NATIONAL BANK
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NEW BRUNSWICK
2017 BUDGET

Economics and Strategy

February 7, 2017

Still on course for a balanced budget by 2020-21

Highlights

- Revenues and expenses in both the 2016-17 revised estimates and estimates for 2017-18 now reflect the consolidation of nursing homes. Also, the contingency reserve has been eliminated. With these changes in mind, the Government now projects a deficit of $231.1 million for 2016-17, a $16 million improvement from the budgeted deficit.

- The deficit for 2017-18 is projected at $191.9 million.

- As a result of the damages from the severe winter storm that occurred recently, there may be unforeseen expenses in the last quarter of 2016-17 and in the first quarter of 2017-18 that could negatively impact these deficit projections. The Government will seek to minimize these impacts through federal recoveries and internal efficiencies.
- The Department of Finance estimates real economic growth of 0.4% in 2016, unchanged from last year's budget. It anticipates real GDP growth of 0.6% in 2017, 0.2 percentage points below the consensus among private sector forecasters. The respective growth rates of nominal GDP are 1.8% and 1.9%.

- Effective April 1st 2017, the Small Business Income Tax rate will be lowered from 3.5% to 3.0%.

- As a result of the projected budget deficit and of acquisition of tangible capital assets (net of amortization expense), net debt is projected to increase $362.1 million (2.6%) to $14.36 billion in the year ending March 31, 2018.

- With less than two months left in fiscal 2016-17, $168 million of financing has to be completed. For 2017-2018, the financing requirement will amount to $2.4 billion, of which $980 million is refinancing. Therefore, from now on, the Government plans to borrow $2.6 billion when combining borrowing requirements for next fiscal year with the remaining borrowings for the current fiscal year.

There have been changes in the presentation of financial statements compared to last year's budget and the three quarterly updates. The revised estimates of revenues and expenses published today reflect the consolidation of nursing homes within the provincial reporting entity. Also, the contingency reserve has been eliminated. Moreover, as of the Second Quarter Update, net debt at the beginning of FY 2016-17 was revised up $670 million in order to reflect the revision published in the 2015-16 Consolidated Financial Statements.

Finally, a Supplement to Capital Estimates was tabled today to reflect the consolidation of nursing homes and also upgrades to assets of cultural and historic significance.

The deficit for 2016-17

The $231.1 million deficit estimated for 2016-17 had already been reported in the Third Quarter Update published less than two weeks ago. So the $16 million improvement over last year's budget was already known. According to the Third Quarter Update, revenues were revised up $25.6 million while total expenses were increased by $9.6 million. In the table on next page, you see revenue increasing $107.7 million and expenses rising $91.7 million. The differences in variations of revenue and expenses from the Third Quarter Update comes from the consolidation, in the revised estimates, of nursing homes. The effect of this consolidation was therefore to raise both revenues and expenses $82.1 million.

The small $25.6 million revision in revenues (before consolidation of nursing homes) hides wider revisions in components. For instance, revenue from the Harmonized Sales Tax is revised down $86.2 million (-6.5%) from budget. This was partly offset by a $54 million upward revision in Corporate Income Taxes. These two items account for most of the $34.1 million downward revision in total taxes (see table). This was offset by a $43.2 million increase in federal transfers and a $16.5 million revision in own-source revenue other than taxes.

The deficit for 2017-18

The deficit for 2017-18 is projected at $191.9 million, a $39.1 million improvement over the deficit estimated for the current fiscal year. Revenues are projected to increase $362 million or 4.1%. Meanwhile, expenses are expected to rise $323.2 million or 3.6%.

Taxation revenues are projected to increase $235.7 million or 2.7%, most of it through higher revenues from the Harmonized Sales Tax ($169.2 million or 13.5%), Personal Income Tax ($45 million or 2.8%) and the Tobacco Tax ($14 million or 3.8%).

The Small Business Income Tax rate will be lowered from 3.5% to 3.0%. The Government remains committed to lowering the rate to 2.5% over the course of its mandate.

