

## New Brunswick: What deficit?

By Warren Lovely

Back in March, New Brunswick's prudent yet thoughtful 2021 budget outlined a fiscal picture characterized by less pronounced virus fallout than many other provinces. Seven months later, what limited COVID-related fallout there was has essentially evaporated, at least from a budget balance perspective, as deficits morph into surpluses. Specifically, NB's public accounts revealed an actual budget surplus of C\$409 million for 2020-21. That compares favourably to the C\$13 million deficit estimated back in March. Meanwhile, a fresh Q1 update for the 2021-22 fiscal year converts a budgeted deficit of C\$245 million into another surplus of C\$38 million (Chart 1). In other words, New Brunswick expects to print its budget balance in black ink for a fifth consecutive year, the streak of budget-beating results looking to extend to eight years (Chart 2).

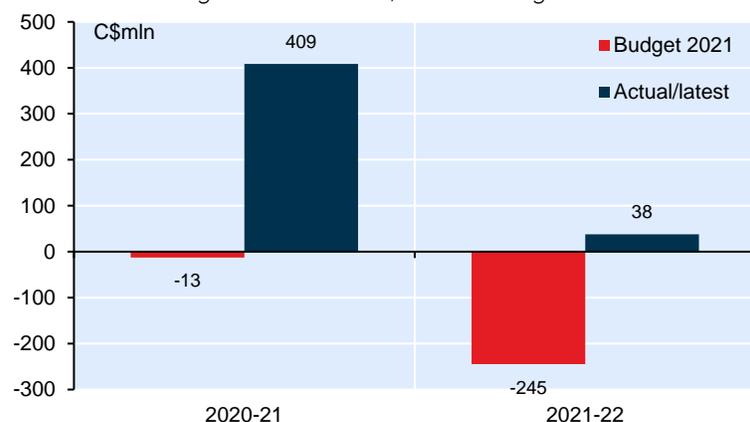
All told, this is a two-year fiscal improvement of just over C\$700 million, which is fully reflected in a new-and-improved profile for net debt. Since March, NB has erased roughly C\$900 in net debt for each citizen, while the corresponding debt-to-GDP ratio continues to step down. Based on NBF estimates for nominal GDP, the net debt-to-GDP ratio is poised to slip below 33% in 2021-22. That ratio had been hovering north of 40% back in the mid-2010s. New Brunswick's debt ratio is now lower than a clear majority of the provinces, with NB looking to go down as the sole jurisdiction where the debt ratio actually fell during the peak of the pandemic (i.e., during 2020-21). That's a cool factoid for those in Fredericton.

To be clear, there are one-off factors at play here, most notably exceptional, time-limited federal government supports. The province is quite up-front about this. FinMin Steeves highlighted evident pressure on own-source revenue due to the pandemic, simultaneously cautioning that "we cannot rely on one-time federal support in the future". Moreover, still-elevated uncertainty argues for responsible/prudent fiscal management. Special factors or not, New Brunswick currently finds itself in the strongest budgetary position of any province in Canada (Chart 3). As it stands, NB resides in an enviable fiscal area code, one bond investors and rating agencies should be willing to appreciate.

A final word... New Brunswick's budgetary upgrade is the latest in an other-worldly improvement in provincial finances. With most provinces having updated their 2020-21 and 2021-22 balances, the combined two-year improvement now tops C\$55 billion with plenty more to come. We've never seen anything remotely like this, cash levels propelled way above plan and net borrowing needs crashing lower. Moreover, this is a story playing out across the country, as the rising tide of nominal GDP and extraordinary federal support lifts most if not all provincial boats.

