

New Brunswick Budget Highlights

Highlights and analysis of New Brunswick's FY19/20 budget

March 19, 2019, 12:30 pm

New Brunswick Gets A License For Surplus

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The Province of New Brunswick is now projecting a \$23 million surplus for FY19/20. That follows a small \$4.5 million surplus expected for FY18/19 (originally estimated to be a \$188.7 mln deficit), and would mark the second straight year in the black. That is a nice improvement for a province that has grappled with deficits for years. Looking ahead, the Province continues to expect surpluses through FY22/23, while net debt will drift lower as a share of GDP. The drop in net debt will, in fact, be the first such move in over a decade.



Finance Minister Steeves announced a number of **new policies** in this budget, the first full document under the PC government. For example:

- No new taxes hikes; no changes to the Small Business Corporate Income Tax Rates
- A front license plate will no longer be required as of April 1st (back only); volunteer firefighters do not need to pay for their plates
- Increase minimum wage by \$0.25 to \$11.50/hr next month (on April 1st)
- Merge the Department of Finance and Treasury Board
- More funding for the Auditor General's office
- Improve health care (examples: increase hiring of nurses, improving education and retention plans, cutting wait times)
- Improve education (such as higher wages for early childhood educations, review report card formats, reintroduce the Tuition Tax Credit)

Total revenue is projected to rise 1.5% in FY19/20. Growth in some tax receipts have downshifted after increases (HST and corporate) in prior years, but underlying population and economic growth remain steady. Federal transfers will also continue to grow at a strong clip, climbing 5.3% in FY19/20.

New Brunswick has seen the **economic backdrop** improve significantly in recent years, one major reason the province has been able to navigate out of deficit waters. After stagnating through the early stages of the cycle, real GDP rose by 1.6% on average in 2016 and 2017, which is well above potential for the province. Growth likely came in at just under 1% in 2018, and should fade further to 0.6%-to-0.7% over the following couple of years—much more trend-like. Part of the recent strength came alongside a duo of strong population flows (by New Brunswick's standards) and capital spending. The Province is assuming 0.6% real GDP growth this year and 1.1% in 2020. The 2020 growth figure is above our call, but we

**Table 1
Fiscal Summary**

New Brunswick (C\$ mlns, except where noted)		
	Estimate 18/19	Forecast 19/20
Revenues	9,704.3	9,845.7
Expenditures	9,699.8	9,822.6
Budget Balance	4.5	23.1
Net Debt	14,104.8	14,055.6
As a percent of GDP:		
Budget Balance	0.01	0.06
Net Debt	37.8	37.0
As a percent of revenue:		
Debt Service	6.7	6.9
Federal Transfers	34.1	35.4
Key assumptions:		
Real GDP (% chng)	0.9	0.6
Nom. GDP (% chng)	3.3	1.9

Source: Provincial Budget () = deficit

Notes: GDP figures are for calendar year (FY19/20=CY19)

**Table 2
Borrowing Requirements**

New Brunswick (C\$ mlns)		
	18/19	19/20*
New Long-Term Borrowing	343	0
Refinancing	731	742
On Behalf of NB Power	610	600
Prefinancing	458	—
Municipal Finance Corporation	168	150
Total Borrowing	2,310	1,492

*Remaining amounts

wouldn't quibble with those assumptions as there is still a lot of uncertainty around the trade file (USMCA, in particular).

Meantime, **total spending** is projected to rise 1.3% in FY19/20 to just over \$9.8 billion. Health care and education will receive notable increases of 1.8% and 2.9%, respectively. Looking ahead, spending growth will be steady over the next couple of years (+1.5%) before easing to 1.4% in FY22/23. Note that spending over the past three years has risen around 4% per year—that with population growth of around 0.5% and 2% inflation.

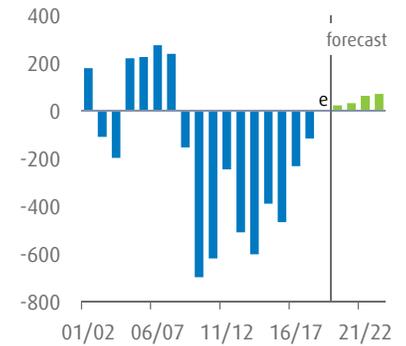
Long-term borrowing requirements are lower in FY19/20 and, at \$1.9 billion, includes \$864 million in refinancing maturities, \$150 million for the Municipal Finance Corporation and \$600 million on behalf of NB Power. The Province has pre-borrowed \$458 million, leaving \$1.5 billion remaining. As mentioned earlier, **net debt is projected to slide to just under \$14.1 billion** by the end of FY19/20, largely by cutting capital spending and by balancing the budget. Net debt will fall to 37.0% of GDP by fiscal year-end, continuing the positive momentum on this front over the past three years (recall that it peaked at 41% of GDP in FY15/16). If the current level holds for the near future, it will leave the Province above its peers in Nova Scotia and PEI, but below Ontario and Quebec.

The Bottom Line: The Province of New Brunswick has managed to put together a positive fiscal story in recent years, helped by a run of above-potential economic growth and a reduction in capital spending. That said, growth is likely to fade, but the Province appears committed to holding onto surpluses over the near-term, and trim debt-to-GDP further.

Chart 1
Swinging to Surplus

New Brunswick (C\$ mlns)

Budget Balance



Source: Provincial Budget e = estimate

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