



HIGHLIGHTS

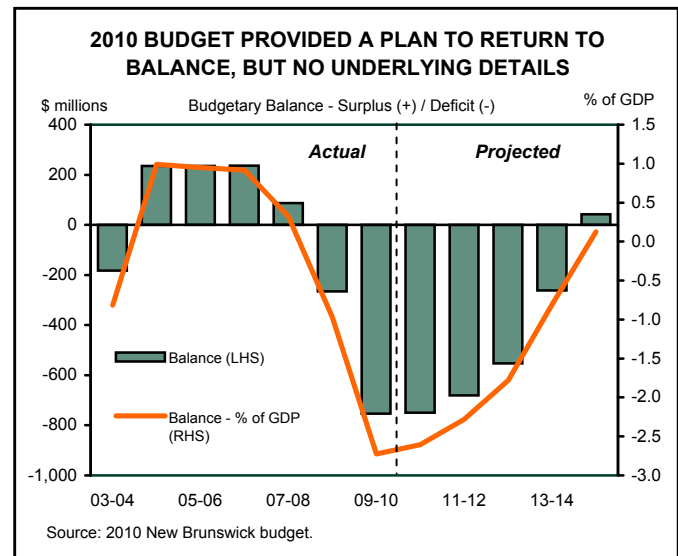
- We construct two status quo scenarios for NB's fiscal position with differences relating to assumptions about federal transfers. We then overlay the new government's platform commitments.
- This year's \$800 million deficit increases to about \$2 billion by FY 15-16. Depending on the scenario, that's about \$2,600 per man, woman and child, or 38% of own-source revenues.
- Net debt rises from 33% to over 50% of GDP in FY 15-16, or almost \$23,000 per resident.
- Returning to balance by FY 15-16 would require freezing total program spending at today's level. Not even during the McKenna restraint eras did NB manage to accomplish this.
- To the degree program spending can't be frozen, taxes will have to be hiked, with the HST being the preferred option as it inflicts the least economic damage.
- Nov. 23rd Speech from the Throne described NB to be in a fiscal "crisis." Addressing the crisis will require transparency in laying out the situation and options for returning to balance in a timely fashion.

Don Drummond
Economic Advisor to TD Bank
416-473-5720
mailto: don.drummond@td.com

Sonya Gulati
Economist, Regional and
Government Finances - Canada
416-982-8063
mailto: sonya.gulati@td.com

**NEW BRUNSWICK FACES TOUGH
FISCAL CHOICES AHEAD**

Within this paper, we highlight the fiscal challenges before New Brunswick (NB). The troubling starting point was revealed in the 2010 budget, released on December 1, 2009. In this publication, the government revealed that for the second consecutive year, the deficit is expected to ring in at around \$750 million, or roughly \$1,000 for every man, woman and child residing in the province. What's more, net debt, at almost \$12,500 per resident, is expected to hit one-third the size of the provincial economy, a level not seen since FY 00-01. But, in its budget, the government planned for an orderly dismantling of the deficit, such that a small surplus, \$42 million, or 0.1% of GDP, would be recorded four years from now, in FY 14-15. Fiscal order was to be accomplished by allowing almost no growth in provincial spending and letting economic growth revive budgetary revenues. However, little detail was provided on either the underlying assumptions or the policy actions required to level spending. To better understand the fiscal challenges ahead for NB, we reconstruct the economic and fiscal outlook and examine the implications for policy.



To better understand the fiscal challenges ahead for NB, we reconstruct the economic and fiscal outlook and examine the implications for policy.

The starting point for our analysis is the creation of a fiscal plan in the absence of any policy changes. We refer to this scenario as the "status quo" approach. For this, we determine the most likely path for the economy and then use these economic parameters to determine revenues and expenditures under the assumption of no changes in underlying policy. From there, we determine what policy changes would be required to eliminate the "status quo" deficit in a relatively timely fashion. To provide additional context and a sense of feasibility, we take a look at the fiscal consolidation efforts of other provinces as well as the federal government in the 1990s. Based on our analysis and our review of other deficit elimination plans, we conclude that very bold policy actions are required and difficult policy reforms will be needed to close the fiscal gap.

The Status Quo Outlook

In the absence of any policy changes, we reconstruct the NB fiscal outlook based on our projections surrounding the short- to medium-term economic performance and how these will impact the government's revenue and expenditure profiles.



