



Laurentian Bank Securities **ECONOMIC RESEARCH AND STRATEGY**

New Brunswick 3rd Quarter Fiscal Update: From a deficit to a balanced budget position

Less than a month ago, the Premier of New Brunswick Blaine Higgs [announced](#) that the Province would completely eliminate its budgetary deficit in 2018-19. Furthermore, he mentioned that the province will be “deficit-free” in the next two fiscal years. The [third quarter fiscal update](#) released today materializes the first part of his statement. A \$4.5M (less than 0.1% of GDP) surplus is now expected in FY 2018-19. It is still a large \$136M improvement relative to the second quarter estimate (see chart) and, notably, it came three years ahead of schedule.

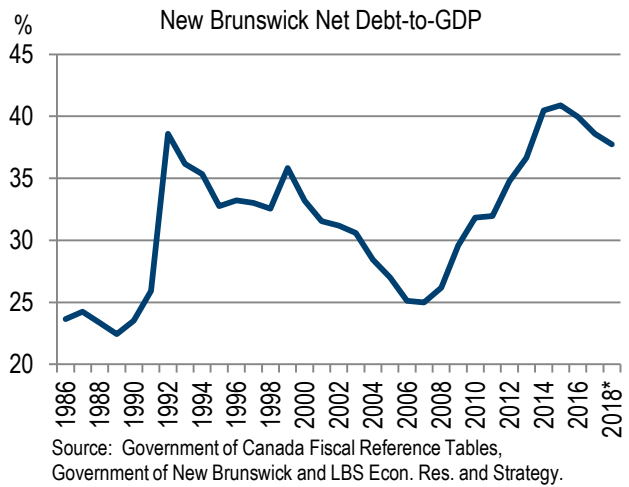
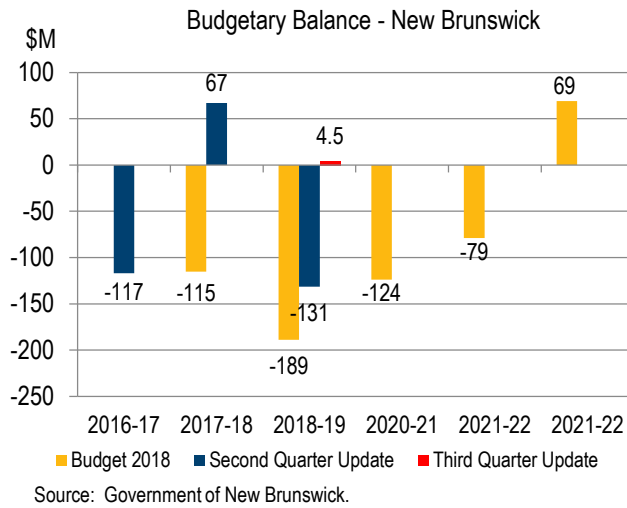
The Ministry of Finance’s real GDP growth estimate of 1.1% in 2018 is in line with our estimate published in the [Provincial Monitor](#). Therefore, most of the fiscal improvement came from recurrent revenue sources such as higher personal and corporate income taxes (\$232M) in 2018-19 and stronger than expected 2017-18 tax assessments. Also, we expect the net debt-to-GDP ratio to slightly decrease to 37.7% in FY 2018-19. This would be the third consecutive year that New Brunswick’s indebtedness ratio declines, a fact that should be noticed by ratings agency (see chart). Going forward, assuming that the NB economy maintains growth momentum, the government should be in a good position to post balanced budget. The 2019 budget will be released on **March 19**.

Impact on borrowing requirements

Before the update, borrowing requirements were estimated at \$2.1B for FY 2018-19, with 87% completed as of last Friday. Since the deficit has been eliminated, borrowing requirements for government operations should decline as well in the coming years. The government will be in a more favourable position to invest in tangible capital assets, estimated at \$638M for FY 2018-19. For instance, the life extension until 2068 of NB Power Mactaquac Generating Station has [estimated capital cost between \\$2.7B and \\$4.2B](#) and could imply higher borrowing requirements in the future. While the final approval is still pending, the construction is expected to start in 2020.

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