



HIGHLIGHTS

The Nova Scotia economy is on track to achieve the economic growth forecast at budget time in the spring. As a result of revised data available from the federal government, total provincial revenues are being adjusted upward, allowing the government to address the need for more funding in health care and other social needs without affecting the balanced budget.

- Provincial own source revenues are now forecast to come in at \$7.3 million lower than the budget estimate. Federal source revenues are expected to be \$2.5 million higher for the budget year. A positive Prior Years' Adjustment of \$35.8 million has resulted from updated federal data. The overall result is a total increase in revenue of \$31.0 million.
- Lower than estimated interest rates are helping to reduce expenses. The recent rise in short-term rates was expected and budgeted for. Long term rates continue to be below budget expectations. As a consequence, Net Debt Servicing Costs are being now expected to come in \$50.5 million below budget estimate.
- Some departments and agencies have been able to reduce costs or defer expenses for a saving of \$27.0 million. The total favourable decreases in expenditures and increases in revenues since the budget amount to \$108.5 million.
- These favourable developments have allowed the Government to make a significant improvement in the health care budget. Spending in this area is now \$89.1 million more than originally budgeted. Increases have also been granted to several other departments. These changes represent increases in program spending of \$111.0 million.
- The difference between the favourable and unfavourable changes since the budget results in a 1997-98 budget surplus forecast of \$1.5 million.

FISCAL SUMMARY (\$ thousands)	1997-98 Budget	1997-98 Forecast	Favourable/ (Unfavourable) Change from Budget
Revenue	4,240,674	4,271,722	31,048
Net Program Expenditures *	3,477,912	3,561,872	(83,960)
Restructuring Costs	31,510	31,510	---
Net Debt Servicing Costs	727,280	676,785	50,495
Total Expenditures	4,236,702	4,270,167	(33,465)
Budgetary Surplus (Deficit)	3,972	1,555	(2,417)

* Net Program Expenditures include both Current and Capital Account Expenditures.

SUMMARY of REVENUE
for the Fiscal Year Ending March 31, 1998
(\$ thousands)

	1997-98 Budget	1997-98 Forecast	Favourable/ (Unfavourable) Change from Budget
Provincial Revenue Sources			
Personal Income Taxes	939,079	921,300	(17,779)
Corporate Income Taxes	113,044	125,361	12,317
Harmonized Sales Tax	668,879	668,879	---
Motive Fuel Taxes	199,500	203,000	3,500
NS Liquor Commission	116,693	116,693	---
NS Gaming Corporation	143,024	143,749	725
Other Provincial Revenues	351,279	345,229	(6,050)
Total - Provincial Revenue	2,531,498	2,524,211	(7,287)
Federal Revenue Sources			
Equalization	1,149,788	1,143,279	(6,509)
CHST	437,771	446,807	9,036
Federal Compensation for Harmonization	118,600	118,600	---
Other Federal Sources	3,017	3,017	---
Total - Federal Revenue	1,709,176	1,711,703	2,527
Prior Years' Adjustments	---	35,808	35,808
Total Revenue	4,240,674	4,271,722	31,048

Provincial Revenue

Based on revised income tax data from the federal government, corporate income tax revenues are now expected to be \$12.3 million higher than estimated at budget time; however, personal income tax revenues are anticipated to come in \$17.8 million below the budget estimate. The fixed rate motive fuel taxes revenues are expected to be \$3.5 million higher than the budget estimate due to increased consumption. Other provincial own source revenues, including interest income and the corporation capital tax on financial institutions have been adjusted downward by \$6.0 million. Overall, own source revenues are expected to be \$7.3 million lower than budget estimate.

Federal Revenue

Updated federal data has resulted in a reduction in Equalization of \$6.5 million. There has also been an increase in CHST of \$9.0 million as a result of new data and the national floor for this program increasing to \$12.5 billion.

Prior Years' Adjustments

The latest federal data have created a positive Prior Years' Adjustment of \$35.8 million. This is a combination of a decline in provincial own source revenues and an increase in prior years' federal transfers.

