

Quarterly Report



PROVINCE OF NOVA SCOTIA
HONOURABLE DONALD R. DOWNE
Minister of Finance

FIRST QUARTERLY UPDATE
Released September 30, 1998

HIGHLIGHTS

The Provincial Government has signaled its determination to maintain a balanced budget through an immediate \$30.0 million reduction in general government administrative spending. The restrictions on travel, new hiring and capital expenditures are designed to help reduce an anticipated budget deficit.

- No change has been forecast at this point on federal or provincial source revenues. More detailed information will be available in time for the Second Quarterly Report in December.
- Net Debt Servicing Costs are now forecasted to be higher than budgeted, primarily because of a weaker Canadian dollar relative to the budget assumptions. During the spring of 1998, most Canadian economic forecasters were calling for a Canadian dollar in the low \$0.70 range. By mid-summer the Canadian dollar had fallen below \$0.64. Since that time it has recovered to approximately \$0.66. The Department of Finance is now forecasting a \$34.0 million increase in Net Debt Servicing Costs, using a Canadian dollar of \$0.66 among other assumptions.
- In addition to the negative impact of the falling dollar, the government is also facing increased requirement to meet the health care needs of Nova Scotians. A total of \$28.9 million in extra funding is now being allocated to the Department of Health. This money includes the province's share of the costs of setting up the new blood collection system, as well as extra funding for pharmacare and more money to meet increased demands for doctors' services.
- The Department of Economic Development is also recognizing significant requirements under agreements with a number of firms who have met or are now expected to meet, jobs and other targets this fiscal year. These agreements call for expenditures of provincial funds only when those targets are met. The agreements are largely responsible for the additional \$18.5 million now required.
- In the absence of further action, the additional pressures would be forecasted to result in a budget deficit of \$51.8 million. This forecast will change following the implementation of permanent cost saving measures and following the receipt of new revenue forecasts later this fall.

FISCAL SUMMARY (\$ thousands)	1998-99 Budget	1998-99 Forecast	Favourable/ (Unfavourable) Change from Budget
Revenue	<u>4,382,718</u>	<u>4,382,718</u>	---
Net Program Expenditures *	3,687,695	3,736,695	(49,000)
Restructuring Costs	3,129	3,129	---
Net Debt Servicing Costs	690,742	724,700	(33,958)
Anticipated General Government Savings	---	(30,000)	30,000
Total Expenditures	<u>4,381,566</u>	<u>4,434,524</u>	(52,958)
Budgetary Surplus (Deficit)	<u>1,152</u>	<u>(51,806)</u>	(52,958)

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

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SUMMARY of REVENUE
for the Fiscal Year Ending March 31, 1999
(\$ thousands)

	1998-99 Budget	1998-99 Forecast	Favourable/ (Unfavourable) Change from Budget
Provincial Revenue Sources			
Personal Income Taxes	980,752	980,752	---
Corporate Income Taxes	122,622	122,622	---
Harmonized Sales Tax	737,373	737,373	---
Motive Fuel Taxes	207,300	207,300	---
NS Liquor Commission	121,400	121,400	---
NS Gaming Corporation	160,171	160,171	---
Other Provincial Revenues	347,183	347,183	---
Total - Provincial Revenue	2,676,801	2,676,801	---
Federal Revenue Sources			
Equalization	1,183,503	1,183,503	---
CHST	440,647	440,647	---
Federal Compensation for Harmonization	77,700	77,700	---
Other Federal Sources	4,067	4,067	---
Total - Federal Revenue	1,705,917	1,705,917	---
Prior Years' Adjustments	---	---	---
Total Revenue	4,382,718	4,382,718	---

REVENUES

To date, budget estimates of corporate and personal income taxes have not been updated. Revisions are anticipated in the next Quarterly Report concurrent with the release of corporate and personal income tax data from Revenue Canada.

Budget estimates of transfer payments appear to be accurate and unchanged. No official federal estimates have been released since the Federal Budget in February. Transfer projections will be updated in the Second Quarterly Report in December, after the release of official federal data.

Early indications suggest consumption taxes, including harmonized sales tax, tobacco tax and motive fuel taxes remain at budget estimate levels. Other provincial revenue sources are not forecasted to change at this time.

