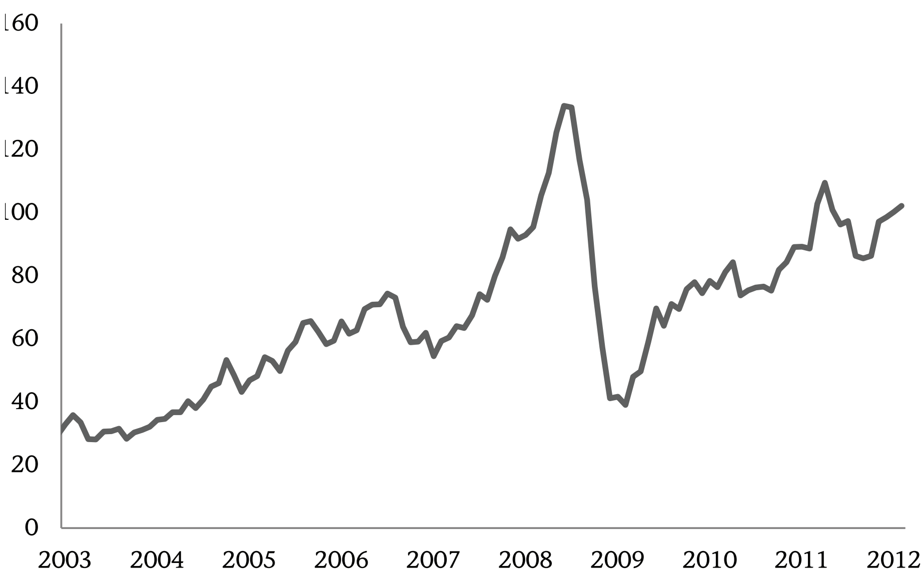
Some positive signs have emerged, however, particularly in the US labour and housing markets. US unemployment is finally falling and there are signs that the US housing sector may be recovering. There has also been some improvement about expectations for the Euro Area, particularly following the latest restructuring efforts in Greece, as well as better-than-expected results from US stress tests.

Commodity Prices

Global commodity prices appear to have stabilized since their spike in early 2011. More stability in commodity prices could support global consumption going forward and ease inflationary pressures in some developing and emerging countries. This trend may allow some countries additional policy room and support global demand.

Recently tensions in the Middle East have increased, and the EU's embargo on Iranian oil in January affected risk premiums for oil. The IMF has noted that geopolitical risks may remain elevated for some time.

Figure 2 Crude Oil Prices
USD/bbl (WTI)

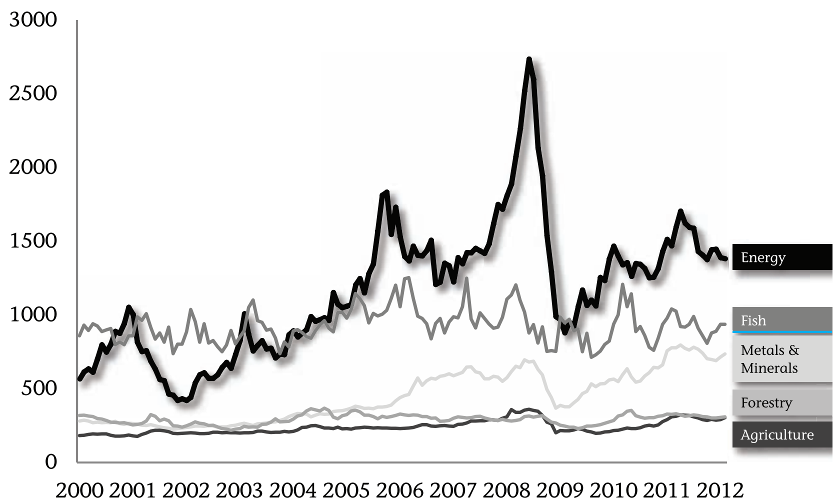


Source: US Energy Information Administration, Weekly Petroleum Status Report

In North America, there has been continued development in the Bakken formation, located in parts of Montana, North Dakota, and Saskatchewan, owing to new fracturing technology used for oil production. Like shale gas developments, these new fields have the potential to transform

North American energy markets, reducing US dependency on oil imports (provided transportation capabilities are improved). This could insulate the US economy from global commodity price volatility. It may also compete with Canadian oil sands production, adding downside risk for Canada's energy sector.

Figure 3 Commodity Price Index
Canada, 1972=100



Source: Statistics Canada, CANSIM table 176-0075

There appears to be continued decoupling of natural gas prices from oil prices. US Natural Gas inventories have recently accumulated to record highs, due to an unseasonably warm winter. This is adding to the short-term downward pressure on natural gas prices, but prices are expected to recover gradually. Consumption growth is expected to be offset by continued production growth associated with shale gas supplies, leading to more moderate price growth in the future.

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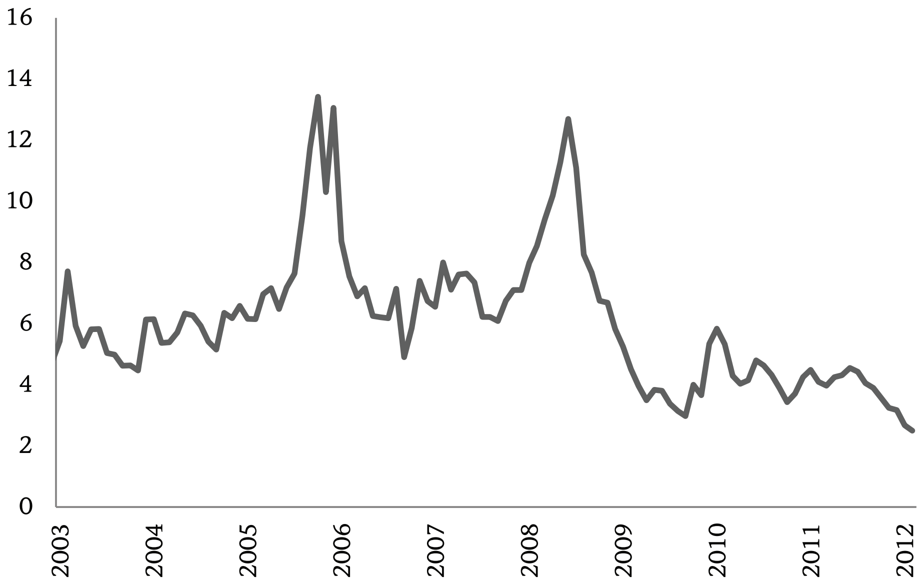
Figure 4 Natural Gas Price
($USD/mmBtu)



Source: US Energy Information Administration, Natural Gas Monthly

Financial Market Conditions

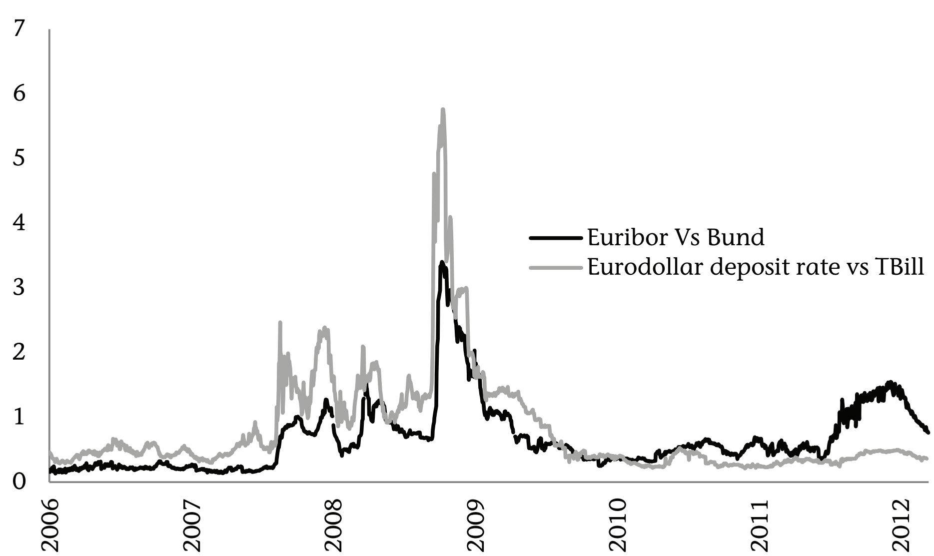
Sovereign debt concerns grew considerably over the past year and intensified with a loss of investor confidence and a wave of ratings downgrades in the fall of 2011. In addition to topping up the European Financial Stability Fund, a number of new measures were introduced to facilitate orderly restructuring and restore confidence in the Euro Area, including an agreement of a common fiscal union and a balanced budget amendment.

However, these new initiatives have not been enough to improve investor and consumer confidence. Although limited to a few countries at first, financial market uncertainties spread to peripheral countries in Europe and even beyond, to Japan and the United States. The increase in risk premiums on European debt has resulted in an acute financial market tightening. Around the world this has meant a hold on financial flows as banks retain higher levels of liquidity and are reluctant to lend.

To address the increase in financial market instability, the European Central Bank held off on plans to raise interest rates, in spite of growing inflation. The ECB also introduced a number of unprecedented temporary measures, most recently including a bond-purchasing program to address liquidity constraints of Euro Area banks. A number of bailout packages that are conditional on austerity measures have also been conceived to protect nations from default.

While the linkages between the financial market tightening in Europe and the real economy are still not entirely clear, the increased uncertainty has been an anchor weighing down expansion in many economies throughout much of the year. One positive sign has been the absence of a default to date. North America's partial insulation from these events has likely helped support its ongoing recovery.

Figure 5 Financial Institution Liquidity
Yield spreads on 3-month funds



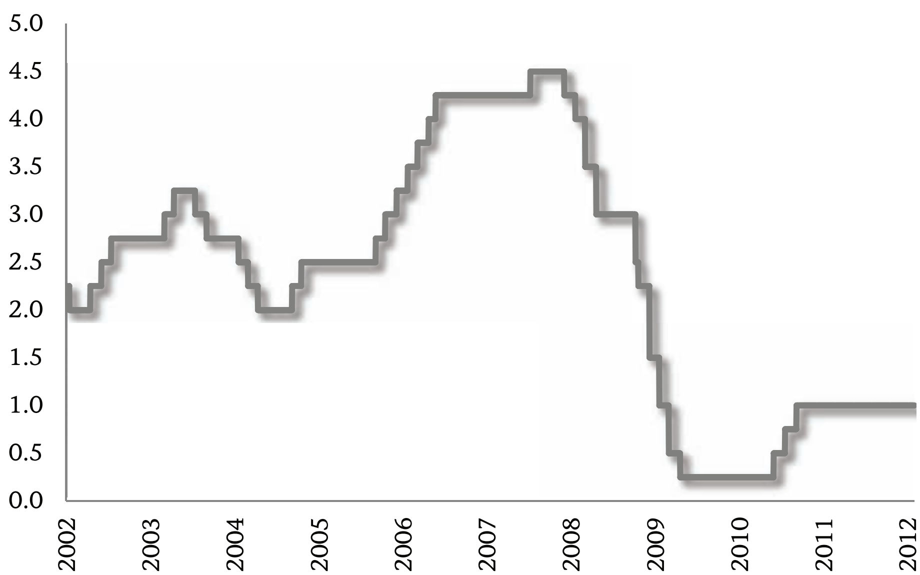
Source: Bloomberg, US Federal Reserve

Interest Rate and Foreign Exchange Outlook

Cooling long-term inflation expectations, unusually high uncertainty, and stalling economic conditions in 2011 gave the Bank of Canada pause in its plans to raise interest rates. No substantial rate hikes are expected in the next year.

The US Federal Reserve's commitment to maintain an exceptionally low Federal Funds Rate at least through late 2014 has also led to delays in expected Canadian interest rate increases. It is anticipated that the Bank of Canada will begin to gradually raise rates to a more neutral level in the medium term. The USD/CAD exchange rate is expected to remain around parity over the short term.

Figure 6 Bank of Canada Target for the Overnight Rate



Source: Bank of Canada

Financial and Commodity Market Assumptions

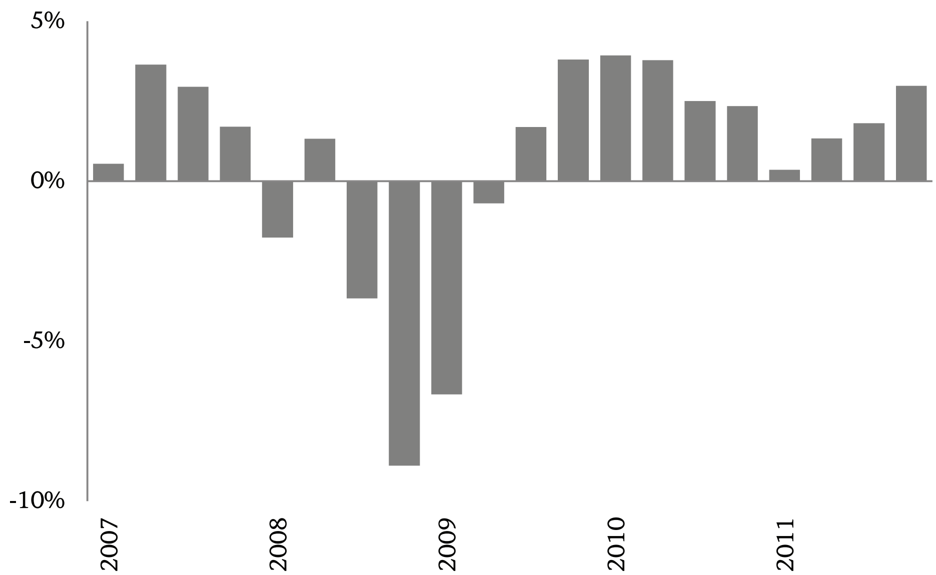
	2011	2012	2013
USD/CAD exchange rate	1.011a	0.987	1.010
Natural Gas (USD/mmBTU, Henry Hub)	4.00a	3.10	3.80
Crude Oil (USD/bbl, WTI)	95a	100	98
Canadian Prime Lending Rate (%)	3.0a	3.6	4.0
5-Year Conventional Mortgage (%)	5.4a	5.2	5.5

a~actual

US Economy

The outlook for Nova Scotia's most important international trading partner continues to improve.

Figure 7 US Economic Growth
Real GDP, quarterly at annualized rates, $2005 chained

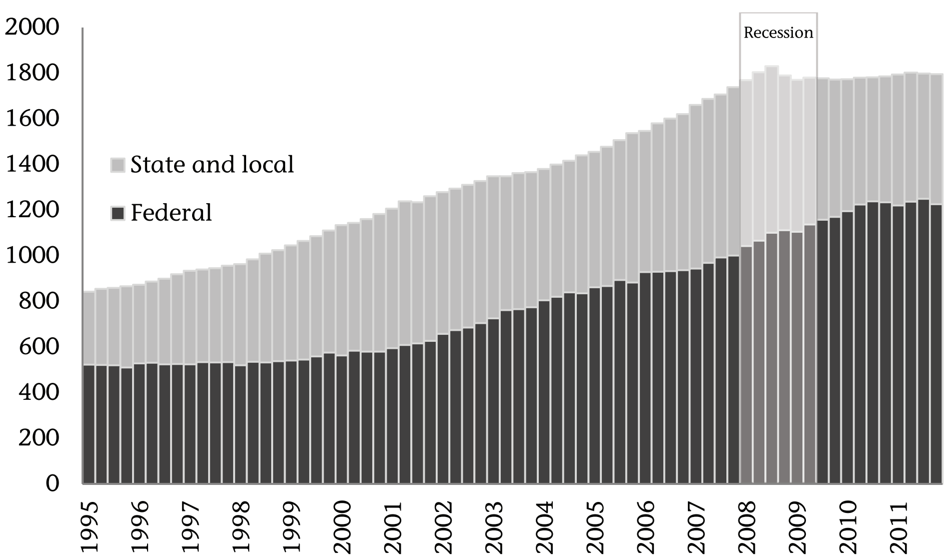


Source: US Bureau of Economic Analysis

Uncertainty in the US eased through 2011. The latest US GDP estimates point to a continued slow private-sector recovery, balanced by a gentle fiscal drag as governments gradually withdraw stimulus.

