

## NEW BRUNSWICK BUDGET 2017

February 8, 2017

### On the gradual path to budget balance

#### Overview

New Brunswick's budget, released yesterday, reveals the Province's progress addressing the persistent budget deficit it has faced since the recession. In order to avoid cuts at the expense of social programs, the government has opted to eliminate the deficit slowly and continues to target 2020-21 for a balanced budget.

#### Fiscal balance

New Brunswick is receiving a slightly better hand off than anticipated from 2016-17 with an expected deficit of \$231 million (\$16 million less than budgeted). Budget 2017 expects further progress toward reducing the deficit in the coming years starting with a deficit of \$192 million in 2017-18. The government expects to return to fiscal balance in 2020-21 with a slim surplus of \$21 million. As the budget projection plots a course toward a surplus, the government is loosening their purse strings and spending some of the new revenues raised as a result of tax hikes in the 2016 budget (which included a 2 percentage point rise in the provincial portion of the HST).

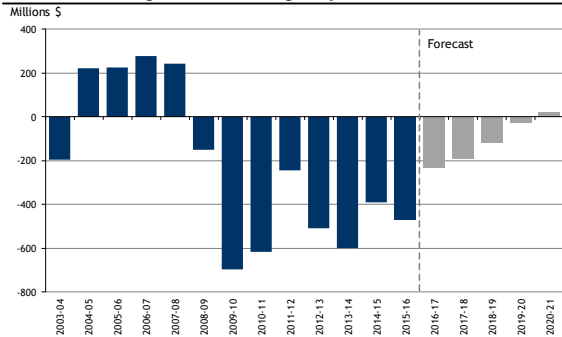
#### Revenues from previous tax hikes and a growing economy

The government is expecting last year's tax hikes, a growing economy, and transfers from the federal government to generate enough new revenue to pay for rising expenditures and to maintain steady progress closing the deficit. Budget 2017 does not include new revenue initiatives, but a full year of revenue from last years' 2-percentage point increase in the HST is expected to raise an additional \$170 million in 2017-18. An increase in equalization payments will bring in an additional \$52 million and the Province expects a stronger economy will boost revenues from other taxes (Table 1). The upshot is that total revenues are expected to rise by 4.1% in fiscal 2017-18. For context, provincial revenues have risen by 2.7% on average over the past 10 years.

#### New initiatives

Despite an upbeat forecast for revenue growth, the Province is projecting a modest improvement in the deficit thanks to new spending. Total expenditures are slated to rise by 3.6% or \$323 million, and much of this new spending is aimed at fostering economic growth. The initiatives in Budget 2017 target opportunities that the government believes have the potential for economic returns including promoting the consumption of locally-grown food, cutting the small business tax rate from 3.5% to 3.0%, and increasing the budget for the tourism department. The budget also includes a \$56 million increase in the education budget split over the Departments of Education and Early Childhood Development (+4.9%) and Post-Secondary Education (+5.4%). Finally, the budget includes a 3.3% increase in spending on health care. This follows the bilateral agreement struck between Ottawa and New Brunswick providing an increase in Canada Health Transfer payments of 3% per year or the rate of national GDP growth – whichever is higher. In its

New Brunswick government budgetary balance



Source: RBC Economics Research, Nova Scotia Department of Finance and Treasury Board

Table 1: Economic Assumptions

Year-over-year % change	Forecast	
	2017	2018
<b>2017 Budget</b>		
Real GDP growth	0.6	0.8
CPI	2.6	2.3
Nominal GDP growth	1.9	2.1
Unemployment Rate*	9.5	9.5
Employment growth	0.2	0.3
<b>RBC Economics</b>		
Real GDP growth	0.5	0.8
CPI	2.5	2.1
Nominal GDP growth	2.2	2.5
Unemployment Rate*	10.0	9.5
Employment growth	0.4	0.2

\*Average level

Source: RBC Economics, New Brunswick Department of Finance and Treasury Board

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negotiations, New Brunswick preserved the option to participate in other agreements which are struck between the provinces and federal government. This creates upside for the province's Canada Health Transfer if other provinces are able to negotiate more generous terms.

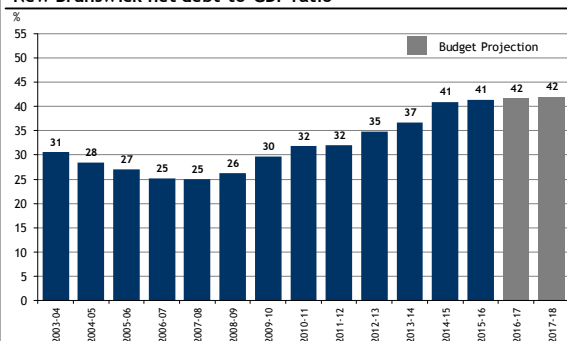
### The Capital Plan

Aside from rising departmental expenditures, Capital Budget 2017 sets out a 23% increase in capital spending from fiscal 2016-17 to 2017-18. The Province expects its infrastructure program to create 8,300 jobs and includes \$110 million in upgrades and renovations to hospitals, \$88 million to schools, and \$447 million in roads, bridges and other transportation infrastructure. While total spending will rise by \$125 million (from \$632 million to \$758 million), the federal government will pay for a portion of the increase as part of its infrastructure program.

### Borrowing and net debt

New Brunswick's projected budget deficit for the next fiscal year will push net debt up to \$14.3 billion in 2017-18. As debt climbs amid a sluggish economy, the net-debt-to-GDP ratio will rise to 42%. The Province has yet to complete \$168 million of its borrowing plan in in fiscal 2016-17 and intends to borrow a further \$2.4 billion during fiscal 2017-18. Of which \$800 million is new long-term borrowing.

New Brunswick net debt-to-GDP ratio



Source: RBC Economics Research, Nova Scotia Department of Finance and Treasury Board

Table 2: Budget Summary (millions of dollars)

	Forecast		Estimate		
	2016-17	2017-18	2018-19	2019-20	2020-21
Total Revenue	8,826	9,189	9,365	9,519	9,729
Departmental and Other Expenses	8,362	8,680			
Public Debt Charges	695	701			
Total Expenses	9,057	9,381	9,482	9,543	9,708
<b>Net Budgetary Balance</b>	<b>-231</b>	<b>-192</b>	<b>-117</b>	<b>-24</b>	<b>21</b>
Net Debt	13,997	14,359			
Nominal GDP	33,680	34,387			
Net debt to GDP Ratio	42%	42%			

Source: New Brunswick Department of Finance and Treasury Board

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