

## New Brunswick: 2018–19 Q2 Update

### SUMMARY

- The Province of New Brunswick recently introduced an updated *Fiscal Transparency and Accountability Act*. This followed the Throne Speech and *Second Quarter Economic and Fiscal Update* for fiscal year 2018–19 (FY19), and the FY20 *Capital Budget*.
- A \$131.4 mn<sup>1</sup> deficit is expected in FY19—\$57.3 mn narrower than in the January 30, 2018 Budget (*Budget*) and \$56 mn less than the *First Quarter Update* projection. The forecast for net debt was lowered accordingly.
- To expedite deficit reduction beyond this fiscal year, the Government substantially lowered infrastructure spending in its *Capital Budget*.
- The Province is now targeting March 2020 for a return to balance (chart 1). Annual deficit and debt reduction rules have been reinstated, with slight modifications versus the previous iteration.

### THRONE SPEECH CHARTS A NEW COURSE

Themes of fiscal restraint and business competitiveness dominated the new government's Throne Speech. The key element was a pledge to balance the provincial budget on or before March 2020—two years earlier than promised by the previous administration. With respect to facilitating private-sector growth, the government cited its opposition to the federal carbon tax as well as its intent to develop the province's natural resources and cut red tape and business costs.

Other priorities included enhancing access to health care, improving educational outcomes and reducing poverty. With respect to the latter, the Government will work with other parties to evaluate options for reforming the province's current social assistance system. It also intends to re-open the Provincial Nominee Program as a means to support job creation and economic growth.

### ECONOMIC AND FISCAL PROJECTIONS

New Brunswick's second economic quarter forecast was largely unchanged from Q1. Real GDP growth in the 1% range is still anticipated in 2018, while expectations for employment growth, household income and inflation were in line with those in the first three months of FY19. The Province noted double-digit gains to date in exports, manufacturing sales and non-residential building investment.

Total revenues were revised \$151.7 mn higher than *Budget* and \$73 mn higher than Q1. Prior-year adjustments to personal and corporate income tax receipts were the proximate cause of the boost, with additional support from conditional grants via Disaster Financial Assistance program and the new Healthy Seniors Pilot Project. Weaker return on investment stemming from lower projected New Brunswick Power Corporation net income is expected to negate some of these gains.

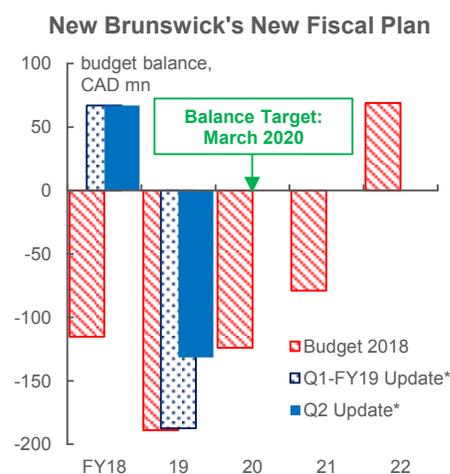
### CONTACTS

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Fiscal Update				
\$ millions except where noted				
	FY18		FY19	
	Final	Budget	Q1	Q2
Total Revenue	9,339	9,427	9,506	9,579
Total Expenditure	9,272	9,616	9,693	9,710
<b>Budget Balance</b>	<b>67</b>	<b>-189</b>	<b>-187</b>	<b>-131</b>
% of GDP	0.2	-0.5	-0.5	-0.4
<b>Net Debt</b>	<b>13,926</b>	<b>14,472</b>	<b>14,485</b>	<b>14,264</b>
% of GDP	38.6	39.0	39.0	38.4

Source: NB Finance; nominal GDP forecasts: Scotiabank Economics.

Chart 1



\* Surplus in FY18 represents final result. Sources: Scotiabank Economics, NB Finance.

<sup>1</sup> Figures reported in Canadian dollars unless otherwise stated.

**Total expenditures are forecast to exceed Budget projections by \$94.4 mn and top the first quarter projection by \$17 mn.** Spending under the Disaster Financial Assistance program—reflecting outlays related to the 2018 spring flood—accounted for more than 70% of the deviation from *Budget*. Social assistance expense overruns also contributed, with modestly lower debt servicing costs expected to provide a partial offset.