The US outlook appears slightly brighter than Canada's, but is still subdued. The latest private-sector consensus (as of January 31, 2012) for US Real GDP growth is 2.2 per cent in 2012 and 2.5 per cent in 2013. Uncertainty in Europe continues to obscure the US outlook through loss of consumer and business confidence, increased financial regulations, or larger-than-expected fiscal consolidation.

Figure 8 US Government Spending
$billions current

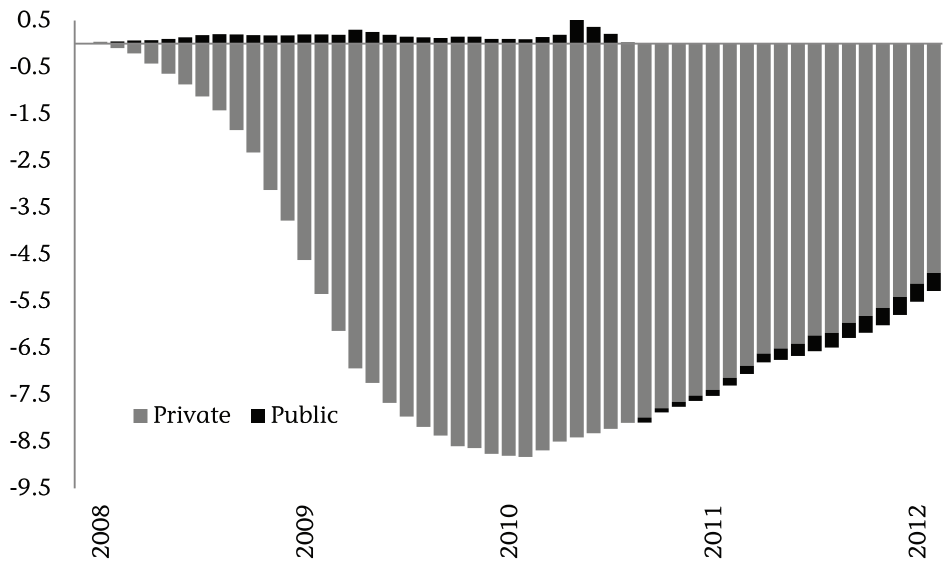


Source: US Bureau of Economic Analysis

The US government made available unprecedented amounts of fiscal stimulus, supporting growth through the recession. Gradually and cautiously, stimulus is being withdrawn. This will weigh on domestic growth.

The US Federal Reserve has noted ongoing improvement in economic conditions in the US in recent months. Most regions reported more improvements.

Figure 9 US Non-farm Payroll Employment
Cumulative employment change since December 2007, millions

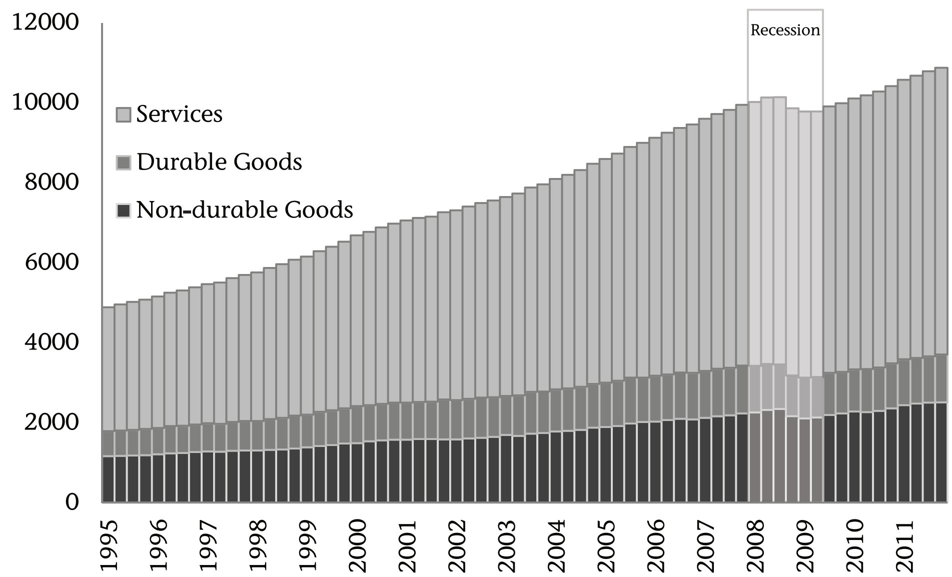


Source: US Bureau of Labor Statistics

US employment growth has continued for 17 consecutive months. Just over 40 per cent of jobs lost in the recession have been recovered. However, at an average pace of 165,000 jobs created per month, it could take another 30 months for the US to return to its pre-recession employment peak (January 2008).

Recent employment growth has helped support personal income and consumer spending growth in the US. Stronger US consumer demand should also support growth for their trading partners and affiliates in Canada and Nova Scotia.

Figure 10 US Personal Consumption Spending
$billions current

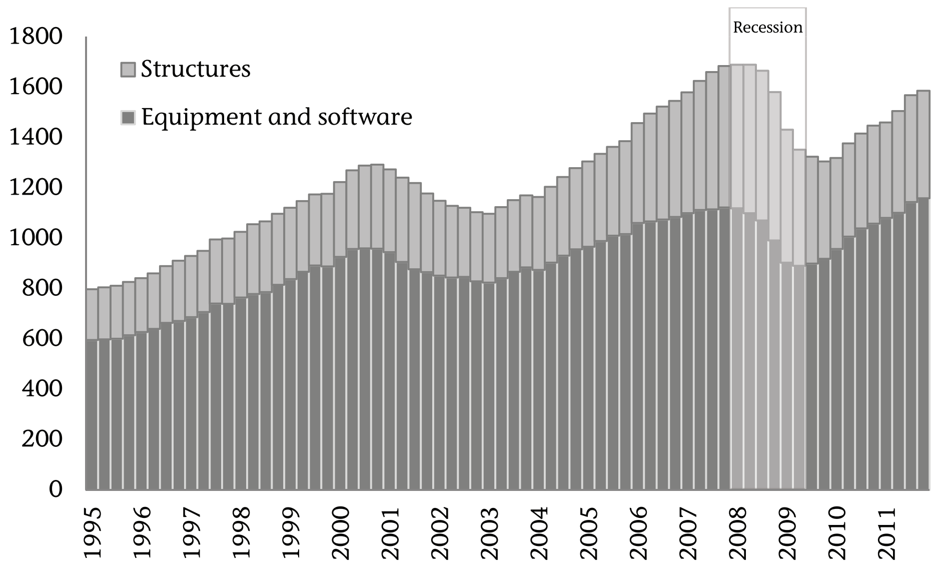


Source: US Bureau of Economic Analysis

An important step in the transition from government-supported to private-sector–led recovery is improvement in US productivity. Improving productivity requires a restoration of household and business balance sheets as well as a pickup in investment.

Investment is key to short-term growth prospects, generating economic growth and raising living standards for US consumers. Owing to especially favourable conditions for investments, including historically low borrowing rates, low currency, and generous government incentives, there has been a pickup in investment in the US, particularly for capital machinery and equipment.

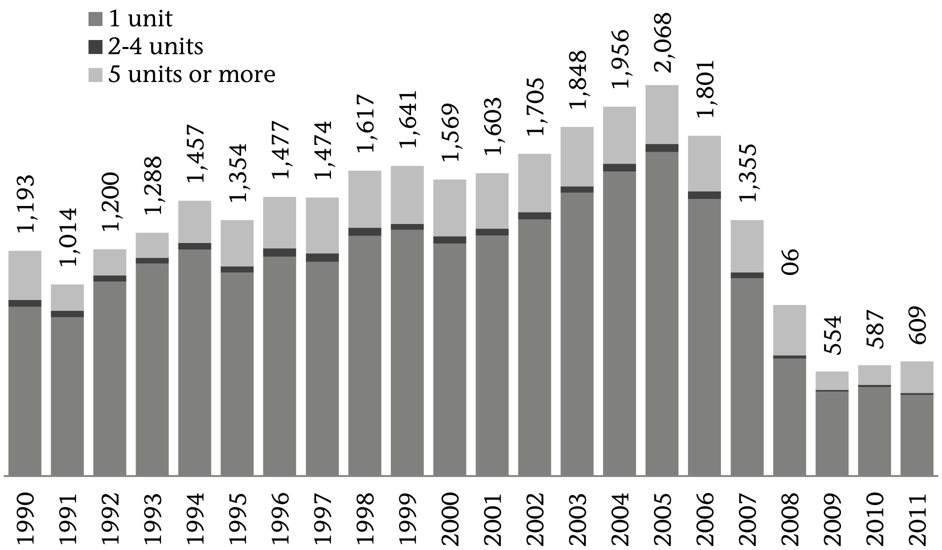
Figure 11 US Non-Residential Investment
$billions current



Source: US Bureau of Economic Analysis

Investment in residential construction remains at historically low levels, however, and could remain depressed as long as unsold inventory and negative equity weigh on the re-sale market. Although activity in this sector remains soft, there are some signs of improvement locally, particularly in the multiples segment. Even minor improvements in this sector from its current levels could support increased demand, particularly for hard-hit forest and building materials industries.

Figure 12 US Housing Starts
units, 000s



Source: US Census Bureau

The latest projections for US GDP growth assume that modest improvement in economic conditions will continue, with US GDP advancing by 2.2 per cent in 2012 and by 2.5 per cent in 2013.

US Economic Assumptions

	2011	2012	2013
Real GDP, $2005 (% change)	1.7a	2.2	2.5
Private Sector—High		*2.7*	*3.2*
Private Sector—Low		*1.8*	*1.9*

NOVA SCOTIA

Canadian Economic Review and Outlook

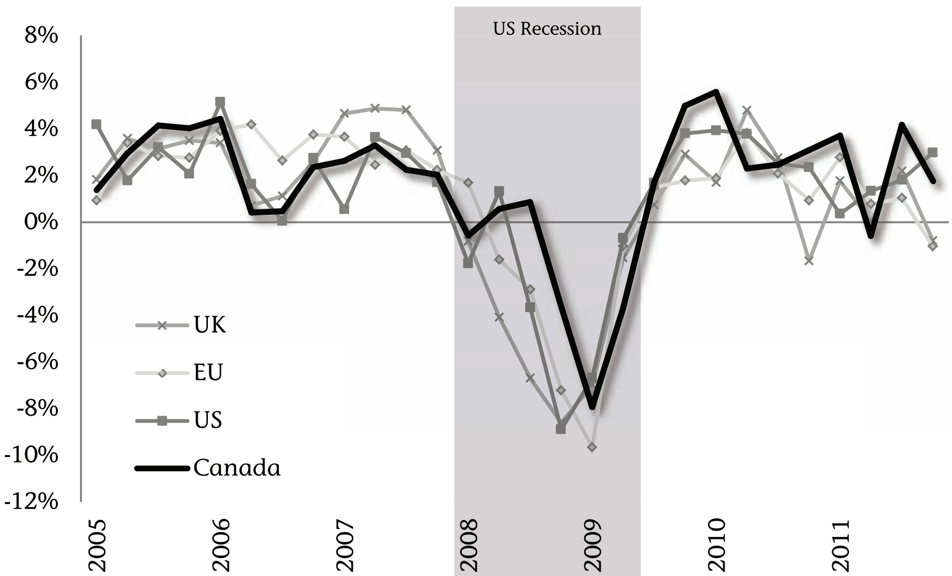
How Canada's Economy Influences the Nova Scotia Economy

The rest of Canada is just as important a trading partner for Nova Scotia as the United States. 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?

Canada posted a strong recovery from the recession of 2009, growing real GDP by 3.2 per cent in 2010. Real GDP in 2011 grew at a slower pace of 2.5 per cent. Most of the growth last year occurred in the third quarter with an annualized growth of 4.2 per cent, well above the slight decline of 0.6 per cent in the second quarter and the 3.7 per cent annualized rate for the first quarter. The Canadian economy ended the year at a slower pace, with an annualized rate of 1.8 per cent for the fourth quarter. By comparison, the US finished 2011 on a stronger note than Canada, with an annualized real GDP growth of 3.0 per cent.

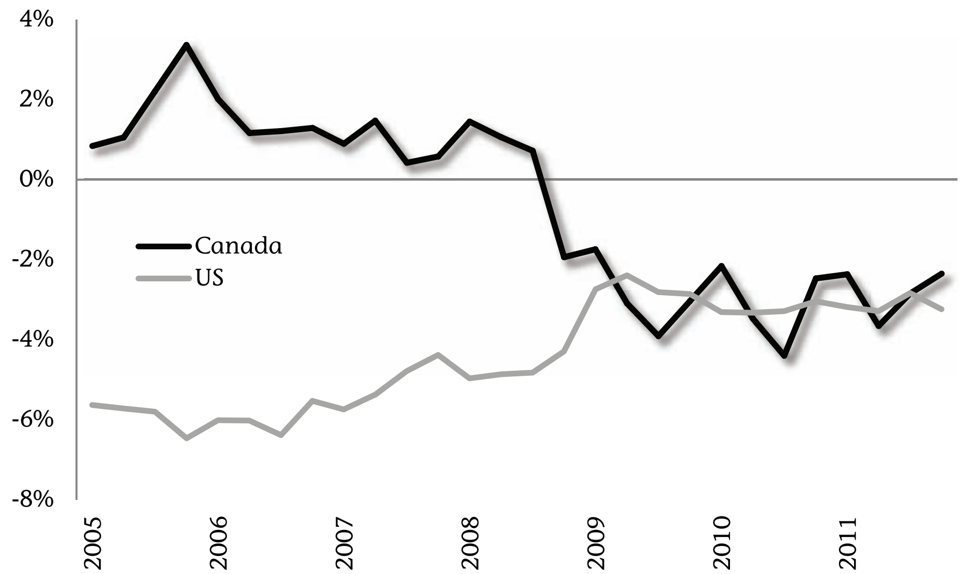
Figure 13 GDP growth
Seasonally adjusted annual rates



Source: Eurostat, UK Office of National Statistics, US Bureau of Economic Analysis, Statistics Canada CANSIM table 380-0002

Canada and the United Sates have both experienced halting recoveries since the recession, failing to generate sustained growth. Neither country has achieved significant economic momentum, as the US housing market credit crisis turned into a European sovereign debt crisis. Recovery in the European Union and the United Kingdom still remains weighed down by sovereign debt uncertainties as well as a more severe fiscal drag.

