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# Provincial Budget Briefs

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## NEW BRUNSWICK BUDGET 2018

**Stronger economic growth, resulting in higher revenues, and lower debt service costs means that New Brunswick is on track to report a smaller deficit in 2017/18 than the initial budget. Looking forward though, a deceleration in economic growth, combined with targeted spending increases, are set to see the deficit rise again to almost $190mn in 2018/19. The path to balance has also been pushed back by a year to 2021/22 in this last budget before the September elections. The widening of the current deficit combined with increased investments will add $372mn to the debt level, although due to the recent strength of the economy, the debt-to-GDP ratio as of March 2018 will be lower than expected a year ago (39.7% vs 42.6%). Lower maturities and cash funding requirements in the coming year means financing requirements aren't as great as in 2017/18, even though borrowing requirements for NB Power will double.**

**Table 1**

| $Millions | 2016/17 Actual | 2017/18 17 Budget | 2017/18 18 Budget | 2017/18 Change | 2018/19 18 Budget | 2019/20 18 Budget | 2020/21 18 Budget | 2021/22 18 Budget |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | **8,890** | **9,189** | **9,263** | **74** | **9,427** | **9,685** | **9,902** | **10,115** |
| *% change* | *6.0* | *3.4* | *4.2* | *0.8* | *1.8* | *2.7* | *2.2* | *2.2* |
| Own Source | 5,760 | 5,962 | 6,045 | 82 | 6,034 | | | |
| *% change* | *6.0* | *3.5* | *4.9* | *1.4* | *-0.2* | | | |
| Federal Transfers | 3,130 | 3,227 | 3,218 | -9 | 3,394 | | | |
| **Expenditures** | **9,009** | **9,381** | **9,378** | **-3** | **9,616** | **9,809** | **9,981** | **10,046** |
| *% change* | *4.2* | *4.1* | *4.1* | *0.0* | *2.5* | *2.0* | *1.8* | *0.7* |
| Program Spending | 8,336 | 8,680 | 8,695 | 15 | 8,941 | | | |
| *% change* | *4.6* | *4.1* | *4.3* | *0.2* | *2.8* | | | |
| Public Debt Charges | 673 | 701 | 683 | -18 | 675 | | | |
| **Budget Balance** | **-119** | **-192** | **-115** | **77** | **-189** | **-124** | **-79** | **69** |

### Stronger Growth in 2017; Modest Deceleration Expected Ahead

The New Brunswick economy is now expected to have grown by 1.3% in real terms during 2017 and by 3.3% in nominal terms. That nominal growth rate, which is more important from a revenue standpoint, is almost 1½% higher than had been expected by the Province at budget time. Retail sales, which rose by 7% to keep pace with the national average, combined with the first increase in housing starts since 2010, contributed to the stronger growth in 2017. A hotter economy and a further rise in population also resulted in the first rise in employment within the Province in four years.

Looking ahead, expectations are for a deceleration in growth, albeit the 2018 forecast has also been revised higher since last year. The 1.1% real growth rate expected for 2018 is in line with our forecast and very close to the consensus, although the nominal GDP expectation (2.5%) seems to apply some conservatism versus our numbers.

## Strong Budgetary Performance in 2017/18, But Return to Balance Delayed Until 2021/22

The stronger economy during 2017 means that 2017/18 revenues are on track to beat what was budgeted for. Revenue is now expected to be $74mn higher than previously expected, with increased Corporate Income Tax and Harmonized Sales Tax taking leading the way. The near 5% increase in revenue compared to 2016/17 would be almost 1½% higher than had been budgeted for. In contrast, the 4.1% rise in expenses was in-line with Budget 2017 expectations. Overall, the $115mn deficit now anticipated for the outgoing fiscal year is a $77mn improvement over the initial budget.

Looking ahead, increased spending on priorities such as health, education and tourism are expected to see expenditure growth outpace revenue in 2018/19. The Health Department sees a 3.7% increase in budget, with spending plans guided by the Government's provincial aging strategy. Spending for Education and Early Childhood Development will rise by just over 6% to $1.26bn in 2018/19. Overall spending will rise by 2.5% compared with 2017/18.

| Table 2 | Key Assumptions | | | |
|---|---|---|---|---|
| Y/Y % Chg | **2017** | **2018** | **2019** | **2020-22** |
| **Economic Assumptions** | | | | |
| Real GDP | 1.3 | 1.1 | 0.9 | 0.7 |
| *Private Sector Average* | - | *1.0* | - | - |
| Nominal GDP | 3.3 | 2.5 | 2.2 | 1.9 |
| Employment | 0.4 | 0.2 | 0.1 | 0.0 |
| Unemployment Rate (%) | 8.1 | 8.2 | 8.3 | 8.3 |
| Housing Starts | 26.4 | -7.9 | 1.9 | -2.0 |
| Primary Household Income | 2.5 | 2.2 | 2.5 | 2.5 |
| CPI | 2.3 | 1.5 | 1.6 | 1.6 |
| Population | 0.3 | 0.2 | 0.2 | 0.1 |