**As a result of the narrower-than-anticipated fiscal shortfall, New Brunswick's net debt is expected to total \$14.3 bn in FY19—\$208 mn less than presented in *Budget* and \$221 mn lower than projected in Q1.** As a share of nominal GDP, the revision is expected to leave the Province's net debt approximately equal to last fiscal year at about 38.5%.

**The significant cutback in infrastructure spending outlined in the FY20 *Capital Budget* represents the first step in the Government's longer-term debt and deficit reduction plan.** Outlays of about \$600 mn are planned for each year during FY20–24. Relative to the prior administration's blueprint, FY20–21 represents a 30% decrease in capital expenditures (chart 2). The revisions reflect curtailed expenditure plans across categories and indefinite postponement of several multi-year projects related to Canada's sesquicentennial.

**To incent fiscal repair and adherence to budget plans, the Government restored the *Fiscal Transparency and Accountability Act*.** Recall that in 2015 the previous administration scrapped the *Act*, which required the Province to maintain a balanced budget and reduce the net debt-to-GDP ratio every year so long as it was not in recession. Key provisions of this iteration of the *Act* include annual deficit reductions of at least \$125 mn, with equal net debt level decreases once surplus is achieved, and a net debt-to-GDP ratio target of 35% within the next five fiscal years (table, p.3). The Government intends to establish consequences for political parties if they do not comply.

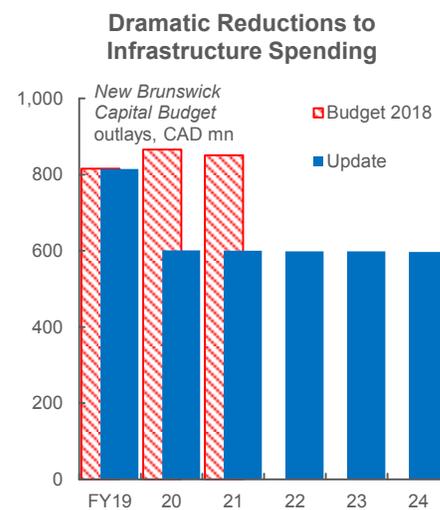
## OUR TAKE

**The updated New Brunswick financial documents represent a fundamental shift in fiscal policy.** The new government appears intent on reducing the provincial debt burden, a direction we support broadly given New Brunswick's already elevated level of indebtedness and advanced-stage economic expansion that will likely translate into more modest near-term revenue growth, as well as the recent investor apprehension stemming from an uncertain election outcome.

**We view the measures outlined in the *Fiscal Transparency and Accountability Act* as unnecessarily restrictive.** Though the previous iteration contained provisions for stimulative government spending during economic downturns, the rules could still limit the options available to the government for addressing key challenges in health care, education and poverty reduction. The previous version of the *Act* was also criticized for not being binding, so we await further details with respect to enforcement mechanisms.

**We see personal and business tax relief as likely outcomes of next year's Budget.** The Government continues to emphasize its desire to foster a more competitive business environment and facilitate private-sector job creation. With a narrower deficit forecast for this year, the reduction in infrastructure spending planned for FY20 should leave some room for stimulative fiscal policy measures.

Chart 2



Sources: Scotiabank Economics, NB Finance.

***New Brunswick's Fiscal Transparency and Accountability Act***

<u>Requirement</u>	<u>2014</u>	<u>2018</u>
<b>Budget balance</b>	Annual balanced budgets on or before the end of the first fiscal period	Year-over-year reduction in annual deficits by \$125 mn per year until a surplus is achieved
<b>Debt reduction</b>	<ul style="list-style-type: none"> <li>• The Province's level of net debt for a fiscal year will be less than the net debt for the preceding fiscal year on or before the end of the first fiscal period</li> <li>• A declining net debt-to-GDP ratio with a target at or below 35% by the end of the first fiscal period.</li> </ul>	After the deficit has been eliminated, there will be a year-over-year reduction in net debt by a minimum of \$125 mn until the net debt-to-GDP ratio is at or below 35% within five years
<b>Reporting</b>	Quarterly fiscal updates will reflect year-to-date actual revenue and expense to the end of the quarter to which the update relates	
<b>Other</b>	Ministers to place on deposit \$2,500 each fiscal year, with funds only reimbursed if there is a deficit reduction for the fiscal year in question	

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