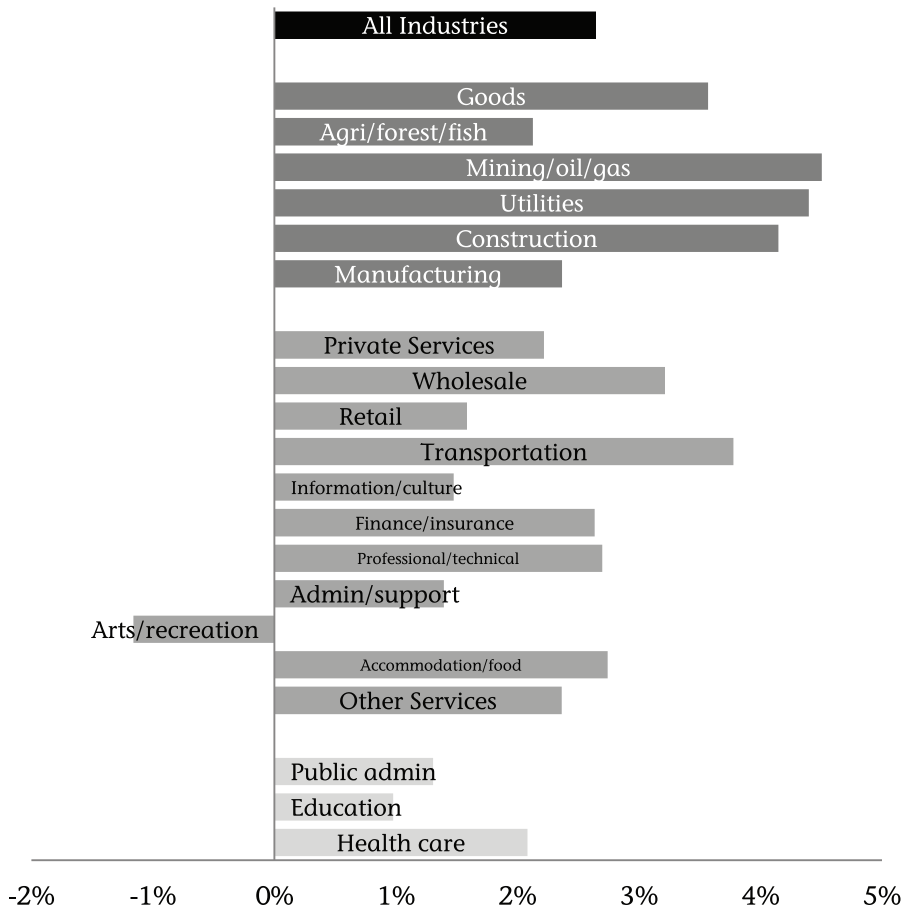
Figure 14 Current Account Balances
Share of GDP, seasonally adjusted annual rates



Source: US Bureau of Economic Analysis, Statistics Canada CANSIM table 380-0002, 376-0005

After two years of positive growth since the 2009 recession, 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 around the same levels as were observed during the recession. This has reversed eight years of current account surpluses.

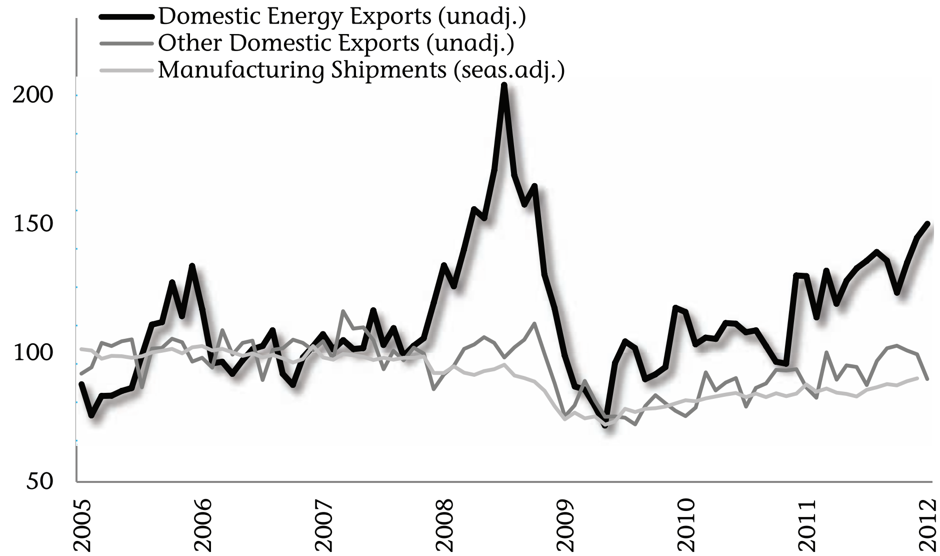
Figure 15 Canada GDP growth by industry: 2011
$2002 chained



Source: US Bureau of Economic Analysis, Statistics Canada CANSIM table 380-0002, 376-0005

Canada's growth in 2011 was spread across a number of sectors with mining/oil/gas, utilities, and construction leading the national average. Manufacturing and agriculture/forestry/fishing lagged behind the other goods-producing sectors in 2011. Retail, information/culture, and administrative/support services lagged behind private-sector service industries. Only arts/entertainment/recreation industries shrank in 2011.

Figure 16 Canada's Manufacturing and Exports
Index 2005=100

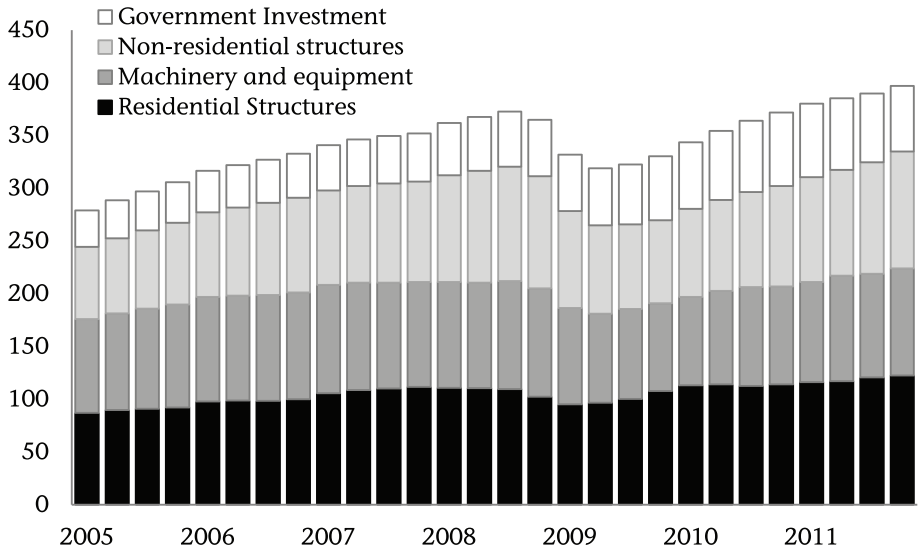


Source: Statistics Canada CANSIM table 377-0008, 228-0034

Despite positive growth in all major sectors except one, Canada's manufacturing and domestic exports still remain below levels observed in the pre-recession period, except for energy products.

Canada's domestic economic performance has been more robust. Final domestic demand in current dollars grew 5.1 per cent in 2011, after increasing 5.8 per cent in 2010.

Figure 17 Canada's Construction Investments
$billions current, seasonally adjusted annual rates



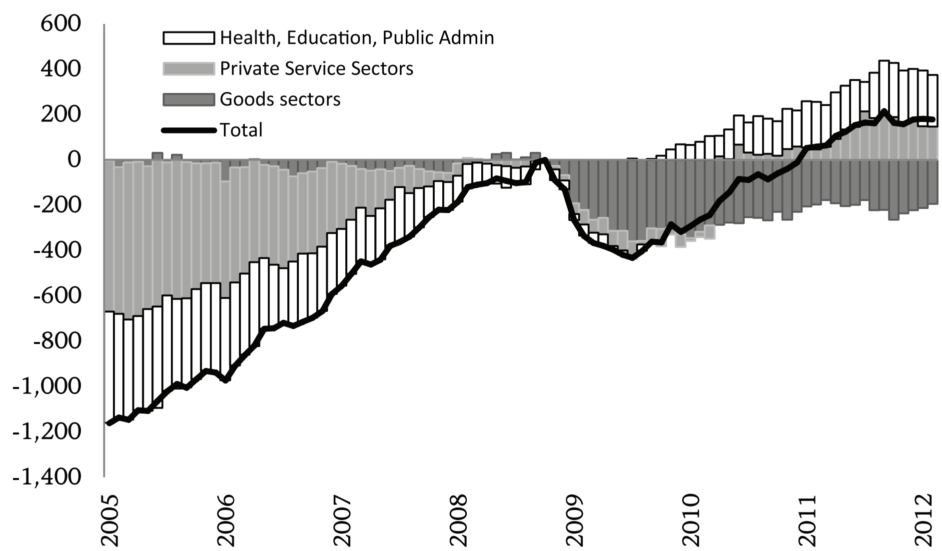
Source: Statistics Canada CANSIM table 380-0010, 380-0011

The key driver of domestic demand has been business investments in plant and equipment. Business investments in non-residential structures (current dollars) were up by 17.3 per cent in 2011, following a 6.1 per cent increase in 2010. Purchases of machinery and equipment increased by 9.8 per cent in 2011. Residential investment slowed down in 2011, with a growth of 5.1 per cent in current dollars compared to 13.5 per cent in 2010.

Consumer spending is the largest portion of domestic demand, but also the most stable (even more stable than personal income). In current dollars Canada's consumer spending rose 4.3 per cent in 2011, a slower pace from 2010 which had a 4.7 per cent increase. This slower pace reflects less spending on durables and semi-durables.

Canadian governments are all winding down stimulus spending and many are undertaking restraint to return to balance. This helps explain slowing domestic demand in Canada during 2011. Government spending dropped to 4.2 per cent in current dollars in 2011, down from 4.7 per cent growth rate in 2010. Capital investments declined 0.3 per cent in 2011, following an increase of 17.8 per cent from stimulus projects in 2010.

Figure 18 Employment in Canada
Difference from pre-recession peak (Oct '08), 000s, seasonally adjusted

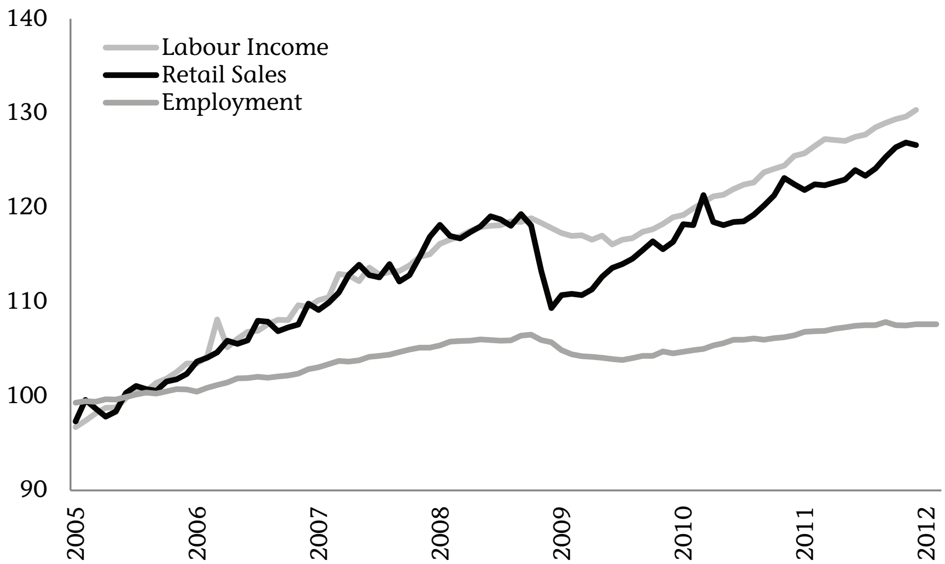


Source: Statistics Canada CANSIM table 282-0008

Despite a moderate recovery in 2011, the Canadian economy still generated positive impacts on employment, income, and retail spending. Employment grew by 1.6 per cent in 2011, following a 1.4 per cent increase in 2010. Employment recovered to pre-recession levels by the beginning of 2011, but in recent months the results have been volatile. An increase in one month has been followed by a decrease in the next month, or vice versa.

Labour income increased at a faster pace in 2011, with a growth rate of 4.7 per cent in nominal dollars compared to a growth rate of 4.3 per cent in 2010. While corporate profits grew at a strong rate of 15.0 per cent in nominal dollars for 2011, it is slower than the growth rate of 21.2 per cent in 2010. Labour income and retail spending grew beyond pre-recession levels in early- to mid-2010.

Figure 19 Canada's Income and Spending
Index, 2005=100, seasonally adjusted

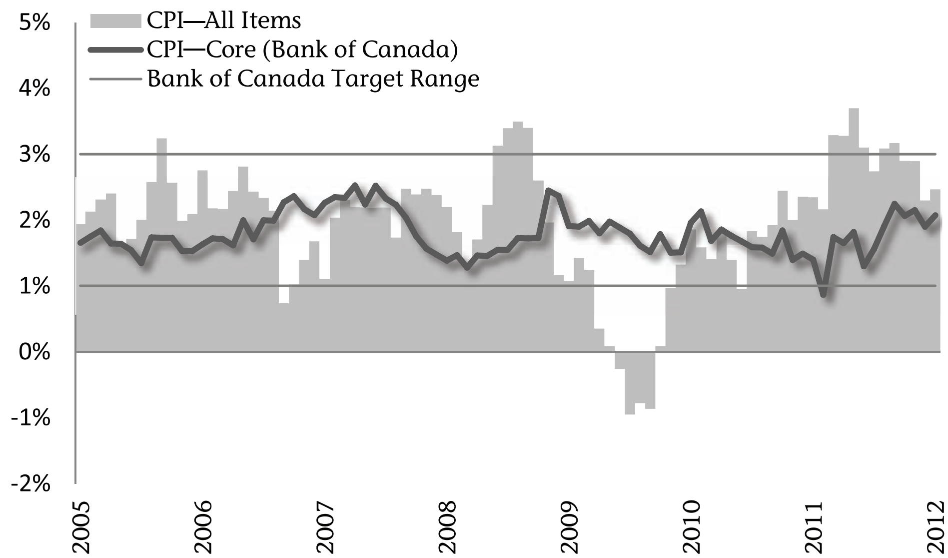


Source: Statistics Canada CANSIM table 080-0020, 282-0087, 382-0006

Canada's external trade generates income for domestic producers and provides a varied and competitively priced range of consumer goods and business inputs. Canada experienced both export and import growth in 2011. Exports were up 11.8 per cent in current dollars, following a gain of 8.8 per cent in 2010. Most of this growth came from industrial goods and materials, energy products, and machinery and equipment. Imports in current dollars were up 9.4 per cent in 2011, after increasing 9.3 per cent in 2010. Most of this import growth was related to increased purchases of machinery and equipment by businesses.

To date, Canada's consumer price inflation grew at a quicker pace than in 2010, reflecting the transitory effects of higher global energy prices. Core inflation still remains in the target range.

