



HIGHLIGHTS

In 1998, the Nova Scotia economy is set to achieve its best performance since 1987. The provincial government is now forecasting that improved consumer and business confidence will lead to record levels of employment and economic growth in excess of 3% in 1998. For the 1997-98 fiscal year, the strengthening economy has resulted in more favourable provincial revenues, including sales tax revenues, enabling 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 \$28.2 million more than the budget estimate. Federal source revenues are expected to be \$1.6 million less for the budget year. A favourable Prior Years' Adjustment of \$31.3 million has resulted from updated federal data. The overall result is a total increase in revenue of \$57.9 million compared to budget estimates.
- 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 \$48.8 million below budget estimate. This forecast is slightly lower than the one made in the Second Quarter Report.
- Some departments and agencies have been able to reduce costs or defer expenses for a saving of \$14.3 million. The total favourable decreases in expenditures and increases in revenues since the budget amount to \$121.0 million.
- These favourable developments have allowed the Government to make a significant improvement in the health care budget. Spending in this area is now \$88.7 million more than originally budgeted. Increases have also been granted to several other departments, and an increased allocation has been made for restructuring costs. These changes represent increases in government spending of \$121.8 million.
- The difference between the favourable and unfavourable changes since the budget results in a 1997-98 forecast surplus of \$3.2 million.

FISCAL SUMMARY (\$ thousands)	1997-98 Budget	1997-98 Forecast	Favourable/ (Unfavourable) Change from Budget
Revenue	<u>4,240,674</u>	<u>4,298,573</u>	<u>57,899</u>
Net Program Expenditures *	3,477,912	3,582,397	(104,485)
Restructuring Costs	31,510	34,505	(2,995)
Net Debt Servicing Costs	727,280	678,485	48,795
Total Expenditures	<u>4,236,702</u>	<u>4,295,387</u>	<u>(58,685)</u>
Budgetary Surplus (Deficit)	<u><u>3,972</u></u>	<u><u>3,186</u></u>	<u><u>(786)</u></u>

* 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	950,569	11,490
Corporate Income Taxes	113,044	122,548	9,504
Harmonized Sales Tax	668,879	678,801	9,922
Motive Fuel Taxes	199,500	203,000	3,500
NS Liquor Commission	116,693	117,500	807
NS Gaming Corporation	143,024	144,241	1,217
Other Provincial Revenues	351,279	343,037	(8,242)
Total - Provincial Revenue	2,531,498	2,559,696	28,198
Federal Revenue Sources			
Equalization	1,149,788	1,148,158	(1,630)
CHST	437,771	437,488	(283)
Federal Compensation for Harmonization	118,600	118,600	---
Other Federal Sources	3,017	3,292	275
Total - Federal Revenue	1,709,176	1,707,538	(1,638)
Prior Years' Adjustments	---	31,339	31,339
Total Revenue	4,240,674	4,298,573	57,899

Provincial Revenue

Based on revised income tax data from the federal government, personal income tax revenues are now expected to be \$11.5 million higher than estimated at budget time. Corporate income tax revenues are anticipated to come in \$9.5 million above the budget estimate. An increase in consumer spending in areas such as retail and auto purchases is now expected to result in sales tax revenues to increase by nearly \$10.0 million over the budget estimate.

Federal Revenue

Updated federal data has resulted in a reduction in Equalization of \$1.6 million. There has been a decrease in CHST of \$0.283 million as a result of strong provincial personal and corporate income tax revenues which offset the gains in CHST from the Second Quarter report.

Prior Years' Adjustments

The latest federal data has created a positive Prior Years' Adjustment of \$31.3 million. This is a combination of a net positive adjustment for both own-source income taxes and 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	32,764	(662)
Business and Consumer Services	38,063	35,963	2,100
Community Services	548,245	557,295	(9,050)
Economic Development and Tourism	72,863	76,432	(3,569)
Education and Culture/Universities	954,743	958,866	(4,123)
Environment	18,053	17,175	878
Finance	9,666	9,618	48
Fisheries	6,144	6,503	(359)
Health	1,286,097	1,374,821	(88,724)
Housing and Municipal Affairs	103,263	96,673	6,590
Human Resources	4,032	4,031	1
Justice	75,257	74,881	376
Labour	10,838	10,784	54
Natural Resources	57,299	61,073	(3,774)
Public Service	47,406	49,386	(1,980)
Transportation and Public Works	255,841	262,431	(6,590)
Unallocated Recoveries	(42,000)	(46,299)	4,299
Total - Net Program Expenditures	3,477,912	3,582,397	(104,485)

Comprised of:	Current Account	3,305,270	3,423,865	(118,595)
	Capital Account	172,642	158,532	14,110

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.