### Chart 1: New Brunny stays in the black despite pandemic

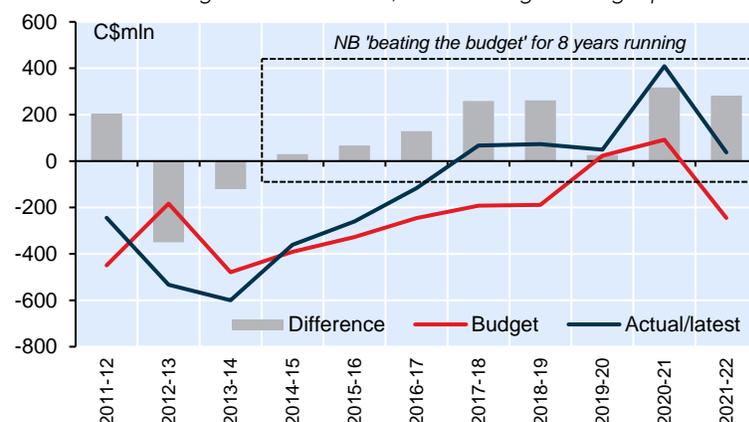
New Brunswick budget balance: Actual/latest vs. Budget 2021 estimates



Source: NBF, New Brunswick

### Chart 2: Fiscal outperformance streak extended

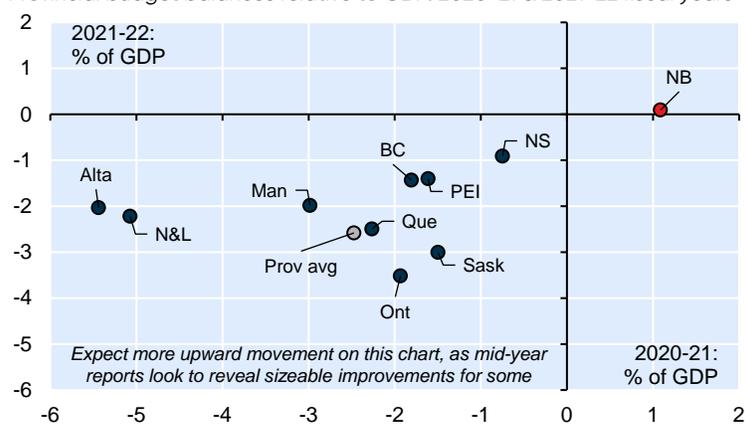
New Brunswick budget balance: Actual/latest vs. original budget plan



Source: NBF, New Brunswick | Note: Difference is actual/latest less budget plan

### Chart 3: New Brunswick currently sole province in the black

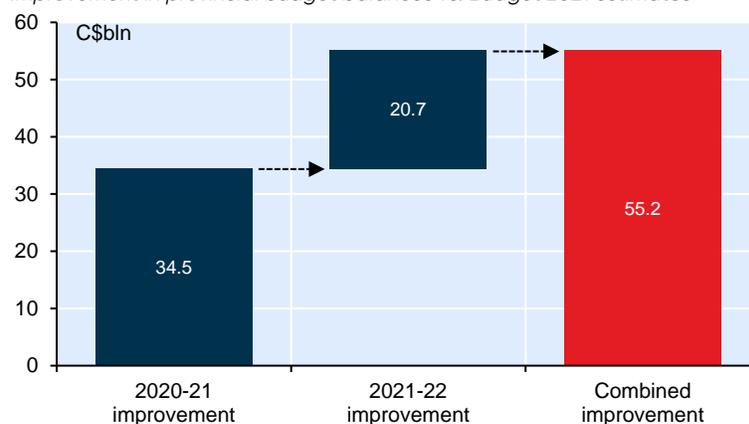
Provincial budget balances relative to GDP: 2020-21 & 2021-22 fiscal years



Source: NBF, provincial governments | Note: Scaled to nominal GDP using latest NBF forecasts; based on latest official figures

### Chart 4: Provincial fiscal improvement \$55bn & counting

Improvement in provincial budget balances vs. Budget 2021 estimates



Source: NBF, provincial governments | Note: Combined improvement is two-year total for eight provinces (excludes N&L, PEI); based on latest official figures; more to come!



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