Figure 20 Consumer Price Inflation in Canada
Growth in last 12 months, unadjusted

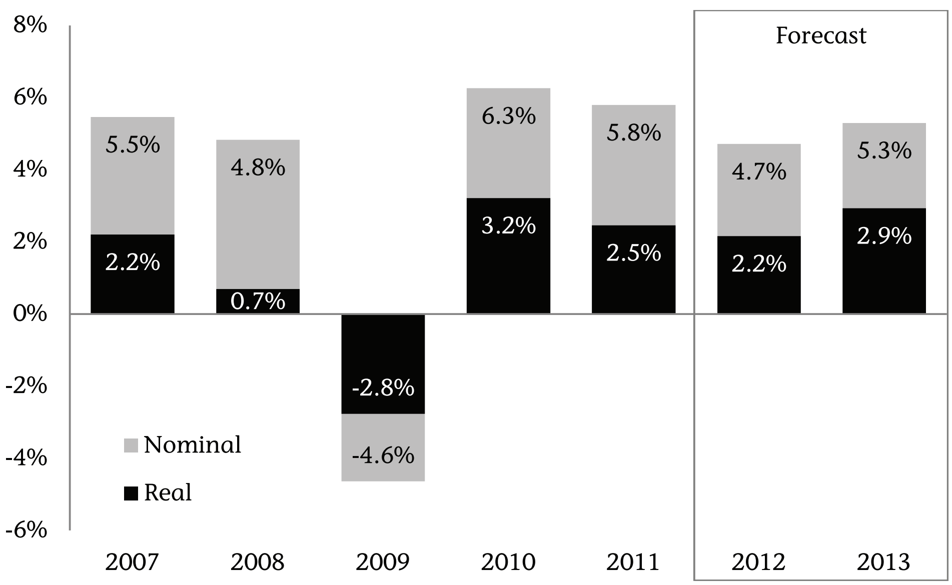


Source: Statistics Canada CANSIM table 326-0020

What is the Outlook for the Canadian Economy?

The 2012–2013 budget assumption is that Canada will continue to recover from the recession, but at a more moderate pace than previously anticipated.

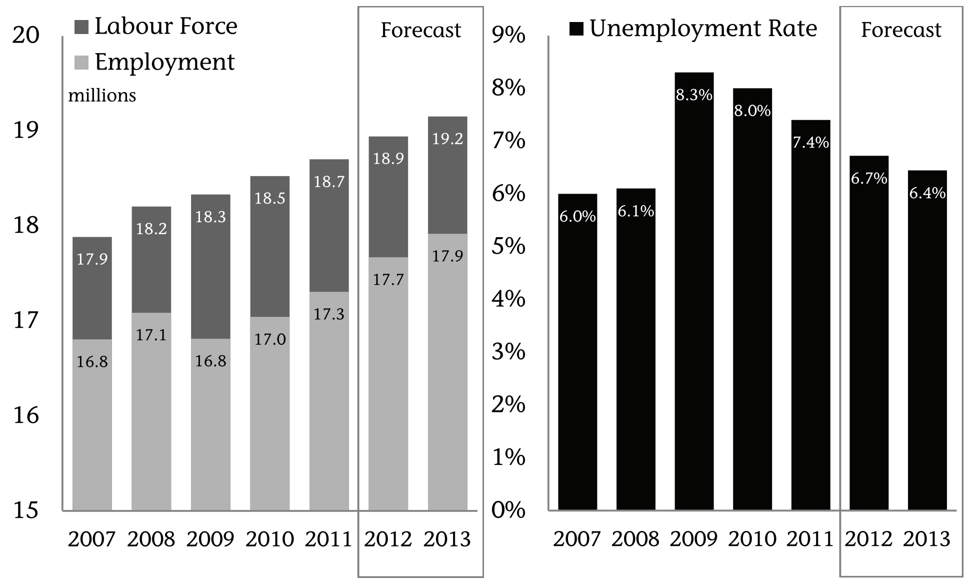
Figure 21 Canada's Economic Outlook
GDP annual growth



Source: Statistics Canada CANSIM table 380-0008, NS Department of Finance

Real GDP is expected to rise by 2.2 per cent in 2012 and by 2.9 per cent in 2013. Nominal GDP growth of 4.7 per cent is forecast for this year, followed by 5.3 per cent.

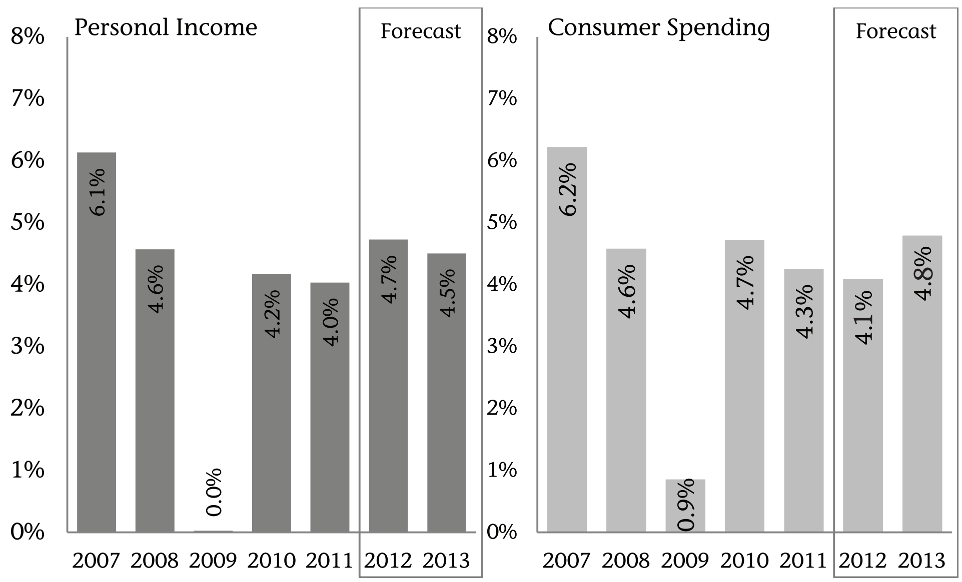
Figures 22 & 23 Canada's Labour Market Outlook
Annual averages



Source: Statistics Canada CANSIM table 282-0002, NS Department of Finance

Canada's employment recovery is expected to continue, fostering better domestic spending as households gain more confidence. In 2012 and 2013, employment is expected to grow 2.1 per cent and 1.4 per cent respectively, adding over 600,000 jobs. In combination with labour force growth, Canada's unemployment rate is expected to fall to 6.7 per cent in 2012 and 6.4 per cent in 2013.

Figures 24 & 25 Canada's Income and Consumption Outlook
Annual growth, nominal

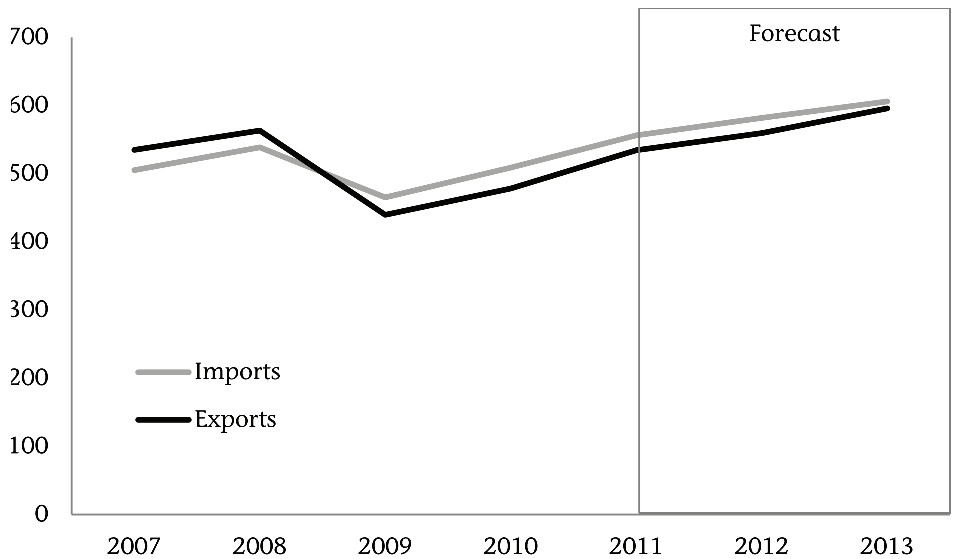


Source: Statistics Canada CANSIM table 282-0002, NS Department of Finance

With employment returning to its pre-recession trends and unemployment rates steadily declining, Canada's income and consumption are expected to return to long-run trends as well.

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 take action to balance budgets, growth in government programs and capital spending will be considerably slower than previous trends.

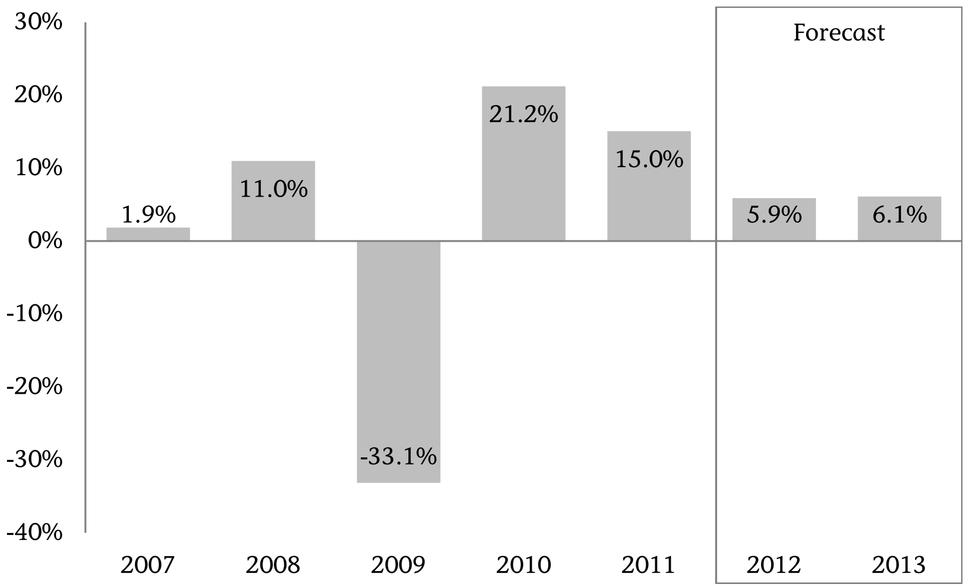
Figure 26 Canada's Trade Outlook
$billions, nominal



Source: Statistics Canada CANSIM table 380-0002, NS Department of Finance

In the trade sector, Canada's commodities are expected to enjoy continued strong demand as the global economy recovers. Although Canada's exporters appear to be learning to live with the dollar near par with the US currency, 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 near term (for the first time in many years). However, the importing of more machinery and equipment should support long-term economic growth through productivity gains.

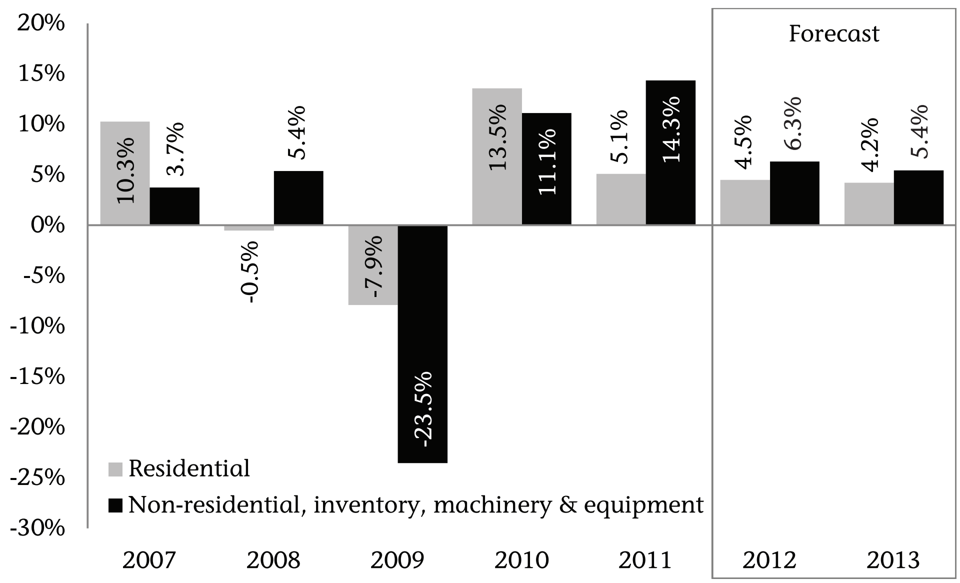
Figure 27 Canada's Corporate Profit Outlook
Annual Growth



Source: Statistics Canada CANSIM table 380-0001, NS Department of Finance

With exports recovering, Canadian businesses have started to return to healthy profitability. The 2012–2013 budget forecast calls for a 5.9 per cent increase in 2012, followed by another gain of 6.1 per cent in 2013. The 33.1 per cent drop in 2009 will not be fully offset until 2013, when the level will reach the peak observed in 2008.

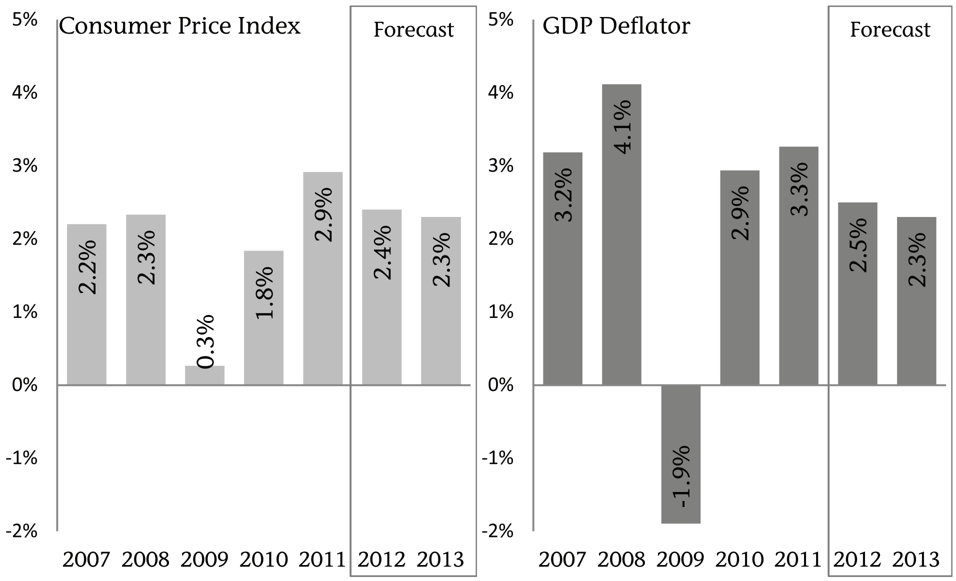
Figure 28 Canada's Investment Outlook
Annual Growth, nominal



Source: Statistics Canada CANSIM table 380-0001, NS Department of Finance

With Canada's corporate profits still on the rebound, business investment levels are also expected to post modest growth in 2012 and 2013. After two years of growth, investments in residential housing are expected to post moderate gains as well.

Figures 29 & 30 Canada's Inflation Outlook
Annual Growth



Source: Statistics Canada CANSIM table 326-0021, 380-0056, NS Department of Finance

Rising commodity demand is expected to overwhelm the effects of a higher currency price. Prices are anticipated to rise but at a slower pace than 2011. Canada's Consumer Price Index (CPI) posted a 2.9 per cent increase in 2011. The forecast has the CPI rising by 2.4 per cent in 2012 and by 2.3 per cent in 2013. For 2012 the GDP deflator is anticipated to grow by 2.5 per cent in 2012 and 2.3 per cent in 2013.

NOVA SCOTIA

Private-Sector Consensus

Canada's Real GDP (% growth)

	2011	2012	2013
High		2.5	2.9
Average	**2.5a**	**2.0**	**2.4**
Low		1.7	2.0

The Department of Finance outlook for the Canadian economy is slightly above the average for 2012 and, for 2013, at the high end of the range of the private-sector forecasts as of January 31, 2012.