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. Other departments have also been provided additional funding to meet various program requirements.

In addition, although negotiations to sell the Sydney school are continuing, it is no longer certain that the money related to that sale will be recovered in fiscal 1997-98. Accordingly, the provision for that recovery has been removed from this forecast, and the funds continue to be provided for the school.

DEBT MANAGEMENT SUMMARY

Debt Refinancing Program

The Province launched six term debt issues during the third quarter of the year. Four issues, totaling \$121.5 million, were completed in the Canadian domestic mid term note market, and another \$300.0 million issue was in the Canadian domestic long term debenture market. Another \$100.0 million issue was completed by a Canadian private placement for a total of \$521.5 million in the third quarter. In the previous two quarters, borrowings totaled \$175.0 million. Subsequent to the end of the third quarter, the Province completed additional borrowings of \$311.0 million, for a total of \$1,007.5 million to date in fiscal 1997-98.

The total forecasted refinancing program of the Province has now been adjusted to \$1.2 billion from the original \$636.0 million.

Net Debt Servicing Costs

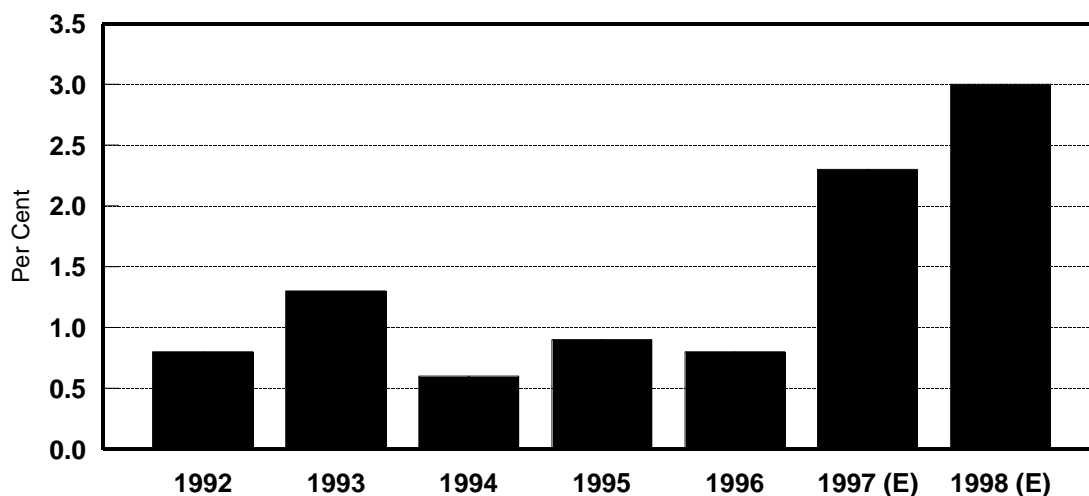
Net Debt Servicing Costs are now forecast to be \$48.8 million lower than budgeted. This favourable development is slightly less than the forecast in the Second Quarterly Report, when the reduction was expected to be \$50.5 million lower than budget. The current reduction is a result of revisions to modeling assumptions, favourable market conditions, including lower than expected interest and foreign exchange rates in the first three quarters (\$21.6 million), the expectation that these conditions will continue to be favorable compared to original budget assumptions for the final quarter (\$17.6 million), and the expectation that NSRL will continue to record its own debt servicing costs (\$9.6 million).

ECONOMIC DEVELOPMENTS

(January - December 1997)