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SUMMARY of NET PROGRAM EXPENDITURES
for the Fiscal Year Ending March 31, 1999
(\$ thousands)

	1998-99 Budget	1998-99 Forecast	Favourable/ (Unfavourable) Change from Budget
Agriculture and Marketing	34,296	34,296	---
Business and Consumer Services	29,213	29,188	25
Community Services	559,967	561,967	(2,000)
Economic Development and Tourism	58,904	77,400	(18,496)
Education and Culture/Universities	1,017,686	1,017,686	---
Environment	16,023	16,023	---
Finance	9,781	9,781	---
Fisheries	5,885	5,885	---
Health	1,455,102	1,484,023	(28,921)
Housing and Municipal Affairs	107,330	107,330	---
Human Resources	4,118	4,118	---
Justice	74,724	74,724	---
Labour	9,303	9,303	---
Natural Resources	55,064	55,057	7
Public Service	70,103	69,718	385
Transportation and Public Works	236,526	236,526	---
Unallocated Recoveries	(56,330)	(56,330)	---
Total - Net Program Expenditures	3,687,695	3,736,695	(49,000)

Comprised of:	Current Account	3,539,857	3,589,219	(49,362)
	Capital Account	147,838	147,476	362

NET PROGRAM EXPENDITURES

The Department of Community Services is forecast to be \$2.0 million above original budget estimate due to the need to meet additional pressures in services to children and income support payments. The Department of Economic Development and Tourism previously entered into a number of agreements with businesses whereby their job creation efforts were funded when they met certain targets. Those targets have now been met, or are forecasted to be met, resulting in a legal requirement to pay out \$18.5 million.

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NET PROGRAM EXPENDITURES

The Department of Health is now forecasting the need for an additional \$28.9 million. The largest part of this requirement is to meet Nova Scotia's responsibilities for the new Canadian Blood system. Additional sums are also forecasted to meet the need for doctor's services and the pharmacare programs.

In addition, the Regional Health Boards and the Non-Designated Organizations are currently working on business plans to deal with their deficits. This planning process will be completed later this fall. Depending on the outcome of this process, the government could face additional pressures in this area.

DEBT MANAGEMENT SUMMARY

Debt Issuance and Refinancing Program

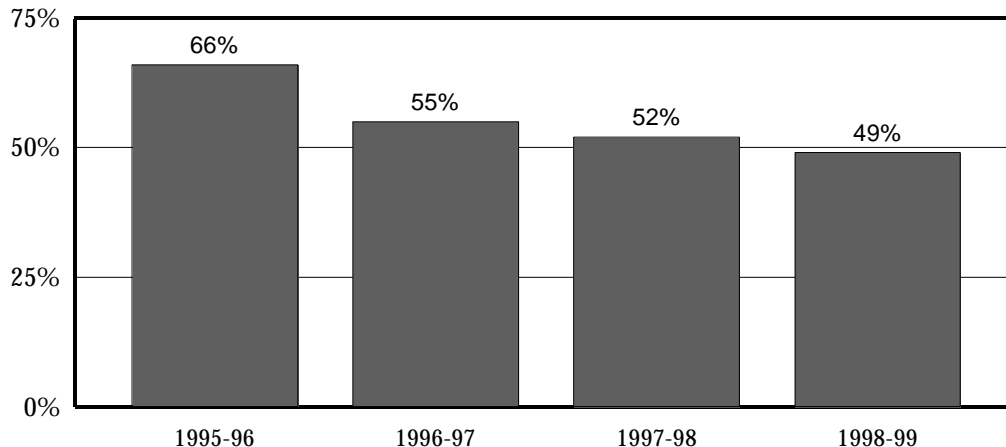
In early May, the province took advantage of an early call provision on a \$150 million US dollar issue to refinance it on a Canadian dollar basis. In June, the Province reopened its existing 6.6% June 1, 2027 bond by issuing 250 million in the Canadian Domestic Market bringing the total outstanding for the issue to \$550 million. In addition to the above transactions, the Province issued two structured transactions in the first quarter, a 5 year institutional deal for \$58 million and a 11 year \$10 million retail transaction. The forecasted refinancing program has been adjusted upwards to \$785 million from the original \$639 million due to the early call provision on the US issue as well as on a number of smaller domestic structured transactions.