The increase in expenses is focused on jobs, education and health care. Compared to 2016-17 budget, today's budget for 2017-18 increases funding for Department of Health by 3.3%. The budget for the Department of Education and Early Childhood Development is increased by 4.9%, the largest increase since 2008-09.

Over the following three fiscal years, total revenues are expected to grow at an average annual rate of 1.9%, while total expenses are expected to grow 1.1%. If these targets are met, the budget will be balanced by fy 2020-21 as scheduled.

Economic conditions

Real GDP growth is estimated at 0.4% in 2016 and is expected at 0.6% in 2017. The latter growth rate is 0.2 percentage points below the consensus of private forecasters. There is therefore an implicit forecast allowance imbedded in the budget. Economic growth is projected at 0.8% in 2018 and at an average of 0.7% over the three following years. But do not consider these low growth rates as indicating underperformance. They are mainly the reflection of the reduction in the working-age population (population aged 15 to 64 years old) that has taken place for a few years now. The reduction in working-age population limits potential GDP growth.

From 2009 to 2016, jobs in the Province declined in every year except 2013, the unemployment rate going from 8.5% to 9.6% over the period. The Government is expecting an improvement in job creation over the coming years, with employment growing 0.2% in 2017, 0.3% in 2018 and 0.1% on average over the following three years. Total population declined each year from 2013 to 2015. This sequence was interrupted in 2016 with an increase in the net flow of international migrants. In the future, the Government wants to work on attracting new migrants and retaining them in the Province as an effort to maintain a positive growth in population.

The expected 1.9% growth in revenue over the mid-term can be compared to that of nominal GDP, which is expected to grow 1.9% in 2017, 2.1% in 2018 and 2.0% on average over the three following years.

Marc Pinsonneault

New Brunswick

$000	Budget 2016/17	Revisions 2016/17	Budget 2017/18	Multi-Year Plan 2018/19	2019/20	2020/21
Gross revenue, ordinary account	8,354,502	8,429,526	8,749,709			
Taxes	*4,317,408*	*4,283,320*	*4,519,020*			
Other revenue	*1,076,992*	*1,142,917*	*1,168,785*			
Transfers from Government of Canada	*2,960,102*	*3,003,289*	*3,061,904*			
Sinking fund earnings	*190,200*	*192,300*	*188,900*			
Other accounts	174,063	204,599	250,084			
Gross revenue	**8,718,765**	**8,826,425**	**9,188,693**	**9,365,000**	**9,519,000**	**9,729,000**
Gross expenditure, ordinary account	8,261,450	8,336,574	8,523,323			
Including: service of public debt	*700,000*	*695,000*	*701,000*			
Other accounts	269,153	282,555	396,513			
Amortization expense	435,186	438,356	460,802			
Gross expenditure	**8,965,789**	**9,057,485**	**9,380,638**	**9,482,000**	**9,543,000**	**9,708,000**
Surplus (Deficit)	**(247,024)**	**(231,060)**	**(191,945)**	**(117,000)**	**(24,000)**	**21,000**
Change in net debt		669.68				
Net debt ($ million) at the begining of the year	**12,989.9**	**13,659.6**	**13,997.4**			
Gross consolidated revenue	(247,024)	(231,060)	(191,945)	(117,000)	(24,000)	21,000
Acquisition of tangible capital assets	(556,661)	(545,122)	(630,925)			
Amortization expense	435,186	438,356	460,802			
Decrease (Increase) in net debt	**(368,499)**	**(337,826)**	**(362,068)**			
Net debt ($ million) as of March 31	**13,358.4**	**13,997.4**	**14,359.5**			

Borrowing requirements ($ million)		**Remaining**		**Total**
New Borrowing	762	168	813	981
Refinancing Requirements	488	-	980	980
Carryover 2016/17	277	-	-	-
Borrowing on behalf of NB Electric Finance Corp	300	-	470	470
Total New Brunswick and NBEFC borrowing requiirements	**1,827**	**168**	**2,262**	**2,430**
NB Municipal Finance Corp.	150	-	150	150
Total	**1,977**	**168**	**2,412**	**2,580**

Source: Main Estimates 2017-2018, Department of Finance, Province of New Brunswick.

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