Economic Assumptions

Assessing the economic performance, now and going-forward, is the first step in projecting the fiscal plan for NB. This is because own-source revenues and some spending items tend to grow in line with the provincial economy. In the accompanying table, we include our projections for key economic indicators for the province. Underlying our projections is the notion that sustainable or potential real growth of the New Brunswick economy is 1.5% per annum over the next few years, before slowing marginally to 1.4% by 2014. To better understand the reasons for the modest growth relative to historical trends, we disaggregate potential real growth into labour force growth and productivity. On the labour force growth side, we assume 0.5% per annum initially, slowing to 0.4% in the later years. For productivity, we assume that it continues to grow at a rather anemic pace of 1%, its ten-year historic average.

The anchor to our projections is the assumption that the economic cycle is complete by 2012 in that the level of output returns to its potential. As the level of economic activity is currently depressed below New Brunswick's potential, this means that over the next several years, the actual growth rate may and probably will exceed potential. As such, for the period from 2011 to 2015, we project an average real growth rate for NB of 1.8%.

Revenue growth typically reflects nominal rather than real output growth, and as such, we must then add in the inflation rate to our real growth assumptions. To a large extent, the inflation path is underpinned by our assumption that the Bank of Canada (BoC) will retain and then hit its 2.0% inflation rate target. Slight discrepancies between the Consumer Price Index (CPI) for Canada and the overall GDP deflator for NB give some difference each year from this overall target. From this, we project that the nominal GDP growth rate for NB will average 3.7% from 2011 to 2015, slightly lower than the ten-year historical average.

Interest on the public debt is determined by the stock of debt, its composition by term to maturity, and interest rate

forecasts. The government does not provide a breakdown for its debt burden in either the budget or Public Accounts. However, according to Standard and Poor's last credit rating for the province, the majority of debt is contained in medium to long-term domestic holdings. The credit agency forecasts that in 2010, the province has about 9% and 16% in foreign and short-term holdings respectively. With much of the debt being of longer-term maturity, there is only moderate sensitivity to interest rates over the next few years.

Fiscal Assumptions

For this scenario, we have assumed that the initiatives announced in the 2009 budget, mainly tax measures, continue to proceed without interruption. First, the personal income tax reform plan to move the existing four-rate, four-bracket structure to a two-rate, two-bracket personal income tax structure continues. By 2012, the existing four-rate structure is scheduled to be replaced with two rates of 9% and 12%. Second, the general corporate income tax rates were scheduled to decrease by one percentage point every year from 13% in 2008 to 8% in 2013. The retention of these previous tax announcements is later re-visited in other scenarios. These tax measures wind their way through the fiscal plan until FY 12-13. We have used the government's estimates for revenue losses generated: \$114 million in FY 10-11; \$67 million in FY 11-12; and \$55 million in FY 12-13. As such, own-source revenues do not move in-step with nominal GDP until FY 13-14.

Federal transfers are also an important revenue source for the province. Case in point, in FY 10-11, nearly 40% of provincial revenues are projected to come from federal transfers, with 90% of total federal transfer revenue delivered through the three major transfers: the Canada Health Transfer (CHT); the Canada Social Transfer (CST); and Equalization. In terms of Equalization, due to the NB economy outperforming other receiving provinces in 2008, most notably Ontario, NB's Equalization entitlement dropped by \$107 million (or -6.4%) in FY 10-11 compared to the

NEW BRUNSWICK ECONOMIC ASSUMPTIONS

Annual average per cent change (unless otherwise noted)

	95-07	2008	2009	2010F	2011F	2012F	2013F	2014F	2015F
Nominal GDP growth	4.0	1.2	0.4	4.4	3.6	4.3	3.8	3.3	3.3
Real GDP growth	2.4	-0.2	-0.3	2.5	1.7	2.4	1.9	1.4	1.4
Potential GDP growth ¹	2.0	1.0	1.0	1.5	1.5	1.5	1.5	1.4	1.4
Average NB Effective Interest Rate ² (%)	9.4	8.7	8.2	7.7	7.3	7.4	7.3	7.3	7.4

¹ Projection assumes that the NB reaches its potential level of output in 2010 and that the output level is zero.

² Average effective interest rate is proxied by dividing annual debt charges by net debt.

F: Forecast by TD Economics as of November 2010.

