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Maintaining a disciplined fiscal course

By Daren King, Warren Lovely, and Taylor Schleich

Highlights

New Brunswick, like other provinces, presents its 2024 budget at a somewhat anxious time for the Canadian economy. Notwithstanding elevated economic/financial market uncertainty and the need for targeted investments (in response to a rapidly expanding population base), the province is eyeing a fiscally responsible path forward. That involves presenting a multi-year plan that keeps the budget balanced in 2024-25 and beyond, while simultaneously leaving a relatively low debt burden (by provincial standards) well contained. It's a laudable strategy and one that builds on/extends the relatively impressive fiscal traction that was already in evidence for this provincial credit. Thanks to record population growth, which has boosted the Canadian and provincial economies in 2023, revenues have been much higher than expected for the outgoing fiscal year. Indeed, the budget surplus initially forecast at $40 million for 2023-24 was finally revised to $247 million thanks to an increase in revenue of $511 million, which was only partially offset by an increase in expenditure of $303 million. For the coming 2024-25 fiscal year (and the next two years thereafter), the New Brunswick government expects to continue to run a budget surplus, albeit a much smaller one at $41 million. The continued run of budgetary black ink, combined with modest nominal GDP growth, will keep the net debt-to-GDP ratio pointed lower (estimated at 26.7% for 2024-25). Debt servicing costs remain manageable even in the face of higher interest rates, the interest bite consuming 4.6% of provincial revenue. Having completed $1.85 billion in new long-term financing in 2023-24 (all of it steered to the domestic market and inclusive of requirements for NB Power and NB MFC), New Brunswick finds itself $278 million pre-funded towards the coming fiscal year's underlying requirement. That's a nice place to be and allows the province to telegraph a lower requirement for 2024-25. Specifically, after netting off completed pre-funding, the gross borrowing need for the coming fiscal year is forecast at $1.69 billion. Finally, we should credit New Brunswick with quietly putting together, over the past number of years, arguably the most impressive streak of fiscal results of any province in the land. It's a significant amount of fiscal repair that seemingly leaves this government and its growing population base in good stead as fiscal 2024-25 dawns.

- **Economic outlook** – Thanks notably to historical population growth of 3.1%, it is estimated that real GDP in New Brunswick has expanded by 1.1% in 2023, in line with the national growth rate but below the consensus expectation of 1.3%. As for nominal GDP, which has a greater influence on public finances, we're talking about an estimated rise of 3.5% in 2023, above the 2.7% observed nationwide. Remarkably, New Brunswick is one of just a few provinces whose labour market managed to create enough jobs to absorb demographic growth. Indeed, the number of jobs rose by 3.4% on average in 2023, the third-highest rate of job creation amongst the provinces. As a result, the average unemployment rate in 2023 reached an all-time low of 6.6%, down 0.6% year-on-year. Looking ahead, Budget 2024 assumes slightly below-consensus real GDP growth of 0.7% in 2024 as the less buoyant demographic outlook and the growing impact of restrictive monetary policy weigh on the Canadian economy. The economy is then expected to gain momentum in 2025, with real GDP growth of 1.7%, followed by average growth of 1.3% from 2026 to 2028. More importantly for public finances, the budget forecasts nominal GDP growth of 3.2% in 2024, 4.4% in 2025 and 3.8% for 2026-28. As for the labour market, the slowdown in economic growth should push the unemployment rate up to 6.8% in 2024, as employment growth will not be sufficient to absorb the slowing but still significant population growth. The unemployment rate should continue to rise, reaching 7.1% in 2025, before falling back to an average of 6.9% between 2026 and 2028.
- **Revised budgetary picture for outgoing 2023-24 fiscal year** – As per a Q3 fiscal and economic update presented in February, New Brunswick currently projects a budget surplus of $247 million for the outgoing 2023-24 fiscal year. That's a marked improvement over the original Budget 2023 plan (which called for a $40 million surplus) and likewise bests Q1 and Q2 fiscal updates (surpluses of $200 million & $35 million estimated, respectively). The improvement was driven by more than half a billion dollars of upside revenue (+4.2% vs. budget), which can largely be attributed to the impact of higher-than-expected population/job growth on tax proceeds. Only $303 million (+2.5% vs. budget) of unplanned revenue was steered towards marginal spending. And not surprisingly, most of this marginal spending was health care related. The overall result is a surplus clocking in at a respectable 0.5% of GDP, which extends the number of consecutive fiscal years in the black to seven.
- **Fiscal outlook for 2024-25 and beyond** – New Brunswick's surplus streak is set to continue as the province's fiscal plan is written in black ink throughout the forecast horizon. However, the size of the surpluses over coming years is set to moderate considerably. That begins in 2024-25 as spending growth (+6.4%) will outpace revenue growth (4.7%). As has been clear throughout this provincial budget season, spending pressures are a national phenomenon, hardly unique to New Brunswick. The result for the coming fiscal year is a modest $41 million surplus (0.1% of GDP). Recall, that's effectively what the province had penciled in for 2023-24 before the revenue picture brightened materially. In the outer years of the fiscal plan, revenue and spending growth are expected to grow in line (2.5% in 2025-26 and ~3% in 2026-27). That means small surpluses are set to endure. Officially, the province sees $39 million of black ink in 2025-26 followed by $30 million in 2026-27 (both are 0.1% of GDP). Notably, the fiscal guidance offered today isn't

all that different from the 2023 budget. Consider that *last year's* three-year fiscal plan signalled a cumulative surplus of $106 million. The fiscal plan presented today sees a cumulative surplus of $110 million over the next three years. So, despite the pressure that governments are clearly under, New Brunswick's updated fiscal plan is one of discipline. The payoff for this restraint, should it materialize as planned, will be an impressive decade-long streak of budgetary surpluses by the end of the forecast horizon.