Canada's Economic Outlook

	2011	2012	2013
Real GDP, 2002$ (% change)	2.5a	2.2	2.9
Nominal Gross Domestic Product (% change)	5.8a	4.7	5.3
Employment (% change)	1.6a	2.1	1.4
Unemployment rate (%)	7.4	6.7	6.4
Personal income (% change)	4.0a	4.7	4.5
Consumer Price Index (% change)	2.9a	2.4	2.3
Retail Sales (% change)	3.6a	4.5	5.1
Corporate profits before taxes	15.0a	5.9	6.1
Exports of goods and services	11.8a	6.0	6.4

a ~ actual

Nova Scotia's Economic Review and Outlook

How did Nova Scotia's Economy Perform Last Year?

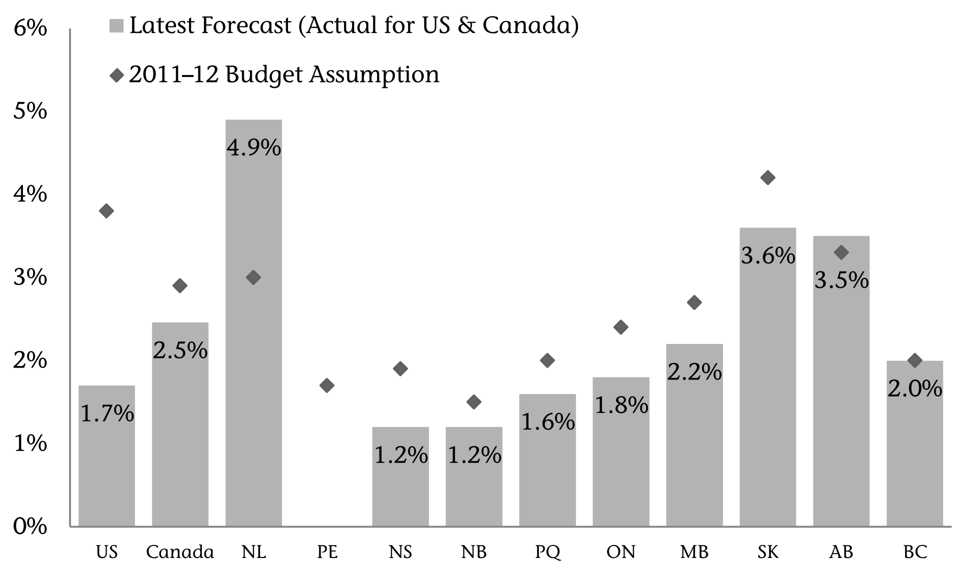
Nova Scotia's economy continued to show mixed signals as global conditions recovered slowly. While some indicators have been surprisingly robust, others have fallen short of expectations. On balance, Nova Scotia has not escaped the widespread economic drag caused by European uncertainties, Middle East political uprisings, slower US recovery, and natural disasters in Asia.

Nova Scotia came through much of the global recession without substantial changes to its major employers. This stability did not last into 2011, when the province witnessed both challenges and opportunities for major employers. Nova Scotia's paper mills came under threat in 2011, with the NewPage Port Hawkesbury mill under prolonged shutdown in the search for a new buyer. At the same time, Irving Shipbuilding Incorporated's Halifax Shipyard was selected to build the Federal government's combat vessel work package.

The Department of Finance is now expecting that Nova Scotia's economy expanded by 1.2 per cent in 2011. This is 0.7 percentage points lower than real GDP was previously anticipated to grow at the time of the 2011–2012 budget. Nominal GDP is now expected to grow by 3.8 per cent in 2011, also 0.7 percentage points lower than the 2011–2012 budget assumption.

Nova Scotia is not alone in reducing its outlook for 2011. Since 2011–2012 Budgets were prepared, almost all provinces have revised their economic forecasts downward for 2011. Similarly, with the release of national GDP growth for last year, US and Canadian budget assumptions about economic growth have now proved to be optimistic. Only Alberta and Newfoundland and Labrador have increased their outlook for real GDP since their 2011–2012 budgets.

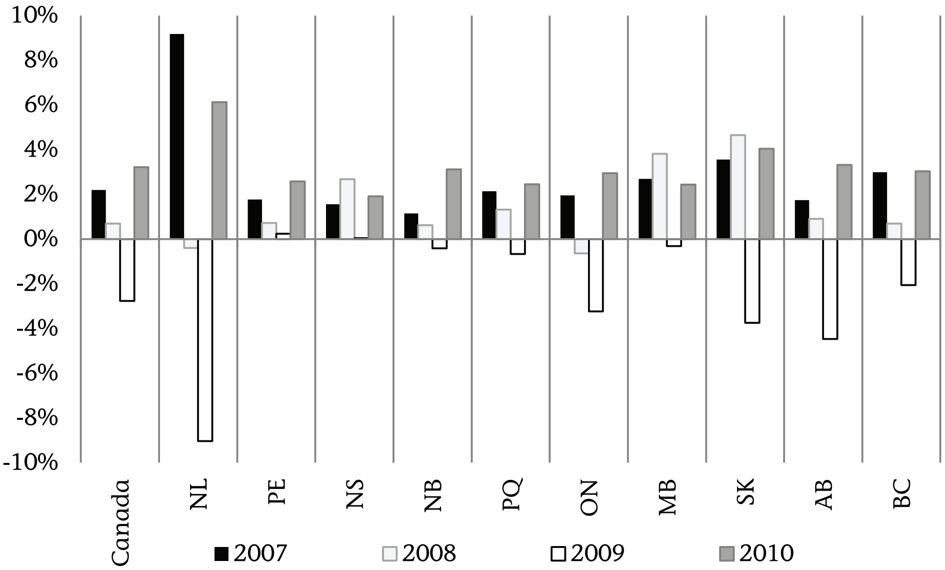
Figure 31 Economic Forecast Revisions
Real GDP growth for 2011



Source: Statistics Canada CANSIM table 380-0002, US Bureau of Economic Analysis, 2011-12 Budget documents, quarterly fiscal updates, 2012-13 Budget documents

In November 2011, Statistics Canada released its first estimate of the 2010 Provincial Economic Accounts. Nova Scotia's real GDP grew by 1.9 per cent in 2010, consistent with its long-run average and with the 2010–2011 budget assumption. Nova Scotia's economic expansion lagged behind other provinces in 2010, but this follows after the province outperformed national economic growth during recession years, 2008 and 2009.

Figure 32 GDP growth
Annual rates $2002 chained



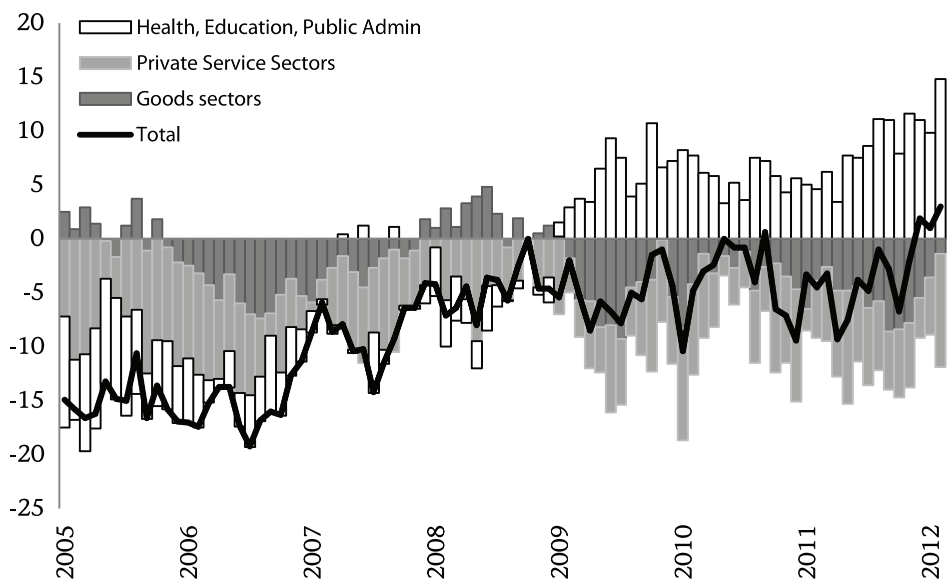
Source: Statistics Canada CANSIM table 380-0002, 384-0002

At the same time as it released the 2010 results, Statistics Canada also increased its GDP estimates for 2008 (rising from 1.3 per cent to 2.7 per cent) and 2009 (rising from -0.1 per cent to +0.04 per cent). The faster growth reported in these historical revisions moderates the pace of growth anticipated for 2011.

Monthly indicators of economic activity in Nova Scotia have been ambiguous. Business sector indicators like construction, manufacturing shipments, and exports have been positive, while household indicators like prices, employment, and retail sales have shown considerable volatility.

In labour markets, Nova Scotia's economy started 2011 on the same up-and-down pattern of seasonally adjusted employment that began in the middle of 2010. Towards the end of the year, Nova Scotia's employment recovery gained more traction, with several months of job gains.

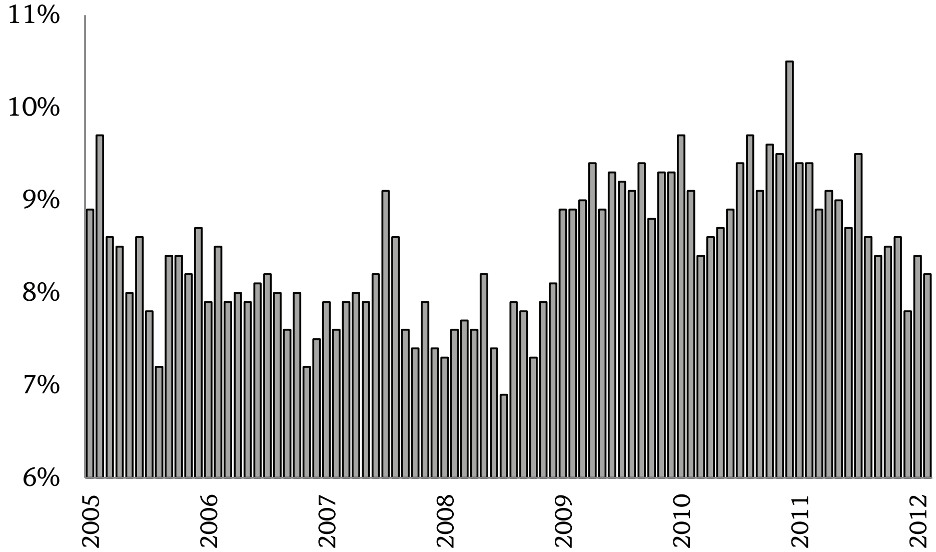
Figure 33 Employment in Nova Scotia
Difference from prerecession peak (Oct '08), 000s, seasonally adjusted



Source: Statistics Canada CANSIM table 282-0087

On average, Nova Scotia's employment increased by 300 jobs compared with 2010, with 1,600 full-time job gains more than replacing 1,300 part-time job losses. By the end of 2011, employment had surpassed its pre-recession peak.

Figure 34 Unemployment Rates in Nova Scotia
Seasonally adjusted

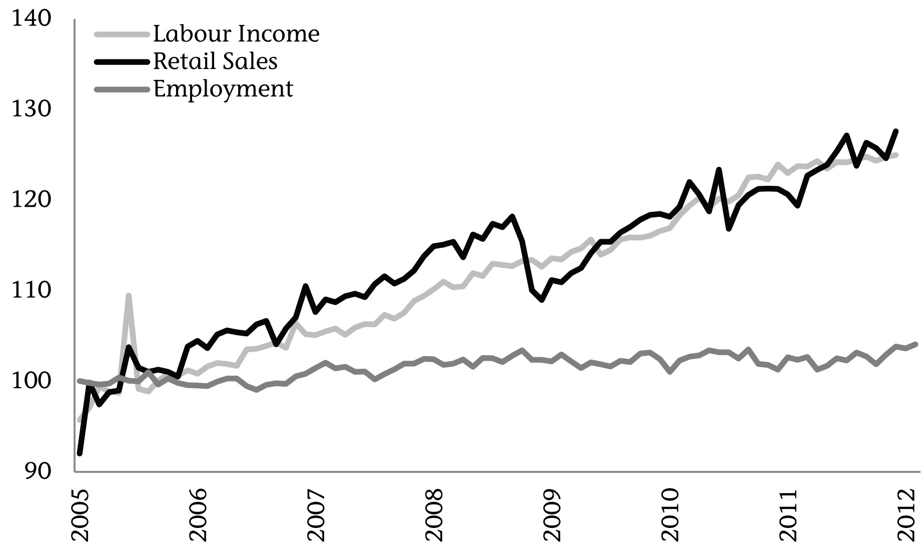


Source: Statistics Canada CANSIM table 282-0087

Despite volatility in employment, Nova Scotia's unemployment rate has followed a downward trend through 2011. After ending 2010 with an unemployment rate of 10.5 per cent, the province's unemployment rate fell steadily during 2011, reaching 8.2 per cent by February 2012. Throughout 2011, the provincial unemployment rate averaged 8.8 per cent. With a decline of 2,200 in the average size of the labour force in 2011, the participation rate eased from its recent highs to 63.7 per cent. This is more consistent with pre-recession participation rates observed in 2007 and 2008.

NOVA SCOTIA

Figure 35 Nova Scotia's Income and Spending
Index, 2005=100, seasonally adjusted

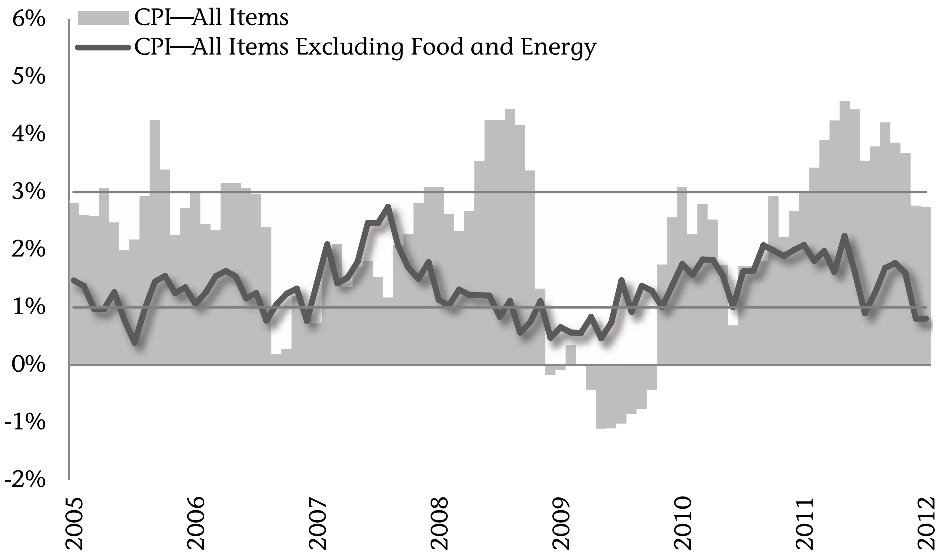


Source: Statistics Canada CANSIM table 080-0020, 282-0087, 382-0006

Nova Scotia's labour income grew by 3.0 per cent in 2011. This is short of the 2011–2012 budget assumption, but still stronger than the stable employment results might suggest. Labour income and retail sales have followed similar broad trends for the past few years, but retail sales have been more volatile than labour income.

Retail sales may have been affected by significant oil price volatility, as well as by the slow recovery of automotive supplies after the tsunami in Japan and floods in Thailand.

