

New Brunswick: 2021–22 Mid-Year Update

STREAK OF BALANCED BOOKS CONTINUES

- **Budget balances:** +\$89.1 mn (0.2% of nominal GDP) in FY22 (-\$244.8 mn, -0.6% in March 2021 Budget), which builds on a final surplus of \$408.5 mn (1.1% of GDP) reported in the FY21 Public Accounts (chart 1).
- **Net debt:** lowered by \$743 mn versus Budget to \$13.4 bn (33.5% of GDP) for FY22 (chart 2, p.2), which builds on the \$439 mn reduction already reported for FY21.
- **Nominal GDP growth:** forecast increased to 6.5% in calendar year 2021, up from the 4.2% rise assumed in the March 2021 Budget.
- **New Brunswick is the only province to project balanced books this year;** these projections are clearly positive for its fiscal trajectory and should be well-received by the province's creditors.

Forecast budgetary improvements are anchored by own-source revenue gains, which reflect a stronger economic recovery than anticipated at budget time. The province is the only one in Canada to project balanced books this year and, with the unexpected surplus reported for FY21, is now on pace to be in the black for the fifth consecutive year in FY22. That is in contrast to the shortfalls expected to persist through FY24 as of the last fiscal blueprint. Debt levels are also on a more modest path and should continue to trend downward as a share of output as the recovery persists.

FY22 spending plans were revised higher, but it is unclear at this time whether that will translate into higher outer-year expenses. The largest single overshoot—about \$203 mn in additional “General Government” spending—relates to settlement of the recent public sector strike, of which planned wage rate increases for the next several years were a point of debate. Health care spending forecasts were also lifted—by just \$34 mn versus Budget—largely because of higher-than-expected pandemic cost pressures. “Circuit-breaker” restrictions intended to tamp down a spike in COVID-19 cases were recently extended until late November.

Although the province's own sources accounted for over 80% of the revenue improvement versus Budget, federal transfers remain an important part of the fiscal plan. This update penciled in a \$93.1 mn increase in federal grants versus the March blueprint, mainly attributable to a one-time boost in Health Transfer, which in turn relates to health care system and immunization needs. As a share of provincial receipts, federal transfers to New Brunswick have been among the highest in any province over the last several years. The government anticipates that 36% of total FY22 revenue will come from the federal government, just under the 40% share in FY21 and 37% portion in FY20.

CONTACTS

Marc Desormeaux, Senior Economist

416.866.4733

Scotiabank Economics

marc.desormeaux@scotiabank.com

Laura Gu, Economist

416.866.4202

Scotiabank Economics

laura.gu@scotiabank.com

Updated Fiscal Forecast

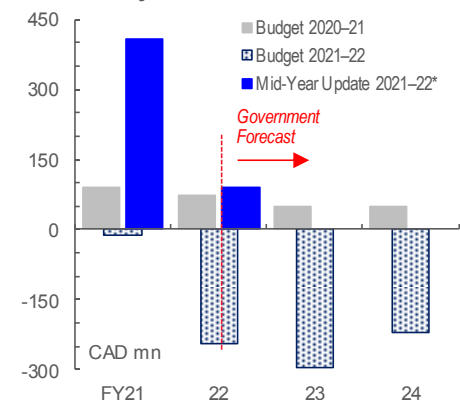
\$ millions except where noted

	FY21		FY22	
	Bud.	Final	Bud.	Mid-Year
Own Source Revenue	6,277	6,189	6,550	6,945
Federal Transfers	3,981	4,129	3,830	3,923
Total Revenue	10,258	10,318	10,381	10,868
Program Spending	9,619	9,263	9,970	10,137
Debt Service	652	647	655	642
% of Revenue	6.4	6.3	6.3	5.9
Total Expenditure	10,271	9,910	10,625	10,779
Budget Balance	-12.7	408.5	-244.8	89.1
% of GDP	-0.03	1.1	-0.6	0.2
Net Debt	13,891	13,452	14,131	13,389
% of GDP	37.3	36.0	36.4	33.5

Sources: Scotiabank Economics, New Brunswick Finance.

Chart 1

New Brunswick's Projected Fiscal Balances



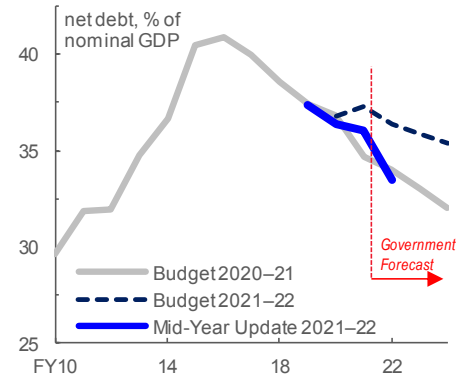
* FY21 figure is final result.

Sources: Scotiabank Economics, New Brunswick Finance.

No borrowing projections were provided in the update, but a more than \$300 mn improvement in projected budget balances implies a significant reduction in FY22 borrowing requirements. The province's March 2021 budget came with \$1.4 bn in long-term borrowing requirements for FY22. According to New Brunswick's investor relations website, as of October 18, that figure had been revised to \$1.1 bn, with \$500 mn in borrowing already completed.

Chart 2

New Brunswick's Projected Debt Load



Sources: Scotiabank Economics, NB Finance, Statistics Canada, Finance Canada.

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