*Note: 2020-22 is three-year average*

On the revenue side, a 1.8% rise in 2018/19 will be helped by higher Federal transfers. Following the upside surprise in the outgoing fiscal year, a reduction in Corporation Tax receipts is expected to weigh on own source revenue growth. Longer term, a gradual deceleration in spending growth, bringing it below the rate of nominal GDP, and steady advances in revenue are expected to bring the budget to balance by 2021/22. That's a year later than was previously planned. In keeping with last year's budget, Budget 2018 again doesn't include a contingency reserve.

## Borrowing Needs Fall Modestly in 2018/19

Lighter maturities and reduced cash funding requirements for operations and capital projects (adjusted for non-cash items both budgetary and non-budgetary) will lower New Brunswick's funding needs by approximately 6% in 2018/19, with increased borrowings on behalf of NB Power only partially offsetting these lower requirements. Budget 2018 shows a gross borrowing requirement of $2.262bn for fiscal 2018/19, down $151mn from 2017/18 figure.

Included in the gross borrowing number is $771mn of net new long-term borrowing and $731mn of refinancing requirements, net of sinking funds. Also included in borrowings is an amount of $610mn on behalf of New Brunswick Power (NB Power) and $150mn for New Brunswick Municipal Finance Corporation (NBMFC), the latter unchanged from the previous year. There is $196mn remaining to be financed for 2017/18.

Borrowings on behalf of NB Power were relatively light in 2017/18, but will more than double in 2018/19 to $610mn. Looking further ahead, the province has plans to

| Table 3 | Financing Plan | |
|---|---|---|
| $Millions | **2017/18E** | **2018/19F** |
| **Borrowing Requirements** | | |
| Increase/(Decrease) in Net Debt | 362 | 373 |
| Non Cash Items | 140 | 190 |
| Non Budgetary Transactions | 311 | 208 |
| Carryover Prior Year / Pre-financing | 0 | 0 |
| **Net Financial Requirements** | **813** | **771** |
| Debt Refinancing (Net of SFs) | 980 | 731 |
| Refinancing CPP | 0 | |
| Borrowing on Behalf of NB Power | 470 | 610 |
| **Total** | **2,263** | **2,112** |
| **Sources of Funding** | | |
| Cash & ST Paper | 0 | |
| Bonds & MTNs | 2,263 | 2,112 |
| CPP | **0** | |
| **Sub-Total (Province, NB Power)** | **2,263** | **2,112** |
| NBMFC Borrowing | 150 | 150 |
| **Total (All Entities)** | **2,413** | **2,262** |
| Net New Issues | | |
| Bonds & MTNs | 713 | 971 |

refurbish and extend the life of the Mactaquac hydro-electric dam to its original lifespan. Total costs to NB Power over the life of the project are estimated at between $2.9-$3.6bn. NB Power anticipates that the majority of the work will occur between 2020 and 2036. The 670-megawatt facility on the St. John River, west of Fredericton, will then remain in use until approximately 2068, at which point the facility will be 100 years old. The dam was built in 1968 with an original lifespan projection of about 100 years, but a chemical reaction causing the concrete to deteriorate shortened it by roughly 38 years.

Net debt at the end of 2018/19 is projected to be $14.5bn, up from a reduced estimate of $14.1bn in 2017/18 (original budget projection was $14.4bn) and a revised $14.0bn in 2016/17. Note that as it concerns the latter, accounting changes related to the recognition of pension plan obligations and the consolidation of non-profit nursing homes have led to higher net debt figures than at the time of the original budget tabled in 2016, at which time net debt was originally estimated to be $13.4bn.

Based on CIBC Economics' forecast for GDP, we expect the debt/GDP ratio to come in around 39.6% at March 31, 2019, relatively unchanged from the previous year's revised estimate of 39.7%. We highlight that the debt ratio estimate at March 31, 2018, is lower than the 42.6% we were projecting at the time of last year's budget. The improvement reflects both stronger-than-anticipated economic growth and a lower estimated net debt figure.

New Brunswick's multi-year capital plan through to 2020 entails $815.3mn in public infrastructure investments in 2018/19, up from a lower revised estimate of $745.6mn in 2017/18.

Notwithstanding the delay in return to balance by one year, we view today's budget as neutral credit implications. We highlight that forward deficits are modest in scope and the debt ratio appears to be stabilizing. The province is taking a measured approach to addressing its structural deficit in order to minimize the impact on government services.