

# 2020 New Brunswick Budget

## Province Targets Further Modest Surpluses and Debt Reduction

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### Highlights

- In its second full budget, New Brunswick’s PC government showcased a plan to keep the Province’s books in the black, with a projected \$92 million surplus in FY 2020-21.
- The budget prioritizes increased outlays for healthcare, education, and social assistance. Growth in operating spending will hit 3.5% this year and average 2.3% over the horizon.
- The revenue side of the ledger contained minor policy changes, including a reduction in gasoline and select property taxes. Revenue growth is expected to average 2.1% through FY 2023-24.
- The government also outlined a medium-term debt reduction plan, with net debt projected to drop by \$530 million over four years. The net debt-to-GDP ratio is expected to slip to 32% over the horizon.

New Brunswick’s PC government tabled its second full budget, showcasing a plan that is underpinned by continued emphasis on fiscal discipline. Narrow surpluses of 0.1%–0.2% of GDP are planned over the four-year forecast horizon (Chart 1). The Province is also benefitting from a better-than-expected starting point, with its FY 2019–20 surplus coming in at \$98 million, an improvement over the initial budget’s \$23 million forecast. This came as a result higher-than-expected revenues.

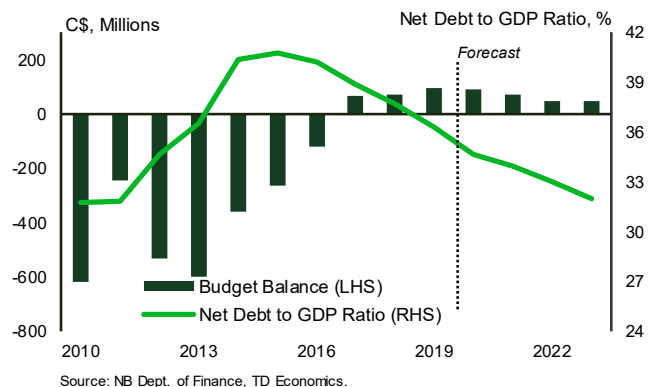
Operating spending is expected to average a moderate 2.3% over the next four years, with new outlays for healthcare, education, government administration, and social assistance programs. Meanwhile, revenues are projected to grow by 2.1%. Notably, the government has put forward plans to reduce some taxes on property and gasoline.

Consistent with its focus on fiscal discipline and debt reduction, the net debt to GDP ratio is expected to drop to 34.7% this year before trending even lower thereafter.

Near term projections are likely optimistic post COVID-19

This year’s provincial budget season is coming at a time when economic events are fluid and forecasts are evolving quickly. As with most other budgets, forecasts reflect an outlook for 2020 that now may be relatively optimistic given the recent COVID-19 outbreak and the resulting weakening in the global and Canadian macroeconomic backdrop. Real GDP growth in the budget is projected to

**Chart 1: Surpluses to Continue, Net Debt to GDP to Trend Down for New Brunswick**



| New Brunswick Economic Assumptions<br>[ Per cent change unless otherwise noted ] |      |      |      |      |          |
|----------------------------------------------------------------------------------|------|------|------|------|----------|
| Budget 2019                                                                      |      |      |      |      |          |
|                                                                                  | 2018 | 2019 | 2020 | 2021 | 2022-24F |
| Nominal GDP                                                                      | 3.2  | 2.8* | 3.7  | 2.6  | 2.7      |
| Real GDP                                                                         | 0.8  | 0.8* | 1.2  | 0.6  | 0.8      |
| Employment                                                                       | 0.3  | 0.8  | 0.3  | 0.3  | 0.4      |
| Unemployment rate (%)                                                            | 8.0  | 7.9  | 8.0  | 7.8  | 7.8      |
| Population                                                                       | 0.5  | 0.8  | 0.6  | 0.5  | 0.5      |
| Retail Trade                                                                     | 1.7  | 2.1  | 2.0  | 1.4  | 1.9      |
| CPI                                                                              | 2.1  | 1.7  | 1.9  | 2.0  | 1.9      |
| Household Income                                                                 | 3.2  | 3.7* | 3.3  | 2.7  | 2.6      |

\*2019 GDP and Household Income numbers are estimates.  
Source: New Brunswick Budget 2020, TD Economics.

come in at 1.2% this year (Table 1), which is more than 0.5 ppts above our latest tracking which appears to build more significant, though temporary COVID-related impacts. At the same time, however, our forecast imbeds a notable rebound in the province's growth in 2021 to around 0.9%, compared to the budget's cautious 0.6% assumption.