- **Select budget initiatives** – As is routinely the case in provincial budgets, health features prominently when breaking down the budgetary spend. In New Brunswick's case, some $3.8 billion has been earmarked for health care, comprising 29% of total program outlays, but an increase of only $2 million compared to the current fiscal year. Elsewhere, the budget makes marginal investments in the education system, to address a growing student population driven by record levels of international and interprovincial immigration, and additional amounts to provide supports to those newcomers and improve retention. In addition, the Budget includes $68.9 million, an increase of 54.1% compared to the previous budget, for New Brunswick Housing Corporation. Finally, there were incremental social assistance supports and money for public sector wage increases.

- **Debt outlook & interest bite** – As previously telegraphed via February's Q3 update, New Brunswick's net debt is estimated to end March 2024 at $12.36 billion, declining $62 million versus the prior fiscal year. Based on currently available information, that leaves New Brunswick and Alberta as the only two provinces expected to have cut the outright level of net debt in 2023-24. On a relative basis, New Brunswick's net debt is equivalent to 26.8% of GDP in 2023-24. That key debt ratio remains below the weighted provincial average (roughly 30% of GDP), with NB's debt load comparing favourably to all Central and Eastern Canada jurisdictions. Despite a balanced budget, strategic capital investments suggest modest increases in the level of net debt in coming years. Some $315 million of net debt is to be added in 2024-25, the pace of debt accumulation estimated to slow to ~$255 million/year in the final two years of the fiscal framework. Debt-to-GDP should nonetheless remain on a downward trajectory, ticking down ever-so-slightly in 2024-25 to 26.7% and reaching 25.6% by 2026-27. Again, this stands in contrast to the path outlined in most other 2024 provincial budgets, where debt burdens are projected (on average) to rise. Indeed, as the government proudly boasts, the net debt-to-GDP ratio is lower than at any time since the Global Financial Crisis. It is expected to cost $608 million to service the public debt in 2024-25, consuming a somewhat larger but still genuinely manageable 4.6% of total provincial revenue (vs. 4.3% for the outgoing fiscal year). Consistent with NB's lower-than-average debt burden, the province's 'interest bite' is also less painful than the weighted provincial average.

- **Borrowing requirement & funding strategy** – Having completed $1.85 billion in new long-term financing in 2023-24 (all of it steered to the domestic market and inclusive of requirements for NB Power and NB MFC), New Brunswick finds itself $278 million pre-funded towards the coming fiscal year's underlying requirement. That's a nice place to be and allows the province to telegraph a lower requirement for 2024-25. Specifically, after netting off completed pre-funding, the gross borrowing need for the coming fiscal year is forecast at $1.69 billion. That is inclusive of requirements for both NB Power (down to $150 million) and NB MFC ($100 million). In relative terms (vs. GDP or revenue or population), New Brunswick's gross and net financing needs should reside at the low(er) end of the provincial spectrum, reinforcing the aforementioned budget balance, debt burden and interest bite advantages this province possesses. Notwithstanding ongoing economic, financial and geopolitical uncertainty, we see this stable-to-improving credit as well positioned to secure necessary financing, the province's available liquidity nonetheless deemed more-than-ample.

- **Current long-term credit ratings** – S&P: A+, Positive | Moody's: Aa2, Positive | DBRS: A(high), Stable

  [Refer to our Provincial Ratings Snapshot for additional colour on specific credit rating drivers/considerations]

COMPARATIVE STATEMENT OF SURPLUS OR DEFICIT
($ Thousands)

	Year Ending March 31		
	2024 Estimate	**2024 Revised**	**2025 Estimate**
Revenue			
Ordinary Account	11,621,146	12,150,078	12,761,453
Capital Account	42,739	37,162	26,820
Special Purpose Account	132,030	164,605	123,986
Special Operating Agencies (net)	179,656	148,872	176,537
Sinking Fund Earnings	217,000	202,400	207,400
Total Revenue	**12,192,571**	**12,703,117**	**13,296,196**
Expense			
Ordinary Account	10,986,109	11,322,683	12,066,835
Capital Account	177,910	197,458	197,862
Special Purpose Account	152,927	163,982	152,565
Special Operating Agencies (net)	211,251	147,148	175,415
Amortization of Tangible Capital Assets	624,075	624,459	662,659
Total Expense	**12,152,272**	**12,455,730**	**13,255,336**
Surplus (Deficit)	**40,299**	**247,387**	**40,860**

Multi-Year Plan ($ millions)

	2024–2025 Budget	**2025–2026 Plan**	**2026–2027 Plan**
Revenue	13,296	13,628	14,024
Expense	13,255	13,589	13,994
Surplus (Deficit)	41	39	30
(Increase) Decrease in Net Debt	(315)	(241)	(270)
Net Debt-to-GDP (%)	26.7%	26.0%	25.6%

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