SUMMARY of NET PROGRAM EXPENDITURES
for the Fiscal Year Ending March 31, 1998
(\$ thousands)

	1997-98 Budget	1997-98 Forecast	Favourable/ (Unfavourable) Change from Budget
Agriculture and Marketing	32,102	32,731	(629)
Business and Consumer Services	38,063	34,873	3,190
Community Services	548,245	555,795	(7,550)
Economic Development and Tourism	72,863	74,354	(1,491)
Education and Culture/Universities	954,743	957,443	(2,700)
Environment	18,053	17,458	595
Finance	9,666	9,618	48
Fisheries	6,144	6,114	30
Health	1,286,097	1,375,165	(89,068)
Housing and Municipal Affairs	103,263	96,673	6,590
Human Resources	4,032	4,032	---
Justice	75,257	74,881	376
Labour	10,838	10,784	54
Natural Resources	57,299	60,334	(3,035)
Public Service	47,406	49,625	(2,219)
Transportation and Public Works	255,841	260,131	(4,290)
Unallocated Recoveries	(42,000)	(43,139)	1,139
Changes in Prior Years' Estimates	---	(15,000)	15,000
Total - Net Program Expenditures	<u>3,477,912</u>	<u>3,561,872</u>	<u>(83,960)</u>

Comprised of:	Current Account	3,305,270	3,399,694	(94,424)
	Capital Account	172,642	162,178	10,464

Net Program Expenditures

In the months following the introduction of the budget, the government has responded to requirements for increased program spending in a number of areas within the context of a balanced budget. The area receiving the most significant increase in funding is health care. The Department of Health is now forecasting a total of \$89.1 million in additional spending on payments to doctors, hospitals, pharmacare assistance to senior citizens, long term care and emergency health.

Additional funding has also been allocated to the Department of Community Services to meet demands on income assistance and family and children's services, and to the Department of Natural Resources to support the Sable Gas regulatory process. The expected costs of the Westray prosecution are shown in the extra funding allocated to the Public Prosecution Service under Public Service.

DEBT MANAGEMENT SUMMARY

Debt Refinancing Program

The Province launched three term debt issues during the second quarter of the year. Two issues, totaling \$55.0 million, were completed in the Canadian domestic mid-term note market. Another \$100.0 million issue was completed by a Canadian private placement. The forecasted refinancing program of the Province has been adjusted to \$1.2 billion from the original \$636.0 million. The primary reason for the increase in the borrowing program has been the decision to refinance three term debt issues totaling approximately \$420.0 million.

Net Debt Servicing Costs

Net Debt Servicing Costs are forecast to be \$50.5 million lower than budgeted. This reduction is a result of favorable market conditions including lower than expected interest and foreign exchange rates in the first and second quarters (\$15.4 million), the expectation that these conditions will continue to be favorable compared to budget assumptions for the following two quarters (\$25.3 million), revisions to the modeling assumptions such as the borrowing program (\$0.2 million), and the current expectation that NSRL will continue to record its own debt servicing costs (\$9.6 million).

ECONOMIC DEVELOPMENTS

(January - November 1997)

The Nova Scotia economy is on track to achieve the 1997-98 Budget's forecast of 2.1% RDP growth in 1997. The outlook remains positive in an environment of low interest rates, improving consumer confidence and an export-favourable Canada/US dollar exchange rate. The Sable Offshore Energy Project, given the Joint Review Panel's recent approval, provides additional impetus to the province's growth rate over the short term, as offshore natural gas development proceeds in 1998.

Gains in employment and in retail sales highlight strengthening economic performance this year. Capital investment is the most robust in several years, although international export trade has turned sluggish.

For the first eleven months of 1997, employment has increased 1.4% over the same period in 1996. The budget outlook for employment of 390,000 will be met with employment now averaging a record 391,000 for the year.

The current rate of growth is significant as growth in 1996 was only 0.3%. In November the unemployment rate was 11.5%, averaging 12.4% for the year. This is lower than the budget estimate of 12.9%.

Growth in retail trade continues to be positive. Since the introduction of the HST, retail trade has increased 5.9% over the same period last year. Department store sales are up 8.1% from April

to August. Automobile sales have been the main source of growth in retail sales, up 23.9 from April to the end of September. This growth has been supported by favourable financing conditions in addition to the reduction in the sales tax rate.

Employment by Month - Nova Scotia