In the outer years, the government's labour force growth projections may be on the high side. The government may be incorporating some benefit from its plan to coordinate increased immigration targets with the federal government.

### Surpluses projected to continue

The key theme in this year's budget is keeping the province's books in the black over the forecast horizon. In light of the relatively contained policy announcements today, the government is anticipating continued modest surpluses on the order of 0.1%-0.2% of GDP through FY 2023-24 (Table 2).

That said, the budget still included some new spending plans. Healthcare (+4%), education (+4%), and social development (+4.5%) will all see healthy increases this year. Spending on healthcare is set to be ramped up across the board, with additions to the vaccination, oncology drugs, ambulance, and mental health programs. The government will also decrease interest rates on provincial student loans to match the prime rate (instead of prime + 2.5%). The budget included plans to increase social assistance rates, which will also be indexed to changes in CPI inflation.

On the revenue side of the ledger, non-owner-occupied properties will see a 50% reduction in the property tax rate starting in 2021. Also starting in 2021, the government will institute reductions in non-residential property taxes to \$1.856 per \$100 assessment (down from \$2.186). Effective next month, the gasoline and diesel taxes will decline by \$4.63 cents and \$6.05 cents per litre, respectively, as part of the government's carbon plan.

### Borrowing, net debt-to-GDP ratio to trend down

The government added a four-year debt reduction plan to its budget this year. Total borrowing requirements are expected to decline by \$700 million this year (from \$2 billion to \$1.3 billion), with the drop attributable to per-financing in the previous year and reduced borrowing on behalf of NB Power. Meanwhile, the Province's net debt is poised to drop by \$130 million this year. Continued emphasis on fiscal discipline will drive net debt lower by around \$530 million over the next four years. Encouragingly, the government has targeted a reduction in its net debt-to-GDP ratio to 32% by FY 2023-24 (Chart 1), down from a peak of 41% in 2015.

### Bottom Line

Today's plan can be characterized as 'status-quo', following a number of other Provinces that have released budgets so far this spring. In the near term, our economic forecasts are being revised down across the board following the COVID-19 outbreak. This could complicate the job of meeting budget targets in the short term, especially given that projections of budgets tabled thus far were prepared in advance of the outbreak. Over the longer term, maintaining the recent positive growth trends in population and labour force will be critical to New Brunswick's finances, especially given its aging demographics. All told, however, New Brunswick's emphasis on debt reduction and remaining in surplus territory is encouraging.

| <b>New Brunswick Government Fiscal Position</b> |               |               |               |               |               |
|-------------------------------------------------|---------------|---------------|---------------|---------------|---------------|
| [ Millions of C\$ unless otherwise indicated ]  |               |               |               |               |               |
|                                                 | Budget 2019   | Budget 2020   |               |               |               |
| <i>Fiscal Year</i>                              | 2019-20       | 2020-21       | 2021-22       | 2022-23       | 2023-24       |
|                                                 | Estimate      | Budget        | Plan          | Plan          | Plan          |
| <b>Revenues</b>                                 | <b>9,938</b>  | <b>10,278</b> | <b>10,514</b> | <b>10,656</b> | <b>10,819</b> |
| % change                                        | 2.5           | 3.4           | 2.3           | 1.4           | 1.5           |
| <b>Expenditures</b>                             | <b>9,840</b>  | <b>10,186</b> | <b>10,440</b> | <b>10,607</b> | <b>10,769</b> |
| % change                                        | 2.2           | 3.5           | 2.5           | 1.6           | 1.5           |
| <b>Surplus (+)/Deficit (-)</b>                  | <b>98</b>     | <b>92</b>     | <b>74</b>     | <b>49</b>     | <b>50</b>     |
| % of GDP                                        | 0.3           | 0.2           | 0.2           | 0.1           | 0.1           |
| <b>Net Debt</b>                                 | <b>13,810</b> | <b>13,681</b> | <b>13,555</b> | <b>13,429</b> | <b>13,280</b> |
| % of GDP                                        | 36.3          | 34.7          | 34.0          | 33.0          | 32.0          |

Source: New Brunswick Department of Finance, Budget 2020-21, TD Economics.

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