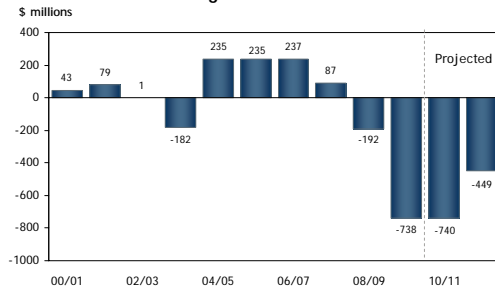


NEW BRUNSWICK BUDGET 2011

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New Brunswick budget balance



Source: New Brunswick Ministry of Finance, RBC Economics Research

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New Brunswick's 2011/12 budget, released Tuesday, outlined the government's efforts to contain a fiscal situation that many believe is spiralling out of control. Last November, Finance Minister Blaine Higgs warned that the deficit for 2011/12 could reach \$1 billion, which would have pushed the province's deficit-to-GDP ratio to its highest level since 1986. The current budget presents a rosier picture: better-than-expected revenues and modest expenditure cuts have significantly improved the near term outlook, pushing next year's projected deficit down to a more manageable \$449 million. However, many of the measures contained in the budget appear to be short-term in nature, indicating that there is still much work to be done if the province is going to deal with its structural deficit in the medium term.

Expenditures are projected to be \$8.1 billion in 2011/12, down 1.6% (\$132 million) from 2010/11's revised estimates. However, a large part of this decline (\$85 million, or 2/3 of the total reduction) comes from reduced capital expenditures and "special operating agency account" expenses, both of which were unusually high last year. Revenues are expected to come in at \$7.6 billion, representing a \$160 million (2.1%) increase over 2010/11. Approximately \$100 million of this comes from tax initiatives contained in the budget, including a delay in planned personal income tax cuts and an immediate increase in gasoline, fuel and cigarette taxes.

The budget also contained a fiscal update for FY 2010/11. Expenditures were \$226 million or 2.8% higher than projected in the 2010/11 budget. With the exception of \$36 million in flood-related expenses, the increase largely represents continued cost pressures in areas such as health, education and social assistance. The Government has not indicated how it plans to deal with expenditure growth in these areas in the medium term. Fortunately, revenues were 3.3% higher than expected as a result of upwardly revised estimates of income taxes and HST collections. This revenue growth offset the higher expenditures, pushing the deficit projection down slightly by approximately \$9 million, to \$740 million.

The 2011/12 deficit will push net debt up by approximately \$630 million, to \$10.2 billion by year end. This results in the province's net-debt to nominal GDP ratio increasing from 33.5% for the current fiscal year to 34.6% for 2011/12.

New Brunswick fiscal plan

\$ millions	Actual	Estimate	Revised	Estimate
	2009-10	2010-11	2010-11	2011-12
Revenue	6,990	7,306	7,483	7,642
Expense	7,728	8,054	8,223	8,091
Surplus/ (deficit)	-738	-749	-740	-449

Source: New Brunswick Ministry of Finance, RBC Economics Research

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