Figure 36 Consumer Price Inflation in Nova Scotia
Growth in last 12 months, unadjusted

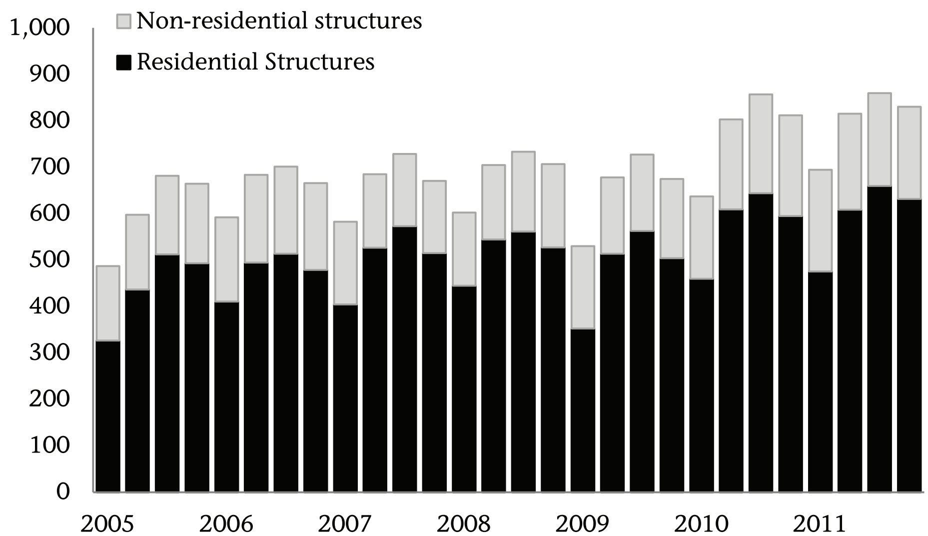


Source: Statistics Canada CANSIM table 326-0020

Like employment and retail sales, Nova Scotia's consumer prices have fluctuated widely on a monthly basis. Throughout much of 2011, Nova Scotia's consumer price inflation was higher than the national average, as oil and food prices have a disproportionate impact on the Atlantic region. Nova Scotia's Consumer Price Index grew by 3.8 per cent in 2011, higher than the national pace of 2.9 per cent. After excluding food and energy price growth, Nova Scotia's remaining inflation was 1.6 per cent, the same as the national pace.

Although Nova Scotian households have experienced volatile prices, consumption, and employment, the business sector has shown steadier progress through 2011.

Figure 37 Nova Scotia's Construction Investments
$millions current

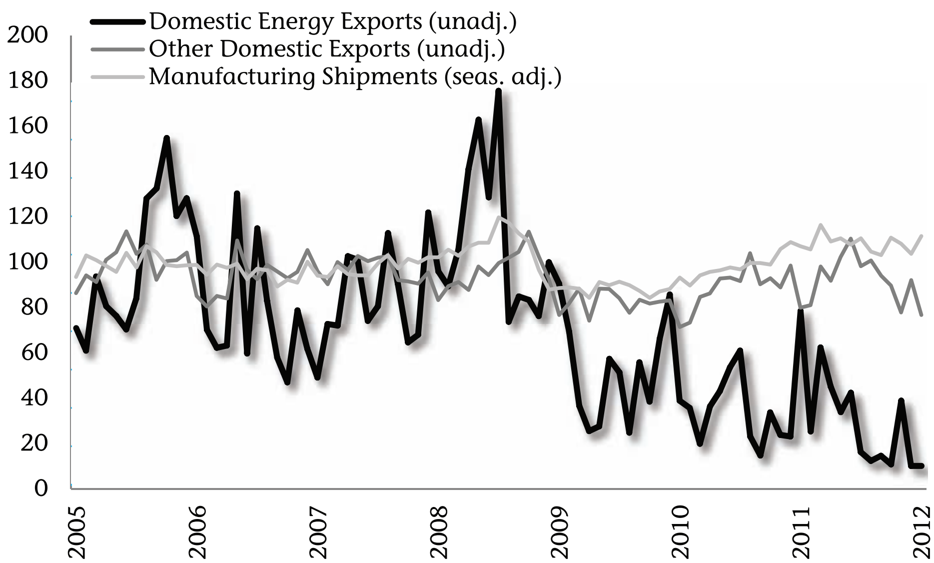


Source: Statistics Canada CANSIM table 026-0013, 026-0016

The 2011–2012 budget had anticipated that Nova Scotia's construction sector would slow after its very strong gains in 2010. Instead, the construction sector continued to perform well in 2011. Both residential and non-residential construction in 2011 maintained the high levels of activity observed in 2010. These 2010 and 2011 results were well above historical averages.

Despite setbacks in the province's forest sector, manufacturing shipments continued to grow in 2011, outpacing the slow manufacturing recovery in the rest of Canada. In addition to lower paper shipments, domestic exports have been weighed down by expected declines in natural gas volumes and values.

Figure 38 Nova Scotia's Manufacturing and Exports
Index 2005=100



Source: Statistics Canada CANSIM table 228-0034, 304-0015

NOVA SCOTIA

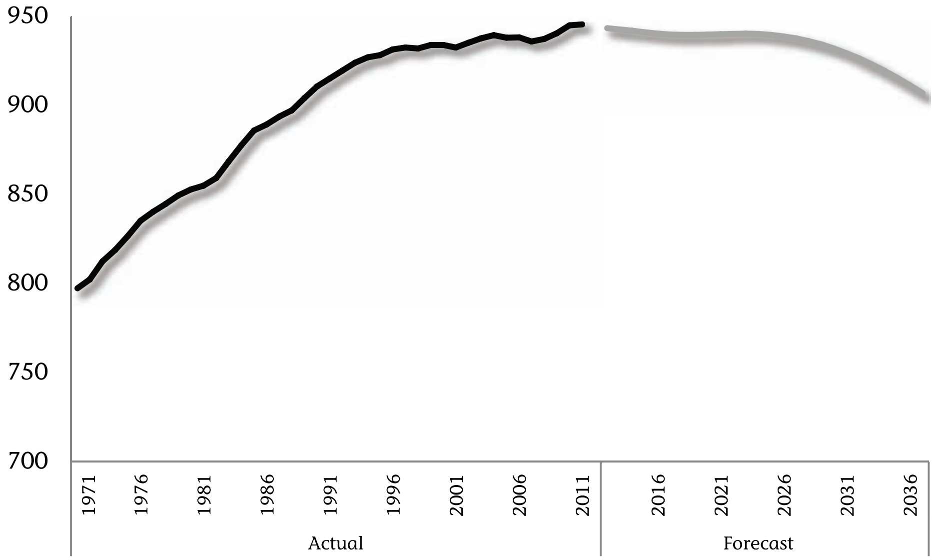
Nova Scotia's Demographic Outlook

The Department of Finance has updated its demographic projections for Nova Scotia. The demographic base case closely resembles that from the previous year, with revised assumptions around migration as well as Canada's 2007–2011 provincial population revisions. These historical revisions account for an increase in provincial population of about 2,300 as of July 1, 2010.

Interprovincial and international movements continue to be a key factor in overall population trends. Interprovincial migration is heavily influenced by the strength of provincial economies both in the West and here in Nova Scotia. International migration, though stable, is subject to provincial and federal programs and policies. For now, the natural rate of population increase (births/deaths) remains positive, but this is likely to change in the longer term.

Over the short term, population is expected to decline slightly. Annual population is projected to increase over the medium term. As the province's population continues to follow its aging trend, the provincial population will begin to decline.

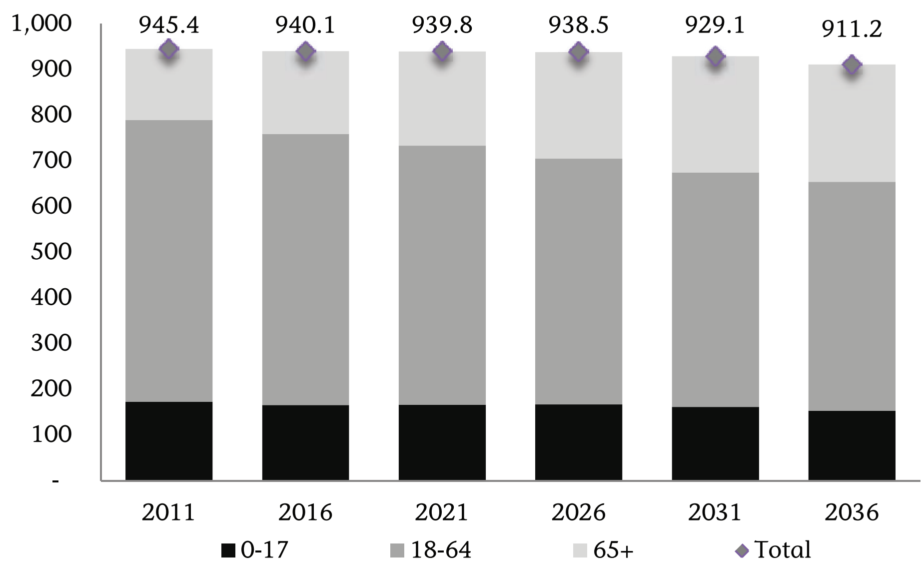
Figure 39 Nova Scotia's Population
All ages, 000s



Source: Statistics Canada CANSIM table 051-0001, NS Department of Finance

Overall population levels are not as important as age composition. Even with adjustments to the overall population forecast, Nova Scotia's aging population trends are consistent with previous assumptions.

Figure 40 Nova Scotia's Population by Age Group
000s



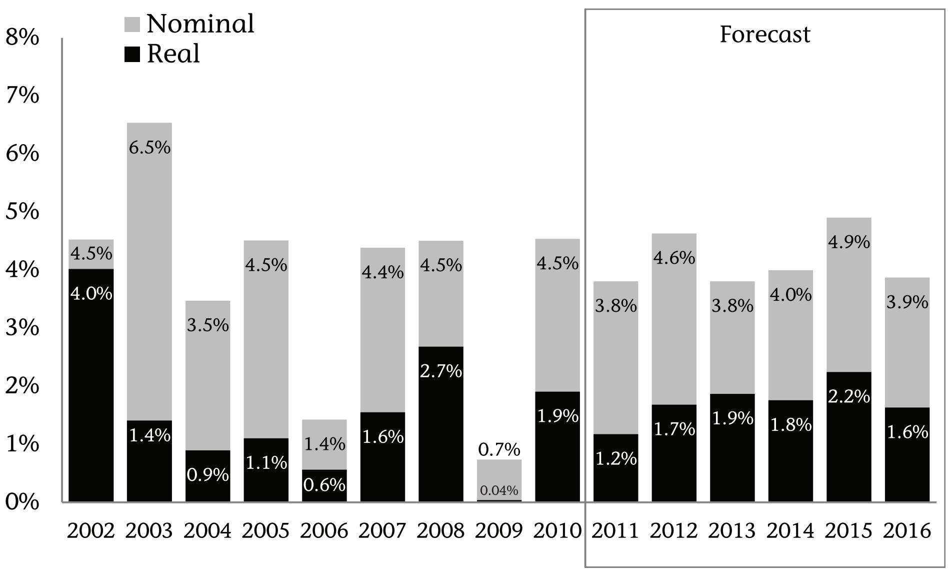
Source: Statistics Canada CANSIM table 051-0001, NS Department of Finance

Nova Scotia's Economic Outlook

After a varied year in 2011, Nova Scotia's economy still faces short-term challenges, but its medium-term prospects are more promising. Over the next two years, the forest sector will complete its adjustment to new competitive realities of the paper industry. At the same time, provincial and federal expenditures will be limited as governments get back to balance. Once these adjustments are completed, the provincial economy can look forward to significant new opportunities in the medium term as work on the combat vessel construction begins to ramp up in the latter part of the decade.

After decelerating in 2011, Nova Scotia's real GDP is expected to recover to 1.7 per cent growth in 2012 and 1.9 per cent in 2013. Nominal GDP is expected to recover to 4.6 per cent growth in 2012, followed by growth of 3.8 per cent in 2013.

Figure 41 Nova Scotia's Economic Outlook
GDP Annual Growth



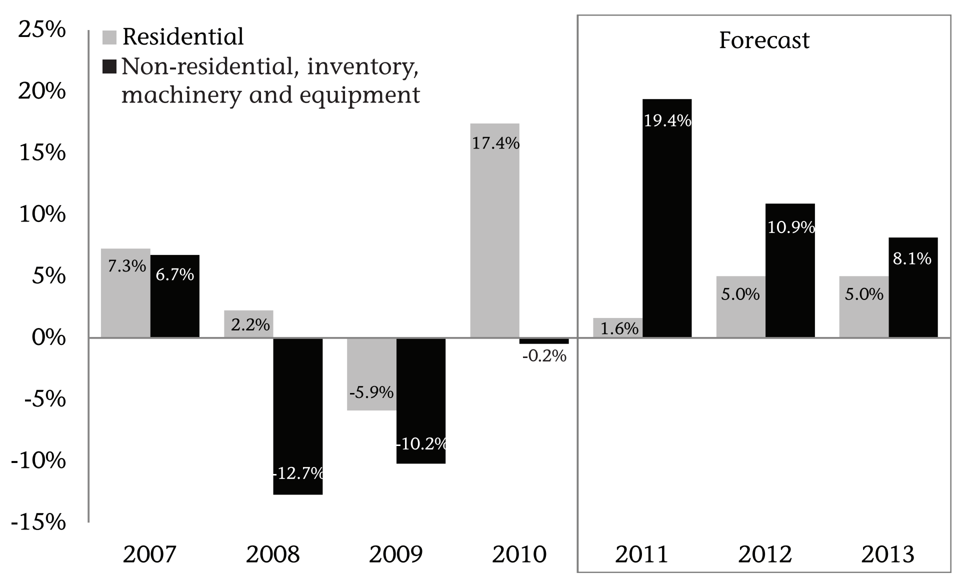
Source: Statistics Canada CANSIM table 384-0002, NS Department of Finance

Nova Scotia's economic growth has historically been sensitive to major capital investment projects. There were few major projects after the completion of the Sable Offshore Energy Project, and real GDP growth remained below 1.6 per cent for five years. Recent energy developments have provided some boost to non-residential investments. Over the medium and longer term, the shipyard offers the prospect of large and sustained investments over many years. However, the biggest proportion of benefits from the combat vessel construction are not expected until the end of the decade.

The province's 2012–2013 economic assumptions only include major capital projects that have reached certain stages of approval. The economic impacts of the shipyard are included in these economic projections, as are any provincial capital spending levels that deviate from historical trends. However, there are a number of major investment projects that have not reached key sanctioning decisions. These include the Maritime Link for Lower Churchill Power, the Donkin coal mine and Shell's offshore exploration plan. Although many of these projects may proceed, the Department of Finance does not incorporate their economic benefits into the forecast until they receive key approvals and their details are well understood. This prudence about major projects means that the long-term fiscal plan has upside risks if these investments materialize. Otherwise, the fiscal plan could be built on uncertain assumptions about major projects.

