

## Back to balance in 2012-2013

### Highlights

- For the fiscal year just ending, the small surplus budgeted a year ago has become a deficit of \$265.2 million, of which \$157 million is for extraordinary pension expense. The deficit budgeted for fiscal 2009-10 is \$741 million (2.7% of GDP), of which \$300 million is for extraordinary pension expense.
- The objectives set out in the Fiscal Responsibility and Balanced Budget Act for reduction of net-debt-to-GDP ratio in fiscal years 2007-08 through 2010-11 will not be met. However, the deficit excluding extraordinary pension expense is projected to be eliminated in 2012-13.
- Spending is budgeted to increase 5.9% in 2009-10 and an average 1.3% annually in the following three years.
- The budget assumes a 0.3% contraction of real GDP in 2009 (1.0% expansion in 2008).
- A four-year plan to cut individual income taxes will cost \$124 million in 2009-10 and \$336 million after full implementation.
- The current corporate income tax rate of 13% will be reduced on July 1 of each of the next four years, reaching 8% in 2012 (cost: \$20 million in 2009-10, \$44 million after full implementation).
- A total of \$1.2 billion in capital spending is planned for the next two years.
- The 2009-10 borrowing requirement is budgeted at more than \$2 billion.

### Opinion

In the fiscal year just ending, revenue from the metallic minerals tax was \$87 million under budget because of a sharp fall in the price of zinc. Corporate income tax revenue was \$72 million under budget because of overpayments in prior years. These variances were largely offset by adjustments in harmonized sales tax revenue. The 2008-09 deficit was therefore due mainly to a spending of \$318 million over budget, of which \$157 million was for additional pension expense resulting from the decline in value of financial assets.

In 2009-10, revenue is budgeted to decline 0.6% or \$40 million. The prospect of a deficit has not stopped Finance Minister Victor Boudreau from introducing a Plan for Lower Taxes over the four years to 2012-13. The lion's share of tax relief will go to individuals, mainly via phased-in cuts in tax rates. The current four rates and four brackets will be replaced by two rates (9% and 12%) and two brackets. The 8% corporate rate planned for 2012 is lower than any current provincial rate.

The 5.9% rise in spending budgeted for 2009-10 will result in a deficit (excluding extraordinary pension expense) amounting to 1.6% of GDP. To eliminate this deficit expeditiously, the government plans to hold spending increases to an average 1.3% annually in the following three fiscal years. This will be done by means of public-service wage restraint and spending cuts, budgeted to save \$182 million in 2009-10.

ECONOMIC AND STRATEGY GROUP – 514.879.2529

Stéfane Marion, Chief Economist and Strategist

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The 2009-10 capital budget tabled last December is the first instalment of a two-year plan for a record \$1.2 billion in capital investment. This capital spending will combine with budget deficits to raise the province's net debt to 30.1% of GDP next year, from 26.1% this March 31. The government expects the ratio to peak in 2012-13 at 33%, less than the ratios that were current a decade ago.

The wage restraint and spending cuts introduced by the Minister clearly indicate that the government is serious about getting its budget back in balance. This is reassuring because it suggests that if the economy performs worse than expected, the government will not hesitate to take the necessary measures.

**Marc Pinsonneault**

### New Brunswick

\$000	Budget	Revision	Budget	Estimate		
	2008/09	2008/09	2009/10	2010/11	2011/12	2012-13
Gross revenue, ordinary account	6,671,622	6,683,887	6,612,293			
<i>Taxes</i>	3,228,565	3,263,065	3,161,957			
<i>Other revenue</i>	584,633	585,663	720,623			
<i>Transfers from Government of Canada</i>	2,633,624	2,602,859	2,495,613			
<i>Sinking fund earnings</i>	224,800	232,300	234,100			
Other accounts	179,263	191,983	220,389			
Amortization of deferred capital contributions	28,666	29,456	30,553			
<b>Gross revenue</b>	<b>7,104,351</b>	<b>7,137,626</b>	<b>7,097,335</b>	<b>7,220,000</b>	<b>7,530,000</b>	<b>7,880,000</b>
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Gross expenditure, ordinary account	6,565,526	6,859,230	7,219,773			
<i>Including: service of public debt</i>	597,021	606,586	623,927			
Other accounts	250,290	273,942	335,462			
Amortization expense	269,507	269,628	282,979			
<b>Gross expenditure</b>	<b>7,085,323</b>	<b>7,402,800</b>	<b>7,838,214</b>	<b>7,958,000</b>	<b>8,040,000</b>	<b>8,153,000</b>
<b>Surplus (Deficit)</b>	<b>19,028</b>	<b>(265,174)</b>	<b>(740,879)</b>	<b>(738,000)</b>	<b>(510,000)</b>	<b>(273,000)</b>
<i>Extraordinary pension expense</i>		157,000	300,000	300,000	300,000	300,000
<b>Surplus (deficit) excluding extraordinary pension expense</b>	<b>19,028</b>	<b>(108,174)</b>	<b>(440,879)</b>	<b>(438,000)</b>	<b>(210,000)</b>	<b>27,000</b>
<i>As a % of GDP</i>	0.1%	-0.4%	-1.6%			
Debt service / gross revenue	8.4%	8.5%	8.8%			

### Change in net debt

Gross consolidated revenue	19,028	(265,174)	(740,879)
Acquisition of tangible capital assets	(404,807)	(386,666)	(537,466)
Amortization of deferred capital contributions	(28,666)	(29,456)	(30,553)
Revenue received to acquire tangible capital assets	26,669	50,319	57,206
Amortization expense	269,507	269,628	282,979
<b>Decrease (Increase) in net debt</b>	<b>(118,269)</b>	<b>(361,349)</b>	<b>(968,713)</b>

<b>Net debt (\$ million)</b>	<b>6,942.9</b>	<b>7,304.2</b>	<b>8,272.9</b>
<b>Nominal GDP (\$ million)</b>	<b>26,947.0</b>	<b>27,983.0</b>	<b>27,520.0</b>
As a % of GDP	25.8%	26.1%	30.1%

33.0%
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### Borrowing requirements (\$ million)

Change in net debt	361	969
Adjustments due to cash requirements	389	184
Refinancing	486	379
Student loan program	-	300
Pre-borrowing	245	(245)
NBEFC borrowing requirements	620	700
NB Municipal Finance Corp.	117	125
<b>Total</b>	<b>2,218</b>	<b>2,412</b>

Source: Main Estimates 2009-2010  
 Department of Finance  
 Province of New Brunswick