Foreign Currency Exposure

The Province's foreign currency exposure at the end of June 1998 remained at the same level as year end at approximately 49%. The reduction in US debt from the early call provision was somewhat offset by the 3.5% decline in the Canadian dollar value against the US dollar since March 1998. Through the use of prudent risk management practices including the use of currency swaps, the province has made significant progress in reducing its foreign currency exposure from a high of 66% in the 1994-95 fiscal year to this past fiscal year's level of just below 49%. There are no unhedged foreign currency borrowings maturing over the next two years.

Consolidated Fund Debt Portfolio Foreign Currency Exposure

Percent



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DEBT MANAGEMENT SUMMARY

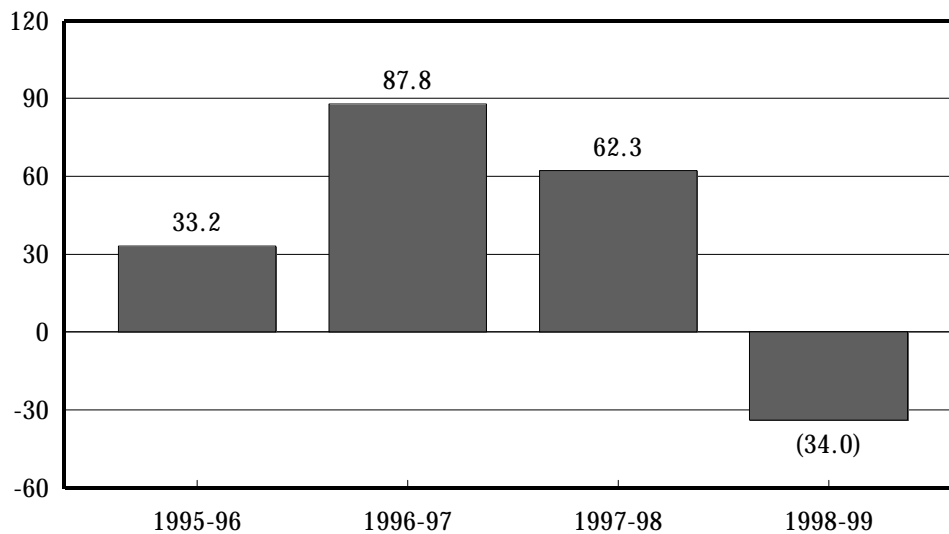
Net Debt Servicing Costs

Net Debt Servicing Costs have been revised upwards from the original estimate of \$690.7 million to \$724.7 million for the 1998-99 fiscal year. The increase is to reflect the unfavourable market conditions particularly a lower Canadian dollar value versus the value forecasted for budget assumptions. On a historical basis, the province over the past three fiscal years has had lower debt servicing costs than originally forecast through a combination of lower interest rates than forecast and better than anticipated returns on Sinking Fund Earnings.

Net Debt Servicing Costs Variance

(Estimated Costs less Actual Costs)

\$ Millions



PENSION FUNDS PERFORMANCE

The Nova Scotia Teacher's Pension Fund and the Nova Scotia Public Service Superannuation Fund both have significant investments in equities as part of their long-term investment strategies. This section of the investment portfolio was reduced in the spring and early summer. At the height of the North American equity market downturn this August, the Superannuation Fund was estimated to remain fully funded. Precise actuarial evaluations are being conducted on both funds.

ECONOMIC DEVELOPMENTS

The financial and economic turmoil in Japan, Russia and other Asian economies has raised concerns about spreading to other economies around the world. In Canada, the Asian upheavals have directly and demonstrably affected the west coast economy. Forecasters are scaling back their outlook for Canada's economic performance over the short term, although the expectation remains for continued solid performance. Similar judgments are being made about the US economy. This strength is reflected in the 7.6% growth of Nova Scotia's exports in the final half of this year.