Source: New Brunswick budgets, Statistics Canada, Haver Analytics.

previous year. However, the federal government provided NB with \$80 million in one-time transition protection in FY 10-11 to ensure the province saw no change to its major federal transfer entitlement (CHT, CST and Equalization) compared to FY 09-10. With much the same economic story in 2009, likely no transition protection available, and due to the three-year weighted average, with a two-year data lag aspect to the formula, we project two more years of Equalization entitlement decreases (\$131 million or -8.3%) for NB in FY 11-12 and (\$75 million or -8.6%) in FY 12-13.

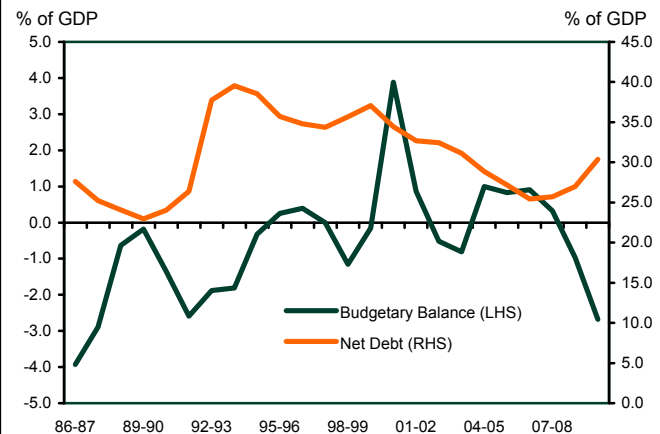
With the west and Ontario bouncing back at that point, we project 6% annual increases to NB's Equalization entitlements in FY 13-14 and thereafter. However, the legislation with the federal government surrounding these three major transfers is assumed to apply through their FY 13-14 framework. Annual program growth rates for these transfers are set in this legislation. The CHT is legislated to grow by 6% per annum. A 3% annual growth rate is imposed on the CST. Growth on the Equalization program was recently capped beginning in FY 09-10. The annual growth rate cap imposed is a three-year weighted average of growth in national nominal GDP. It is important to note that these annual growth rates are applied to total transfer funding and not to individual provincial allocations.

Once the legislation expires in FY 13-14, it is not clear what to assume for major transfers thereafter. The 2010 federal fiscal update released just a few weeks ago assumes that these growth rates continue. However, federal Finance Minister James Flaherty has indicated that this is simply a technical assumption. As such, the Minister has warned provinces not to take these growth rates as given. With this uncertainty in mind and given that these transfers represent a significant revenue source for NB, we have prepared two scenarios. In the first, federal transfers continue to grow at their legislated rates. In the second scenario, the following growth rates are assumed for FY 14-15 and afterwards: 4%

STATUS QUO FISCAL PROJECTIONS

- Unchanged tax rates other than implementation of Liberals' plan.
- Health spending assumed to grow at 6% per annum.
- Non-health related spending constant in real per capita terms (2.5% average annual growth).
- Two scenarios for annual growth in major federal transfers (Status Quo 1, Status Quo 2).

HISTORICAL BUDGETARY BALANCES AND NET DEBT: FY 86-87 TO FY 09-10



Source: Finance Canada 2010 Fiscal Reference Tables.

annual growth for CHT (rather than the current 6%); 1.5% growth rate for CST (rather than 3.0%); and a maximum of 3% for Equalization (rather than the three-year weighted nominal GDP ceiling).

Adding another wrinkle to estimating federal transfers is the fact that CHT is scheduled to be allocated on a per capita basis, beginning in FY 14-15. This formula change affects Alberta the most, as it currently receives nearly two percentage points less than its per capita share. With the

ASSUMPTIONS SURROUNDING THE ANNUAL GROWTH OF MAJOR FEDERAL TRANSFERS

Current Legislation	Status Quo 1 Regular Transfer Growth	Status Quo 2 Moderate Transfer Growth
<ul style="list-style-type: none"> • Canada Health Transfer (CHT) grows at 6% per annum¹. • Canada Social Transfer (CST) grows at 3% per annum. • Equalization grows at a three-year weighted average of national nominal GDP growth. 	<ul style="list-style-type: none"> • Annual growth rates continue to apply after federal-provincial legislation expires in FY 13-14. • Move to equal per capita CHT cash in FY 14-15 retained². Assume that additional federal funds are provided to meet this commitment (e.g., all provinces, except Alberta, receive the same amount they would have received in the absence of the formula change.) 	<ul style="list-style-type: none"> • Post FY 13-14, per annum: • CHT grows at 4%. • CST grows at 1.5%. • Equalization grows at 3%. • Move to equal per capita CHT cash in FY 14-15 retained. No additional federal funds are provided to meet this commitment.