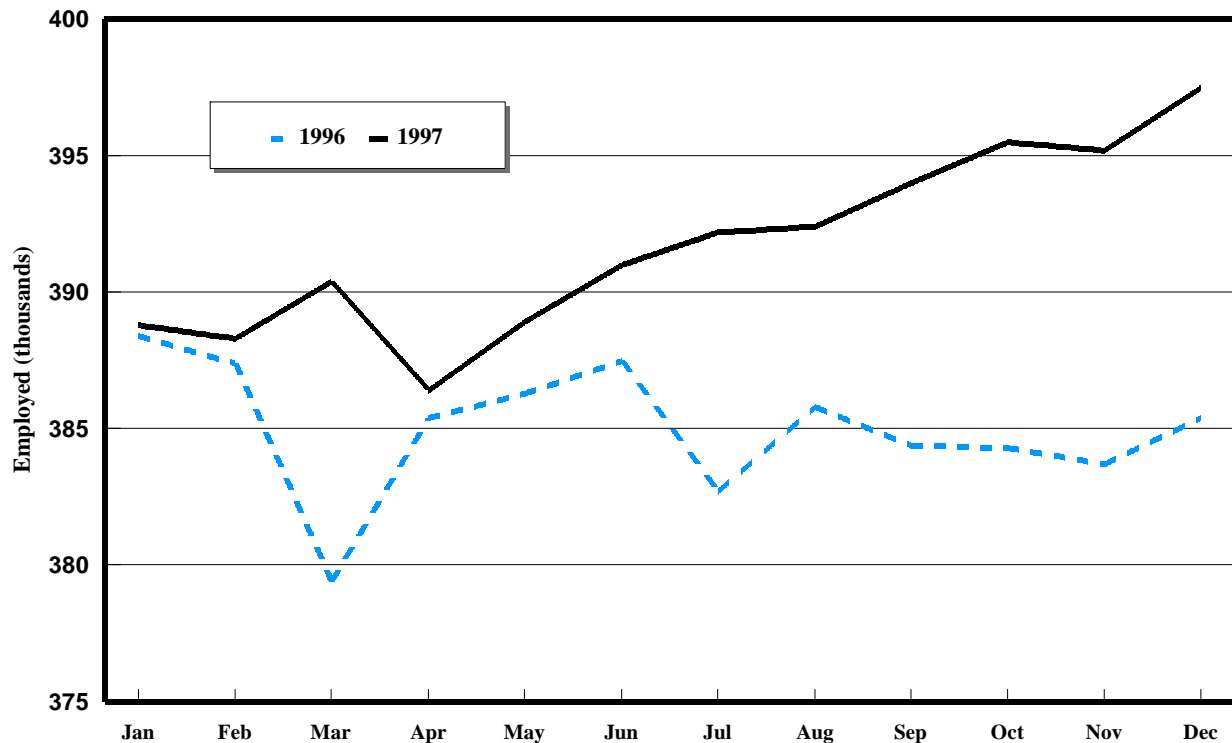
The economies of both Canada and Nova Scotia show continued strength throughout 1997. The Nova Scotia economy has outperformed both the RDP and the employment growth forecast in the 1997-98 budget. In 1998, development of the Sable Offshore Energy Project will be in full swing, further accelerating the level of business investment that has been occurring in the province over the past two years. This will be the largest single project in the province's history. It will be a significant factor in increasing RDP growth to the 3.0% range in 1998 and for the first time more than 400,000 people will be working in Nova Scotia.

Nova Scotia Economic Growth RDP (Constant \$)



A record number of Nova Scotians had jobs in 1997. Employment was up 1.8%, averaging 391,900 for the year. Job gains were recorded chiefly in manufacturing, construction and government services. This pace of job creation helped push the unemployment rate down to 12.2%, below the budget outlook of 12.9%. In the last half of 1997, the rate remained in the narrow range between 11.5% and 11.7%. Since February 1997, the unemployment rate has dropped from 13.5% to 11.2% in January 1998. Moreover, Nova Scotia's unemployment rate has been the lowest in Atlantic Canada since March 1997.

Employment by Month - Nova Scotia



The total value of all wages and salaries has increased by 4.0% in the first nine months of 1997. This is above the underlying budget forecast for growth in labour income, due to the stronger than forecast employment growth.

Solid employment and income growth, the introduction of the HST, and an improvement in the confidence of Nova Scotians had a positive effect on retail sales in 1997. For the year, retail sales posted an estimated growth of 4.7% (based on a 10 month average). Vehicle sales growth has surged by close to 20% in 1997. Department store sales were also strong, up 7.7%.

For December 1997, CPI increased 0.7%, year over year. Inflation continues to be under control as the increase since April 1, 1997 has been only 0.4%.

In 1997, exports are down 1.9% after seven consecutive years of growth in dollar value. The decrease is due mainly to lower pulp and paper prices. With the recent collapse in Asian economies and pulp and newsprint prices still relatively weak, it is unlikely that the budget forecast for export value will be met. However, the volume of cargo traffic remains strong. For example, container tonnage shipped through the Port of Halifax was up 20% in 1997.

As the province enters 1998, Nova Scotia's economic outlook is the best in more than a decade with new records expected in investment and jobs.