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New Brunswick Budget 2021 – Fiscal Resilience in the Pandemic, Manageable Deficits in the Future

The New Brunswick Public Health authority reported only five new COVID-19 cases today, one yesterday and five two days ago. At the moment, there are fewer than 50 active cases. Low infection rates in New Brunswick have so far prevented the imposition of long and painful lockdown measures and should mitigate the risks of a potential third wave coming from elsewhere on the planet.

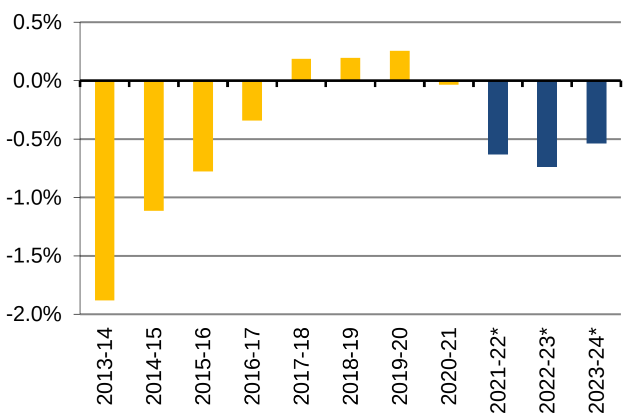
NB registered the gentlest economic contraction across provinces last year as we reported in our [January provincial outlook](). The NB Department of Finance and Treasury estimate the 2020 real GDP contraction at only 3.9%, significantly less than the 5.4% pullback registered at the national level. Also, total employment stood only 2% below pre-COVID levels in February, among the best labour market performance in Canada. The government forecasts a moderate 2.9% real GDP rebound in 2021. A pick-up in global economic growth will propel expansion in the agricultural, mining and forestry sectors; and the rebound in household income will support consumer spending.

Due to its enviable coronavirus management, NB spent less per capita on pandemic-related programs than did other provinces as reported by the [Canadian Centre for Policy Alternatives](). Thus, NB became a fiscal exception to the rule in the Canadian landscape in FY 2020-21. Third-quarter results released one month ago projected a tiny $13M deficit for FY 2020-21 (0.0% of GDP), a figure unchanged in today's budget. This compares to a $92M surplus projected a year ago, a rather small difference considering that Budget 2020 did not incorporate the likely impact of the pandemic on public finances.

Similar to other provinces, additional funding from Ottawa helped NB to cushion the blow. After reaching $4.0B in FY 2020-21 (+9.5%), federal transfers are projected to revert to $3.8B in FY 2021-22 (-3.8%). This turnaround partly explains deficits pegged at $245M (0.6% of GDP), $296M (0.7% of GDP) and $220M (0.5% of GDP) over the next three fiscal years (chart 1). These deficits average below 1% of GDP, smaller than during the 2013-2017 period when NB was on a deficit reduction path and also suggest a manageable fiscal situation.

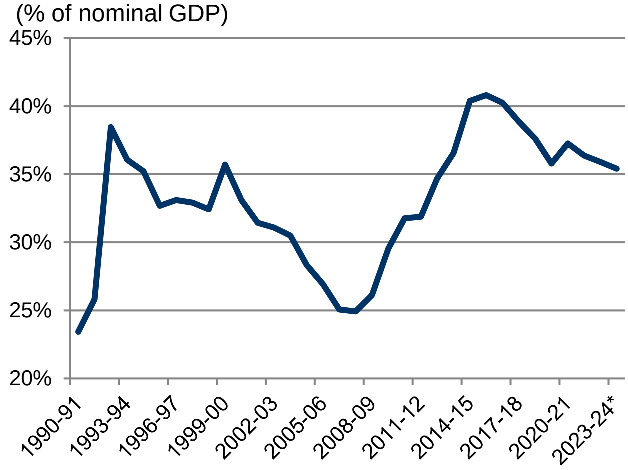
Own-source revenues are poised to grow by 4.4%, to $6.6B as the tax take from the economic rebound is partly offset by previously announced tax cuts. For instance, a gradual four-year reduction of the property residential and non-residential tax rate starts in 2021. Other tax changes include an increase in the carbon tax and the renewal of the tax incentive to promote local tourism.

Chart 1: New Brunswick Budgetary Balance
(% of nominal GDP)



Source: New Brunswick government., Stat. Can., LBS Econ. Res. and Strategy.

Chart 2: New Brunswick Net Debt
(% of nominal GDP)



Sources: New Brunswick Government , LBS Econ. Res. and Strategy.

Growth in total expenses will outpace revenues and is projected to increase by 3.4% to reach $10.6B in FY 2021-22. The PC government, holding a majority status in the Legislative Assembly since last September, dedicated additional funding to both COVID-19 and non-COVID health care expenditure.

Another way for investors to appreciate the relatively minor deterioration in public finances caused by COVID-19 is by looking at the evolution of the net debt-to-GDP. The ratio is forecast to decline to 35.4% in FY 2023-24, from 37.3% in FY 2020-21 (chart 2). That ratio will therefore remain significantly below the levels that prevailed during the 2013-2017 fiscal consolidation period. At 6.3%, the debt service-to-revenue ratio remains relatively low and leaves the province some room to manoeuver in a rising global yield environment.

In summary, New Brunswick is in a good financial position to tap the bond market. The $1.55B borrowing program for FY 2020-21 is completed. Borrowing requirements are projected at $1.7B in FY 2021-22, split between $1.4B for long-term general borrowing and $300M on behalf of NB Power. An additional $150M is borrowed by the NB Municipal Finance Corporation.

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