Figure 42 Nova Scotia's Investment Outlook

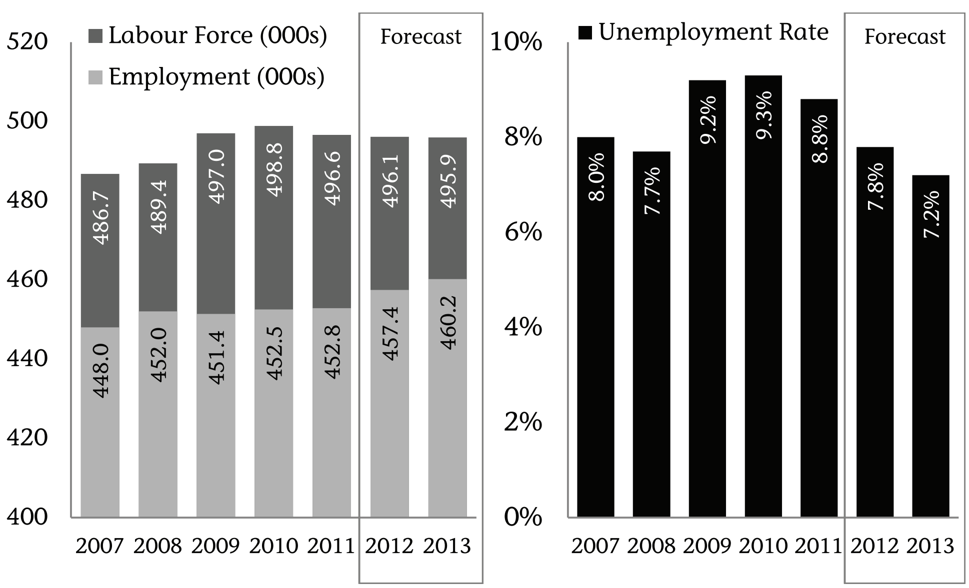
Annual growth, nominal



Source: Statistics Canada CANSIM table 384-0002, NS Department of Finance

Nova Scotia's level of residential housing investments have sustained the levels they reached after strong growth in 2010. There has been considerable residential development around Halifax in both single unit and multi-unit projects. Continuing population growth in Halifax is expected to sustain the pace of residential construction spending. Halifax is a net recipient of both international and intraprovincial migration, keeping housing investments above what aggregate provincial demographics might suggest.

Figures 43 & 44 Nova Scotia's Labour Market Outlook
Annual averages



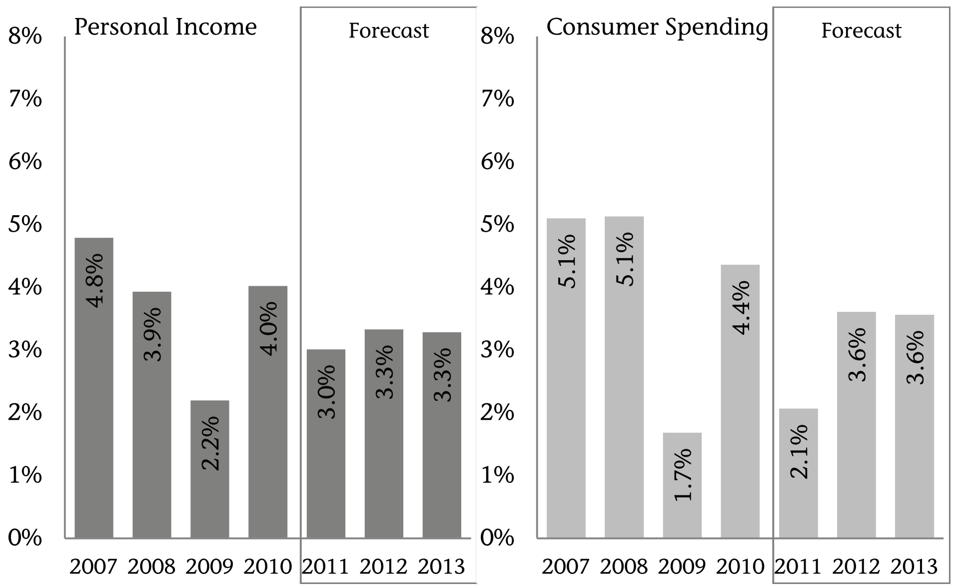
Source: Statistics Canada CANSIM table 282-0002, NS Department of Finance

The 2012–2013 Budget assumes that provincial employment will grow by 4,600 in 2012 and by a further 2,800 in 2013. At the same time, the labour supply is expected to decline slightly (less than 1,000 over 2 years). The net effect of employment growth and labour supply decline is a drop in the unemployment rate—by 1.0 percentage point in 2012 and a further 0.6 percentage point in 2013.

As noted in the provincial economic review, monthly employment data have exhibited increasing volatility (high growth and sharp declines) since 2010. The 2012–2013 budget's labour market forecast is based on analysis of annual relationships between jobs and other economic variables. This approach may overlook the monthly swings in provincial employment growth, making employment forecasts susceptible to change.

The budget economic assumptions for labour markets are also sensitive to assumptions around how Nova Scotians participate in the labour force. Historically, participation rates decline among workers over the age of 55. With increasing labour shortages for certain skills (as well as weak investment returns on retirement savings), it is possible that the baby-boom cohort will continue to work longer than previous generations. If Nova Scotia's relatively low participation rates improve, unemployment rates could remain where they are, but this could also encourage stronger employment growth.

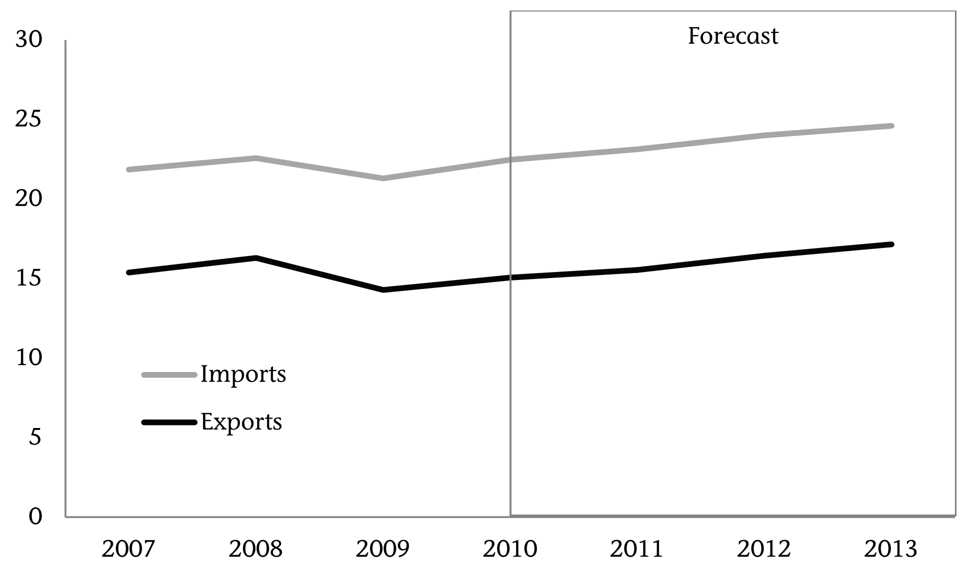
Figures 45 & 46 Nova Scotia's Income & Consumption Outlook
Annual growth, nominal



Source: Statistics Canada CANSIM table 282-0002, NS Department of Finance

Over the short and medium term, Nova Scotia’s labour markets are expected to keep pace with national average wage growth (neither closing nor widening the existing gap). The combination of this wage growth with modest employment gains and lower investment income is expected to limit growth in personal income and consumer spending.

Figure 47 Nova Scotia's Trade Outlook
$billions, nominal

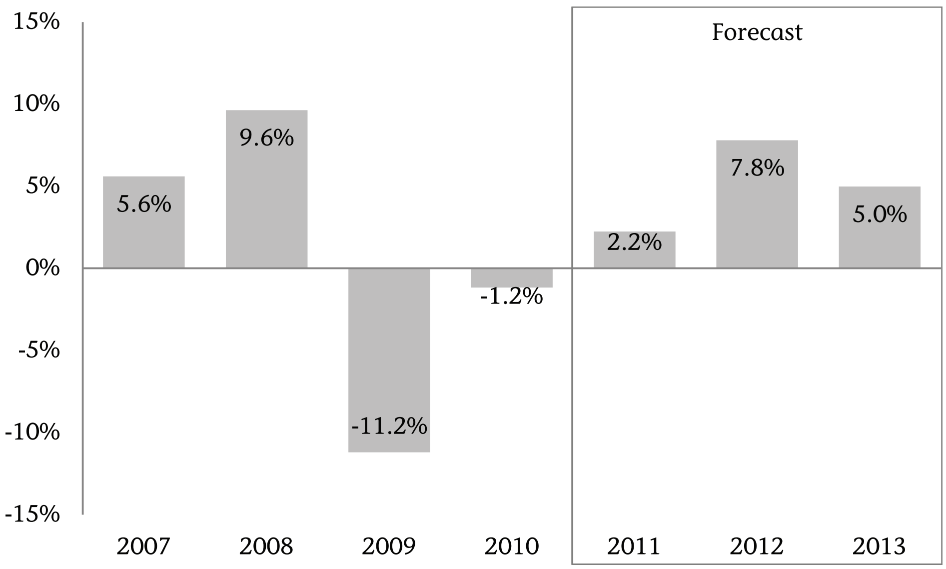


Source: Statistics Canada CANSIM table 380-0002, NS Department of Finance

With output of the Deep Panuke gas field coming on-stream in 2012 and resumption of partial output at the Port Hawkesbury paper mill, Nova Scotia's exports (including trade with other provinces) is expected to rebound by 5.8 per cent. Export growth is assumed to outpace import growth, but the province will still run a deficit in its trade with the rest of the country and the rest of the world.

Figure 48 Nova Scotia's Corporate Profit Outlook

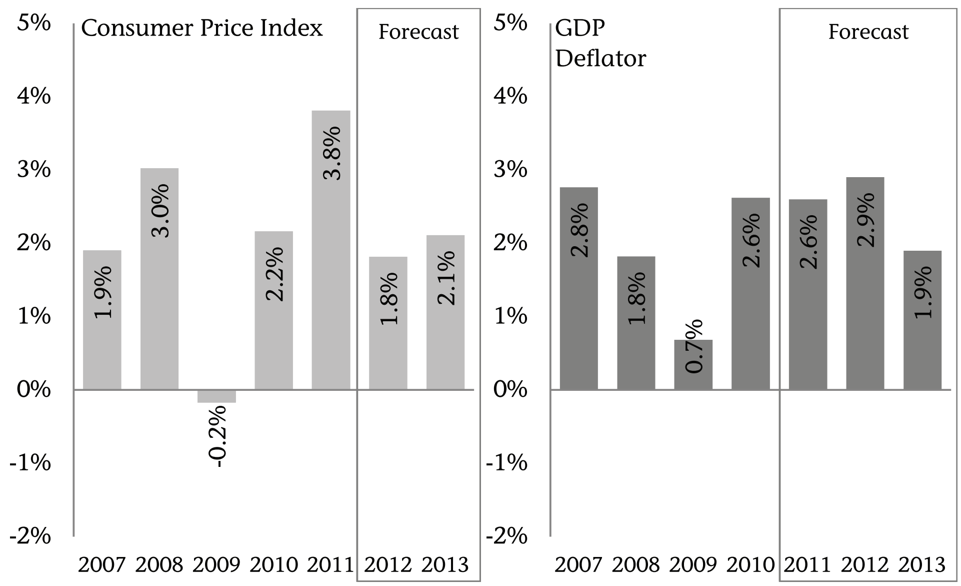
Annual Growth



Source: Statistics Canada CANSIM table 384-0001, NS Department of Finance

Nova Scotia's corporate profits are expected to continue their path of recovery from the recession, reaching 7.8 per cent growth in 2012. Profits are projected to moderate to 5.0 per cent in 2013. In Statistics Canada's recent historical revisions to the Provincial Economic Accounts, Nova Scotia's corporate profits increased by $500 million in 2008, changing from a 6.6 per cent decline to a 9.6 per cent increase. These revisions make it more challenging to establish a predictable relationship between corporate profits and other economic variables.

Figures 49 & 50 Nova Scotia's Inflation Outlook
Annual Growth



Source: Statistics Canada CANSIM table 326-0001, 384-0036, NS Department of Finance

For fiscal planning purposes, nominal GDP and its components are the salient variables; governments raise revenues and deliver services in current dollars. Nevertheless, real GDP and associated price deflators are important indicators of how our economy's output generates purchasing power and improves our real standard of living. Although world oil prices are expected to remain elevated throughout the forecast period, they will not contribute as much to inflation as they did in 2011. The 2012–2013 Budget assumes that the oil-fuelled inflation of 2011 will be followed by more subdued consumer price inflation of 1.8 per cent in 2012 and 2.1 per cent in 2013. The broader measure of GDP price inflation (including import and export price indices) is expected to remain more elevated in 2012 before settling to 1.9 per cent in 2013.

Private-Sector Consensus

Nova Scotia Real GDP (% growth)

	2011	2012	2013
High	1.8	1.9	3.5
Average	**1.5**	**1.6**	**2.7**
Low	1.0	1.2	2.4

The Department of Finance outlook for the Nova Scotia economy is slightly above the average of the private sector forecasters (as of January 31, 2012) for 2012 and below the consensus for 2013.

Nova Scotia Economic Outlook

	2011	2012	2013
Real GDP, 2002$ (% change)	1.2	1.7	1.9
Nominal Gross Domestic Product (% change)	3.8	4.6	3.8
Employment (% change)	0.1a	1.0	0.6
Unemployment Rate (%)	8.8a	7.8	7.2
Personal Income (% change)	3.0	3.3	3.3
Consumer Price Index (% change)	3.8a	1.8	2.1
Retail Sales (% change)	3.4a	1.8	3.5
Corporation Profits before Taxes (% change)	2.2	7.8	5.0
Exports of Goods and Services (% change)	3.2	5.8	4.4

a~actual

Key Risks

The provincial budget economic forecast depends on a number of implicit and explicit assumptions about conditions within Nova Scotia and around the world. If those assumptions prove inaccurate, the forecast will become inaccurate.

External

Europe has been grappling with a sovereign debt crisis for over a year. There have been several dramatic episodes that risked hard default among peripheral members of the Euro currency area. The 2012–2013 budget assumes that there are no hard defaults nor other conditions that remove countries from the Euro. If any of the peripheral members of the Euro Area do default, there is a greater likelihood of a second financial crisis. Regardless of their exposure to impaired sovereign debt, Canadian financial institutions and investor confidence would not be immune to the contagion of a hard European default.

US economic growth is currently picking up steam, but there remains underlying weakness in the American economy. Risks to the US financial system appear to be moderating. If ongoing monetary stimulus fails to stop deflation and/or fiscal drag weighs too heavily on domestic demand, the US recovery could falter again. This uncertainty affects the outlook for both Canada and the US.

The outlook for growth in developing countries has different risks. Many economists have downgraded the outlook for China, India, Brazil, and other rising economic powers. If these countries cannot ease inflationary pressures without a soft landing, they could falter. As the expected leaders of economic growth for the coming years, a hard landing in developing countries poses a risk to the rest of the world economy.

The 2012–2013 Budget assumes relative stability in world oil prices. However, 2011 clearly demonstrated that political and military instability in oil-producing countries can have substantial impacts on oil prices. Higher oil prices would impact the budgets of Nova Scotian consumers, and potentially drive up the Canadian dollar.

The 2012 provincial budget assumes that the impacts of Federal austerity (as presented in the 2011–2012 Fiscal Update) are distributed among provinces in proportion to current Federal government spending in each region. Nova Scotia's exposure to the Federal government is higher than most of the rest of the country. If the size of Federal restraint is increased, Nova Scotia's economy could be slowed. Conversely, if the Federal government implements restraint primarily in headquarters operations rather than in the regions, Nova Scotia's economic outlook would improve.

Domestic

The 2012–2013 provincial budget makes a number of assumptions about major capital investment projects. The economic outlook includes new provincial capital spending and the Halifax Shipyard combat vessel construction. If other projects materialize, such as the Shell exploration plan or the Lower Churchill Maritime Link, they would constitute an upside risk to the economic outlook.