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ECONOMIC DEVELOPMENTS

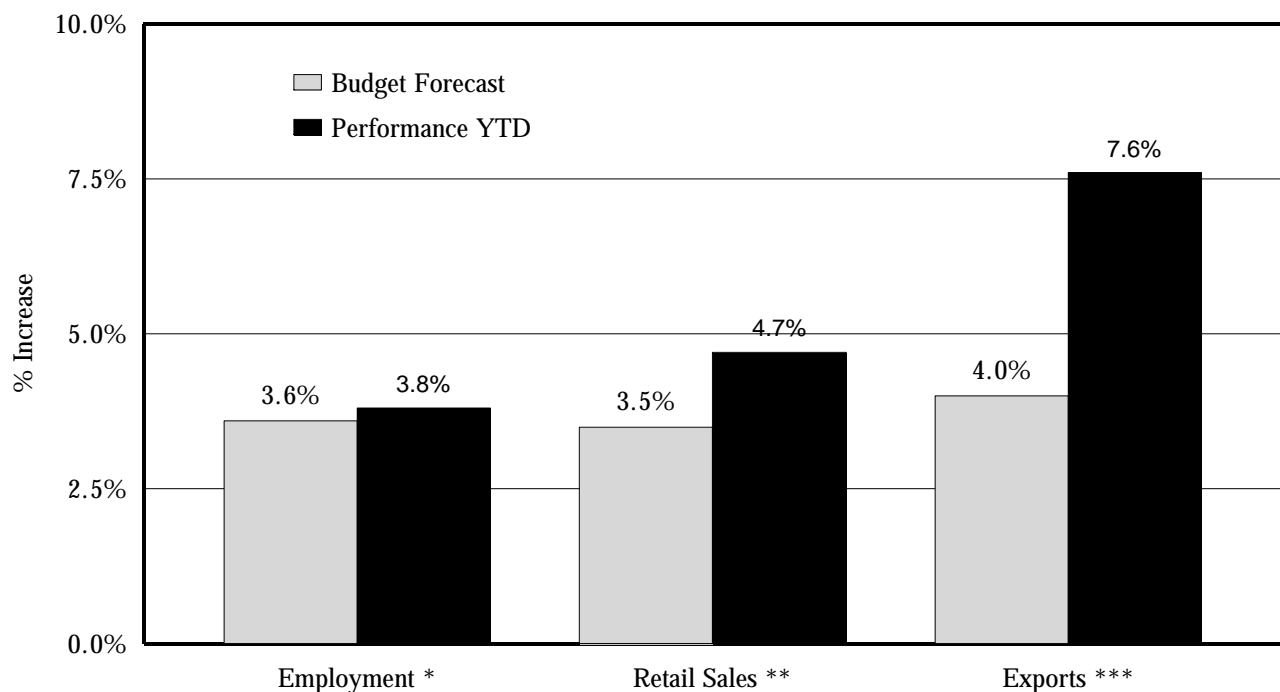
The provincial budget anticipated economic growth for Nova Scotia of 3.7% in 1998 and 2.4% in 1999. This outlook remains essentially intact. The principal driving force behind the acceleration in the province's economic growth in 1998 is the development of the Sable Offshore Energy Project. By all indications, this project is proceeding on schedule.

Available published data confirm forecast assumptions contained in the budget. Year-to-date data released by Statistics Canada on employment, retail sales, and merchandise exports show Nova Scotia's performance exceeding the Budget's assumptions. In the accompanying chart this information, which covers at least the first six months of the year, shows that Nova Scotia's economic performance to date is exceeding the budget's assumptions.

In addition, Statistics Canada has upgraded the 1998 capital spending intentions for Nova Scotia, in its late July release. Early in the year, Statistics Canada had capital spending increasing 7.7% over 1997; this is now substantially revised upward to 22.7%. This puts Nova Scotia well ahead of all other provinces in the projected increase in capital expenditures: for Canada, overall, Statistics Canada expects an increase of 7.7%. In 1998 capital spending sets the pace for economic growth in Nova Scotia, and Statistic's Canada's revised outlook for capital spending is considerably higher than the growth used in developing the budget's economic forecast.

Current available data on key economic indicators suggest that the economic growth forecast for Nova Scotia is attainable. Beyond this point of the year, any unexpected developments would have only modest effect on the province's economic performance in 1998.

Nova Scotia's Economic Performance - 1998



Note: * Employment data is for the period from January to August 1998

** Retail Sales data is for the period from January to June 1998

*** Exports data is for the period from January to June 1998