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Holiday Gift Giving

Fiscal Year 10/11

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The Province of New Brunswick is projecting a \$749 mln budget deficit in FY2010/11 (2.8% of GDP) as it increases spending and capital investment, and continues to implement its tax-reduction program. The Province now plans to return to balance (actually a small surplus) by FY2014/15, a year later than last projected. Indeed, deficits in each of the out years through FY2013/14 have been revised up. Deficits include pension-related expenses, which total \$200 mln in FY2009/10 before gradually shrinking to zero by the end of the forecast horizon.

This FY2010/11 deficit is down slightly from the record \$754 mln now penciled in for FY2009/10, which marks the highest shortfall as a share of GDP (2.8%) since FY1987/88. This reflects a \$13 mln deterioration from the original \$741 mln projection. Revenues were revised up \$21 mln to \$7.1 bln, while spending was bumped up \$34 mln to \$7.9 bln.

In FY2010/11, total revenues will rise 1.8% to \$7.2 bln, with higher corporate and sales tax revenues offsetting lower personal income tax receipts. An overhaul of the Province's tax system was announced in last year's budget and continues to go forward as planned. All personal tax rates will fall again in 2010, ultimately bottoming out in 2012. By then, two tax brackets will have

rates of 9% and 12%, down from a range of tax rates between 10.1% and 18% in 2008. In total, the tax cuts will cost \$258 mln in FY2010/11, rising to \$380 mln by FY2012/13. While lower personal tax rates account for most of the cost, other tax savings on the personal side include a higher tuition rebate and enhanced benefits for low-income seniors.

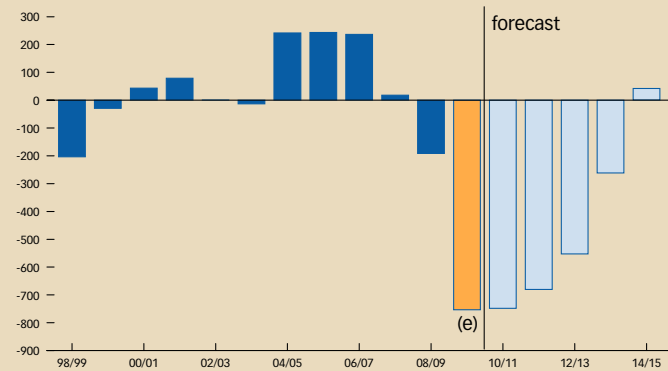
Corporate income taxes will also continue to be trimmed, but the revenue impact will be relatively small, amounting to \$26 mln in FY2010/11 and \$44 mln by FY2012/13. As already planned, the general corporate rate will fall 1 ppt per year until it bottoms at 8% in 2012 (that would be the lowest in Canada at current rates).

Meantime, **total spending is projected to rise 1.6%**

to \$8.0 bln in FY2010/11. This includes continued increases in education and health care, but also an ongoing commitment to reduce costs in the public sector through wage freezes.

The Province is also undertaking a \$1.6 bln capital investment program over the next two years, up from the \$1.2 bln announced in the last budget—\$896 mln will be spent in FY2010/11. This includes \$423 mln for transportation infrastructure (largely to improve roads and bridges), about \$160 mln for education and \$65 mln for health care.

Budgetary Balance
(\$ millions)





Fiscal Outlook

(C\$ millions)

	actual		estimate	forecast
	07/08	08/09	09/10	10/11
Operating Revenues	6,919	7,113	7,119	7,247
Operating Expenditures	6,901	7,305	7,872	7,996
Budget Balance	18	(192)	(754)	(749)
<i>Year Ending March 31</i>				
Net Debt	6,949	7,388	8,354	9,564
% of GDP	25.7	27.0	30.2	33.3

Source: Provincial forecasts

Note: Totals may not add due to rounding.

Net debt will increase \$1.2 bln to \$9.6 billion in FY2010/11 as the Province finances the deficit and the ramped-up capital program. **The net debt-to-GDP ratio will rise 3.1 percentage points to 33.3%.**

The budget estimates are based on the assumption that the New Brunswick economy will grow 1.7% in 2010, which is more modest than our call of 2% growth. Weak U.S. demand and the strong loonie will continue to temper the rebound in the export and manufacturing sectors—shipments were down more than 25% y/y through September. However,

strong capital spending, particularly in the government sector, should support growth even as some major construction projects in the commodity sector begin to wind down.

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