Note: ¹Annual legislated growth rates apply to the national funding allocation and not to individual provincial allocations.

²Federal commitment to provide equal per capita CHT cash made in the 2007 federal budget.

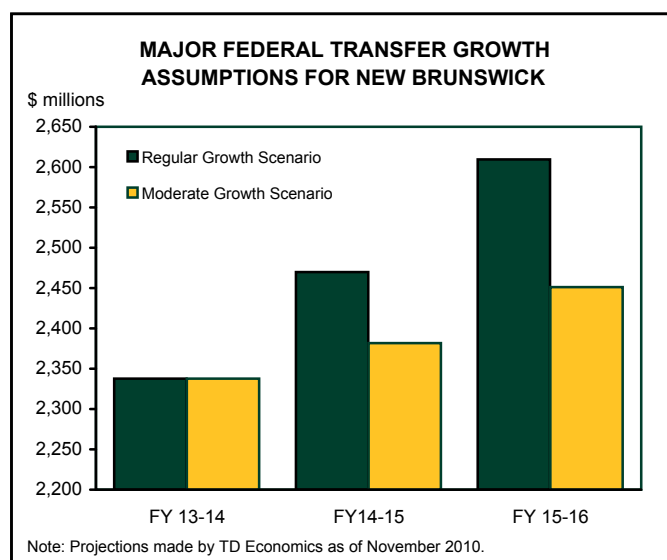
formula change, Alberta will receive almost a \$1 billion more in CHT beginning in FY 14-15. In the first scenario, we assume that the federal government increases the CHT funding pot to accommodate the per capita move, such that the other provinces get the exact same entitlements that they would have received in the absence of the formula change. Under the second scenario, we assume that the funding pot is allocated on a per capita share, without any additional transition funding. With this, then, NB will see a decline in its CHT payment starting in FY 14-15. In total, with these assumptions, we estimate that NB will receive \$88 million less in federal transfer revenue in FY 14-15 (or -3.6%) and \$160 million in FY 15-16 (or -6.1%) than in the absence of the policy changes.

On the expenditure side of the ledger, we have assumed that non-health related program spending is flat in real, per capita terms. For health-related spending, we have assumed a 6% annual growth rate, in line with the spending growth rate seen over the last five years. For public debt charges, we have assumed that issues are rolled over at projected interest rates when they mature. As such, the debt charge to net debt ratio is assumed to slowly creep up over the period of study.

Net debt represents the difference between total liabilities and total financial assets. On the other hand, the accumulated deficit is the sum of past provincial surpluses and deficits. In deriving net debt for our projections, we have made a simplifying assumption. That is, given past behaviour over the last twenty years, we note that trends in the accumulated deficit typically run parallel to trends in net debt. As such, we have taken net debt numbers from the most recent provincial Public Accounts to which we have added our deficit projections. Given the magnitude of deficits seen, we believe that in the absence of a significant acquisition or sell-off of a major crown asset or continued capital infrastructure investments, our treatment of net debt

HISTORY OF NEW BRUNSWICK PROGRAM SPENDING GROWTH	
Program Spending Area	Average Annual Growth Rate (%)
Health-related spending	
Last five years	5.7
Last fifteen years	4.8
Non-health spending	
Last five years	4.4
Last fifteen years	4.2
Program spending	
Last five years	4.9
Last fifteen years	4.4

Note: Last year of observation is 2009-10.
Source: New Brunswick Ministry of Finance.



provides a conservative estimate for these scenarios.

Pulling the Scenarios Together

Put together, the assumptions described generate two status quo scenarios. The first represents the case where federal transfers continue to grow at current legislated levels and the second moderates federal transfer growth in FY 14-15 and thereafter. In both scenarios, the FY 10-11 deficit is projected to be \$818 million, or 2.8% of GDP. This revised projection represents nearly \$70 million more than the budget estimate. More noteworthy is the fact that, on a status quo basis, deficits are projected to consistently increase over the next five years. In fact, in the first scenario, the last year of our time horizon, FY 15-16, sees a peak deficit in absolute terms of \$2.1 billion or 6.2% of GDP. Much is the same in the second scenario where federal transfers are cut back by an estimated \$160 million by FY 15-16. The budgetary balance is worse in the later years under this scenario, with the deficit sitting at just under \$2.3 billion or 6.7% of GDP

