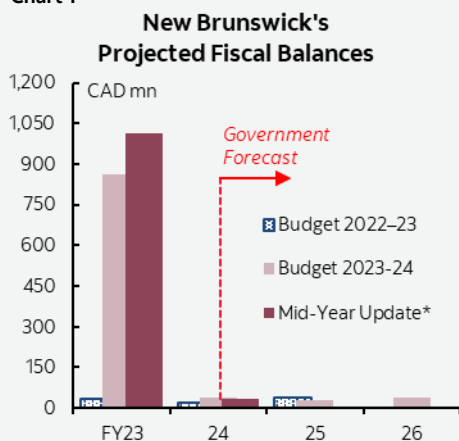


Contributors

Laura Gu
Economist
Scotiabank Economics
416.866.4202
laura.gu@scotiabank.com

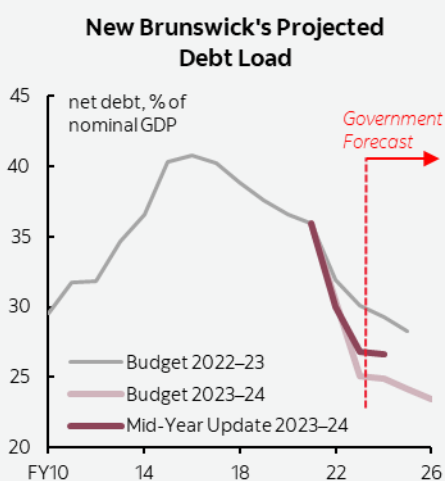
John Fanjoy
Economist
Scotiabank Economics
416.866.4735
john.fanjoy@scotiabank.com

Chart 1



* FY23 figure is final result.
Sources: Scotiabank Economics, New Brunswick Finance.

Chart 2



Sources: Scotiabank Economics, NB Finance, Statistics Canada, Finance Canada.

New Brunswick: 2023-24 Mid-Year Update

NO NEWS IS GOOD NEWS

- **Budget balances:** +\$35.3 mn (+0.1% of nominal GDP) in FY24 (+\$40.3 mn, +0.1% in 2023 Budget), which builds on a final surplus of +\$1.0 bn (+2.2% of GDP) reported in the FY23 Public Accounts (chart 1).
- **Net debt-to-GDP:** revised up by 1.7 pts versus Budget to 26.6% for FY24 (chart 2), mainly due to the increase already reported for FY23 due to the adoption of new accounting standards.
- **Economic assumptions:** real GDP growth forecast increased to 1.1% in 2023, up from the 0.8% assumed in the March 2023 Budget. Population growth revised up from 1.8% in the Budget to 3.1%.
- **The update confirms the province's commitment to maintaining a balanced fiscal path.** Continued prudent planning allows the government to remain flexible in a highly uncertain environment, and also avoids immediate impact on the ongoing effort to bring inflation down to its target.

OUR TAKE

New Brunswick is on track to keep its book in the black for a seventh year despite diminishing fiscal tailwinds and mounting spending pressure. Following a hefty surplus in FY23, the province continues to project a modest surplus of \$35.3 mn (0.1% of nominal GDP), slightly down from the \$40.3 mn estimated in March. Program spending was lifted by 2.1% from the projections in the Budget, mostly offset by an increase in own-source revenue, but also a downward revision in debt service costs. Net debt is expected to remain largely flat as a share nominal output in FY24, but from a higher starting point—due to the adoption of new accounting standards, FY23 net debt-to-GDP came in higher than anticipated at 26.8% instead of the 25.1% projected in the Budget.

The improvement in the province's revenue outlook is anchored by the resilience of its economy and its tax base expansion. The update maintained nominal growth assumption of 2.3% and raised real growth forecast from 0.8% to 1.1%. The province's population is projected to grow at a record speed of 3.1% this year, a major improvement from the 1.8% at Budget time. We share this constructive view on New Brunswick's growth prospect this year, but caution that it is unlikely to buck the trend of a slowdown. Despite these positive developments, revenue is still set to decline by -0.8% in FY24.

Updated Fiscal Forecast

\$ millions except where noted

	FY23		FY24	
	Bud.'24	Final	Bud.'24	Mid-Year
Own Source Revenue	8,282	8,144	7,591	7,723
Federal Transfers	4,132	4,308	4,602	4,626
Total Revenue	12,414	12,452	12,193	12,349
Program Spending	10,967	10,904	11,525	11,765
Debt Service	584	535	627	548
<i>% of Revenue</i>	4.7	4.3	5.1	4.4
Total Expenditure	11,551	11,439	12,152	12,314
Budget Balance	862.6	1,012.6	40.3	35.3
<i>% of GDP</i>	1.9	2.2	0.1	0.1
Net Debt	11,613	12,425	11,796	12,586
<i>% of GDP</i>	25.1	26.8	24.9	26.6

Sources: Scotiabank Economics, New Brunswick Finance.

Total expenses in FY24 are expected to be above what was forecast in the Spring budget by \$161.2 mn, or about 1.3% higher than previously estimated. Of the revised spending plans for FY24, most of the increased spending is towards big ticket items, as higher operating costs add to spending on health (+\$162.0 mn, +4.5%), post-secondary education, training and labour (+\$53.0 mn, +7.9%), and social development (+\$30.0 mn, +1.8%). Meanwhile, the fall update projects lower public debt servicing costs (-\$78.6 mn, -12.5%) owing to higher short-term interest earnings, savings in long-term borrowing, and lower Sinking Fund Earnings resulting from the adoption of a new accounting standard.

The net debt outlook for FY24 has been revised up to 26.6% of nominal GDP, noticeably higher than the forecast of 24.9% presented in the Budget. This strong upward revision is almost entirely attributable to a higher starting point, as FY23 ended at \$12.4 bn, above the \$11.6 bn previously projected. In line with the largely unchanged budget balance projection, the province is keeping its long-term borrowing requirement at \$1.2 bn for FY24, with \$500 mn completed as of October 27, 2023.

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including: Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorized by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, and Scotia Inverlat Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.