The current labour market outlook assumes that the size of the labour force erodes slightly over the next few years. Combined with employment growth, this brings the province's unemployment rate down quickly. However, it is possible that increasing participation rates among older workers or those with traditionally lower labour force attachment could increase the supply of labour. This might increase unemployment rates, but it could also ease labour shortages, allowing for creation of more employment.

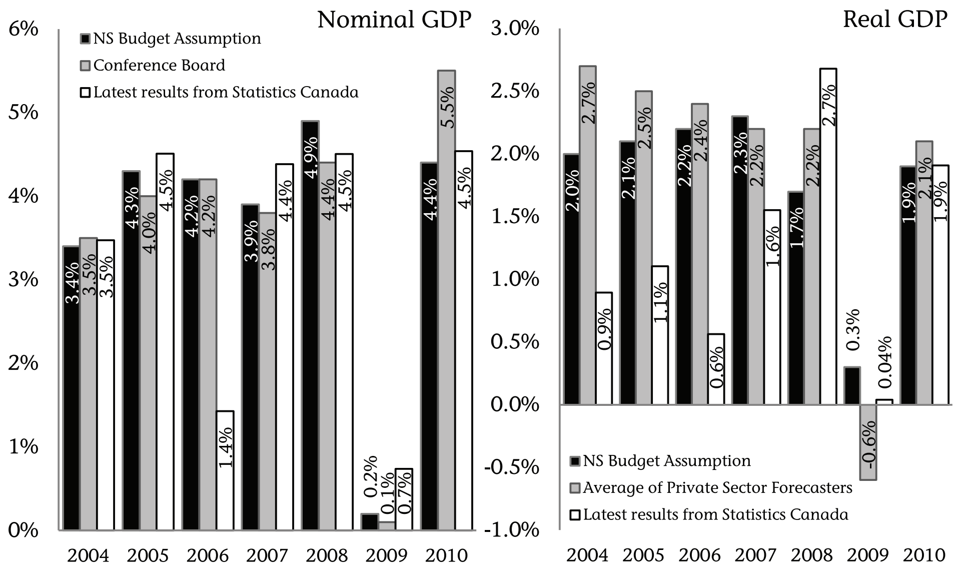
If the aging population follows historical retirement behavior, the labour force could shrink faster than anticipated. As a result, Nova Scotia would face greater labour shortages, potentially causing wage bidding and lower levels of real economic output.

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.

Forecasting is a difficult exercise because unforeseen and unforeseeable events in the future will undermine the accuracy of any forward-looking statement. 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 provides the Minister and Treasury Board with context on the size of government expenditures relative to the entire value of production in the province.

Figures 51 & 52 Budget Forecast Performance
Annual Growth



Source: Statistics Canada CANSIM table 384-0002, NS Department of Finance, Conference Board of Canada, Private Sector Consensus

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 demographic and economic outlooks are based on data, fiscal plans, and information available up to January 31, 2012. This leads to a forecast prepared, reviewed, and approved for use in fiscal planning as of March 1, 2012. 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).

Because forecasting is a difficult but important part of the budget planning process, the Department of Finance conducts challenge and review sessions to validate the economic forecast. Before they are used for budget planning, the Department of Finance presents its economic 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, so that they can hear credible, objective advice on whether the economic forecast is a reasonable basis for fiscal planning.

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

NOVA SCOTIA

Economic Performance and Outlook – Key Indicators

Supplementary to the 2012–2013 Budget

Schedule 3E

Nova Scotia's Economic Performance and Outlook – Key Indicators

	2004	2005	2006	2007	2008
Nominal Gross Domestic Product at Market Prices ($ millions)	29,853	31,199	31,644	33,031	34,519
Growth rate	*3.5%*	*4.5%*	*1.4%*	*4.4%*	*4.5%*
Real Gross Domestic Product at Market Prices (chained 2002 $ millions)	27,710	28,016	28,174	28,611	29,378
Growth rate	*0.9%*	*1.1%*	*0.6%*	*1.6%*	*2.7%*
Personal Income ($ millions)	25,394	26,638	27,689	29,016	30,157
Growth rate	*3.9%*	*4.9%*	*3.9%*	*4.8%*	*3.9%*
Personal Expenditure on Consumer Goods and Services ($ millions)	19,786	20,649	21,611	22,713	23,879
Growth rate	*4.1%*	*4.4%*	*4.7%*	*5.1%*	*5.1%*
Retail Sales ($ millions)	10,301	10,527	11,141	11,616	12,089
Growth rate	*2.9%*	*2.2%*	*5.8%*	*4.3%*	*4.1%*
Residential Investment ($ millions)	1,897	2,027	2,179	2,337	2,389
Growth rate	*10.8%*	*6.9%*	*7.5%*	*7.3%*	*2.2%*
Consumer Price Index (2002=100)	105.3	108.2	110.4	112.5	115.9
Growth rate	*1.8%*	*2.8%*	*2.0%*	*1.9%*	*3.0%*
Corporation Profits Before Taxes ($ millions)	3,093	3,248	2,908	3,071	3,367
Growth rate	*10.6%*	*5.0%*	*-10.5%*	*5.6%*	*9.6%*
Business Investment ($ millions, excluding residential)	3,101	3,132	3,099	3,217	2,854
Growth rate	*-4.2%*	*1.0%*	*-1.1%*	*3.8%*	*-11.3%*
Exports of goods and services ($ millions)	14,454	14,798	14,137	15,376	16,290
Growth rate	*4.6%*	*2.4%*	*-4.5%*	*8.8%*	*5.9%*
Imports of goods and services ($ millions)	19,062	19,835	19,951	21,841	22,564
Growth rate	*4.0%*	*4.1%*	*0.6%*	*9.5%*	*3.3%*
Population ('000s July 1)	939.4	937.9	938.0	935.8	937.2
Growth rate	*0.2%*	*-0.2%*	*0.0%*	*-0.2%*	*0.2%*
Labour Force ('000s annual average)	483.7	482.1	478.8	486.7	489.4
Growth rate	*1.9%*	*-0.3%*	*-0.7%*	*1.6%*	*0.6%*
Participation Rate (per cent, annual average)	63.8%	63.3%	62.6%	63.5%	63.6%
Percentage change	*0.8%*	*-0.5%*	*-0.7%*	*0.9%*	*0.1%*
Employment ('000s, annual average)	441.0	441.6	441.0	448.0	452.0
Growth rate	*2.2%*	*0.1%*	*-0.1%*	*1.6%*	*0.9%*
Unemployment Rate (per cent, annual average)	8.8%	8.4%	7.9%	8.0%	7.7%
Percentage change	*-0.3%*	*-0.4%*	*-0.5%*	*0.1%*	*-0.3%*

		Forecast			Average (CAGR)	Average (CAGR)
2009	**2010**	**2011**	**2012**	**2013**	**2004–2008**	**2009–2013**
34,774	36,352	37,735	39,483	40,986	3.7%	4.2%
0.7%	*4.5%*	*3.8%*	*4.6%*	*3.8%*		
29,390	29,951	30,303	30,813	31,389	1.5%	1.7%
0.0%	*1.9%*	*1.2%*	*1.7%*	*1.9%*		
30,820	32,061	33,028	34,128	35,250	4.4%	3.4%
2.2%	*4.0%*	*3.0%*	*3.3%*	*3.3%*		
24,281	25,340	25,864	26,797	27,752	4.8%	3.4%
1.7%	*4.4%*	*2.1%*	*3.6%*	*3.6%*		
12,102	12,656	13,083	13,318	13,779	4.1%	3.3%
0.1%	*4.6%*	*3.4%*	*1.8%*	*3.5%*		
2,248	2,639	2,681	2,815	2,956	5.9%	7.1%
-5.9%	*17.4%*	*1.6%*	*5.0%*	*5.0%*		
115.7	118.2	122.7	124.9	127.6	2.4%	2.5%
-0.2%	*2.2%*	*3.8%*	*1.8%*	*2.1%*		
2,990	2,955	3,021	3,257	3,419	2.1%	3.4%
-11.2%	*-1.2%*	*2.2%*	*7.8%*	*5.0%*		
3,027	2,935	3,190	3,482	3,748	-2.1%	5.5%
6.1%	*-3.0%*	*8.7%*	*9.2%*	*7.6%*		
14,272	15,050	15,534	16,433	17,152	3.0%	4.7%
-12.4%	*5.5%*	*3.2%*	*5.8%*	*4.4%*		
21,281	22,461	23,115	23,987	24,602	4.3%	3.7%
-5.7%	*5.5%*	*2.9%*	*3.8%*	*2.6%*		
940.3	944.8	945.4	943.2	942.3	-0.1%	0.1%
0.3%	*0.5%*	*0.1%*	*-0.2%*	*-0.1%*		
497.0	498.8	496.6	496.1	495.9	0.3%	-0.1%
1.6%	*0.4%*	*-0.4%*	*-0.1%*	*0.0%*		
64.3%	64.2%	63.7%	63.7%	63.6%	63.3%	64.4%
0.7%	*-0.1%*	*-0.5%*	*0.0%*	*0.1%*	*average*	
451.4	452.5	452.8	457.4	460.2	0.6%	0.5%
-0.1%	*0.2%*	*0.1%*	*1.0%*	*0.6%*		
9.2%	9.3%	8.8%	7.8%	7.2%	8.4%	8.5%
1.5%	*0.1%*	*-0.5%*	*-1.0%*	*-0.6%*		

CAGR – Compound Annual Growth Rate

NOVA SCOTIA

Schedule 3F

Canada's Economic Performance and Outlook – Key Indicators

	2004	2005	2006	2007	2008
Nominal Gross Domestic Product at Market Prices ($ millions)	1,290,906	1,373,845	1,450,405	1,529,589	1,603,418
Growth rate	*6.4%*	*6.4%*	*5.6%*	*5.5%*	*4.8%*
Real Gross Domestic Product at Market Prices (chained 2002 $ millions)	1,211,239	1,247,807	1,283,033	1,311,260	1,320,291
Growth rate	*3.1%*	*3.0%*	*2.8%*	*2.2%*	*0.7%*
Personal Income ($ millions)	984,164	1,035,586	1,106,832	1,174,683	1,228,362
Growth rate	*5.6%*	*5.2%*	*6.9%*	*6.1%*	*4.6%*
Personal Expenditure on Consumer Goods and Services ($ millions)	719,917	758,966	801,742	851,603	890,601
Growth rate	*4.9%*	*5.4%*	*5.6%*	*6.2%*	*4.6%*
Retail Sales ($ millions)	346,455	365,994	389,459	412,565	427,896
Growth rate	*4.6%*	*5.6%*	*6.4%*	*5.9%*	*3.7%*
Residential Investment ($ millions)	82,965	89,604	98,214	108,289	107,735
Growth rate	*14.1%*	*8.0%*	*9.6%*	*10.3%*	*-0.5%*
Consumer Price Index (2002=100)	104.7	107.0	109.1	111.5	114.1
Growth rate	*1.8%*	*2.2%*	*2.0%*	*2.2%*	*2.3%*
Corporation Profits Before Taxes ($ millions)	168,219	186,585	197,286	200,943	223,001
Growth rate	*8.4%*	*10.9%*	*5.7%*	*1.9%*	*11.0%*
Business Investment ($ millions, excluding residential)	146,790	165,992	185,168	193,596	206,845
Growth rate	*8.4%*	*13.1%*	*11.6%*	*4.6%*	*6.8%*
Exports of goods and services ($ millions)	495,980	519,435	524,075	534,718	563,075
Growth rate	*7.2%*	*4.7%*	*0.9%*	*2.0%*	*5.3%*
Imports of goods and services ($ millions)	440,314	468,270	487,674	505,055	538,654
Growth rate	*5.6%*	*6.3%*	*4.1%*	*3.6%*	*6.7%*
Population ('000s July 1)	31,940.7	32,245.2	32,576.1	32,929.7	33,319.1
Growth rate	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.1%*
Labour Force ('000s annual average)	17,154.3	17,293.5	17,516.7	17,884.2	18,203.9
Growth rate	*1.2%*	*0.8%*	*1.3%*	*2.1%*	*1.8%*
Participation Rate (per cent, annual average)	67.5%	67.1%	67.0%	67.4%	67.7%
Percentage change	*0.0%*	*-0.4%*	*-0.1%*	*0.4%*	*0.3%*
Employment ('000s, annual average)	15,921.8	16,124.7	16,410.2	16,805.6	17,087.4
Growth rate	*1.7%*	*1.3%*	*1.8%*	*2.4%*	*1.7%*
Unemployment Rate (per cent, annual average)	7.2%	6.8%	6.3%	6.0%	6.1%
Percentage change	*-0.5%*	*-0.4%*	*-0.5%*	*-0.3%*	*0.1%*

NOVA SCOTIA

		Forecast			Average (CAGR)	Average (CAGR)
2009	2010	2011*	2012	2013	2004–2008	CAGR 2009–2013
1,528,985	1,624,608	1,710,150	1,790,719	1,885,551	5.6%	5.4%
-4.6%	*6.3%*	*5.3%*	*4.7%*	*5.3%*		
1,283,722	1,324,993	1,353,414	1,382,611	1,423,099	2.2%	2.6%
-2.8%	*3.2%*	*2.1%*	*2.2%*	*2.9%*		
1,228,702	1,279,922	1,333,125	1,396,125	1,459,021	5.7%	4.4%
0.0%	*4.2%*	*4.2%*	*4.7%*	*4.5%*		
898,215	940,620	977,432	1,017,507	1,066,347	5.5%	4.4%
0.9%	*4.7%*	*3.9%*	*4.1%*	*4.8%*		
415,413	438,401	454,165	475,176	499,584	5.4%	10.8%
-2.9%	*5.5%*	*3.6%*	*4.6%*	*5.1%*		
99,249	112,692	118,438	123,768	128,966	6.7%	6.8%
-7.9%	*13.5%*	*5.1%*	*4.5%*	*4.2%*		
114.4	116.5	119.9	122.8	125.6	2.2%	2.4%
0.3%	*1.8%*	*2.9%*	*2.4%*	*2.3%*		
149,087	180,723	204,493	216,558	229,768	7.3%	11.4%
-33.1%	*21.2%*	*13.2%*	*5.9%*	*6.1%*		
169,615	178,469	198,226	211,306	223,037	9.0%	7.1%
-18.0%	*5.2%*	*11.1%*	*6.6%*	*5.6%*		
439,527	478,132	527,928	559,601	595,495	3.2%	7.9%
-21.9%	*8.8%*	*10.4%*	*6.0%*	*6.4%*		
465,328	508,653	554,804	581,634	606,006	5.2%	6.8%
-13.6%	*9.3%*	*9.1%*	*4.8%*	*4.2%*		
33,729.7	34,126.2	34,482.8			1.1%	
1.2%	*1.2%*	*1.0%*				
18,329.0	18,525.1	18,699.4	18,942.5	19,150.9	1.5%	1.1%
0.7%	*1.1%*	*0.9%*	*1.3%*	*1.1%*		
67.1%	67.0%	66.8%	66.9%	66.8%	67.3%	66.9%
-0.6%	*-0.1%*	*-0.2%*	*-0.1%*	*-0.1%*	*average*	
16,813.1	17,041.0	17,306.2	17,669.6	17,917.0	1.8%	1.6%
-1.6%	*1.4%*	*1.6%*	*2.1%*	*1.4%*		
8.3%	8.0%	7.4%	6.7%	6.4%	6.8%	7.4%
2.2%	*-0.3%*	*-0.6%*	*-0.7%*	*-0.3%*	*average*	

CAGR – Compound Annual Growth Rate

* The economic outlook for Canada does not include the 2011Q4 National Income and Expenditure Accounts released on March 2, 2012.