FISCAL PROJECTIONS FOR STATUS QUO 1 SCENARIO						
Fiscal Year	Projections					
	10-11	11-12	12-13	13-14	14-15	15-16
Budgetary Balance						
Surplus (+) / Deficit (-)						
\$ (millions)	-818	-1,352	-1,681	-1,766	-1,946	-2,132
% of GDP	-2.8	-4.5	-5.4	-5.5	-5.9	-6.2
Per capita	-1,081	-1,785	-2,217	-2,317	-2,560	-2,801
Net debt						
\$ (millions)	9,322	10,560	12,497	14,498	16,657	19,009
% of GDP	32.5	35.5	40.3	45.0	50.1	55.3
Per capita	12,322	13,942	16,480	19,019	21,908	24,972

Projections by TD Economics as of November 2010.

in FY 15-16.

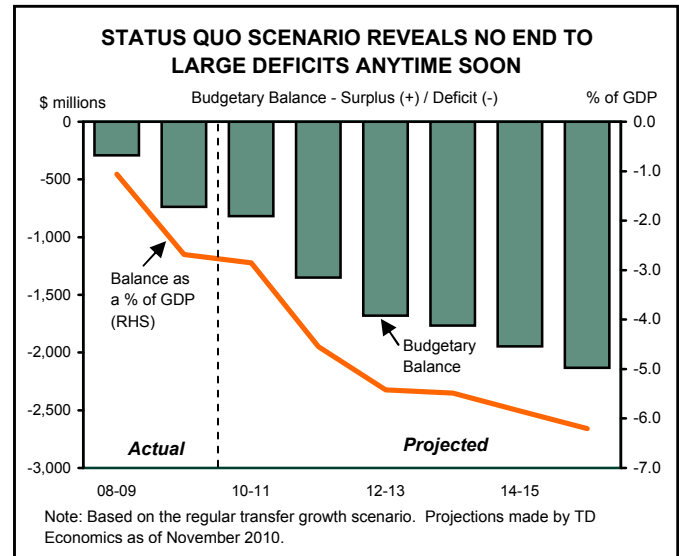
There are a few startling highlights for these status quo fiscal projections:

- In the first scenario, the peak deficit is in the vicinity of \$2,800 per provincial resident.
- If we take the first scenario, the peak deficit of \$2.1 billion represents 42.2% of own-source revenues. So, for the sake of argument, if the deficit was eliminated through tax increases alone, the tax burden would need to rise across all revenue sources, by 42.2%. Even flat-lining program spending over the next five years would not allow the province to achieve budgetary balance.
- Under both scenarios, federal transfers compared to total revenues remains roughly between 36-38% over the five-year horizon.
- The net debt burden hits at slightly more than 55% of the total size of the provincial economy, levels not seen in the last twenty-five years. On a per capita basis, the debt burden is about \$25,000 for every man, woman and child living in the province.
- By FY 15-16, annual interest payments on net debt are expected to amount to just over \$1.2 billion, representing almost double the interest charges paid today. What's more, by FY 15-16, the ratio of interest paid on debt relative to own-source revenues is projected to be 24%. This means that for every dollar raised by the NB government, only 76 cents are available for current and future needs. The remaining 24 cents must be siphoned off for past services consumed, but not financed at the time.

Incorporating the Conservatives' Election Platform

The status quo fiscal plan assumed that those initiatives, particularly the tax measures, announced by the previous government would still stand. However, since the release of the last budget, there is a new government leading the province. As part of his election platform, now Premier David Alward, outlined his view for government and committed to several initiatives that have implications for the province's fiscal plan. Some of the commitments included in the election platform are:

- no changes to the Harmonized Sales Tax (HST);
- cancel previously planned personal income tax reductions for residents earning more than \$450K per year;



FISCAL PROJECTIONS FOR STATUS QUO 2 SCENARIO MODERATE FEDERAL TRANSFER GROWTH						
Fiscal Year	Projections					
	10-11	11-12	12-13	13-14	14-15	15-16
Budgetary Balance						
Surplus (+) / Deficit (-)						
\$ (millions)	-818	-1,352	-1,681	-1,766	-2,035	-2,292
% of GDP	-2.8	-4.5	-5.4	-5.5	-6.1	-6.7
Per capita	-1,081	-1,785	-2,217	-2,317	-2,677	-3,012
Net debt						
\$ (millions)	9,322	10,560	12,497	14,498	16,746	19,258
% of GDP	32.5	35.5	40.3	45.0	50.3	56.1
Per capita	12,322	13,942	16,480	19,019	22,025	25,299

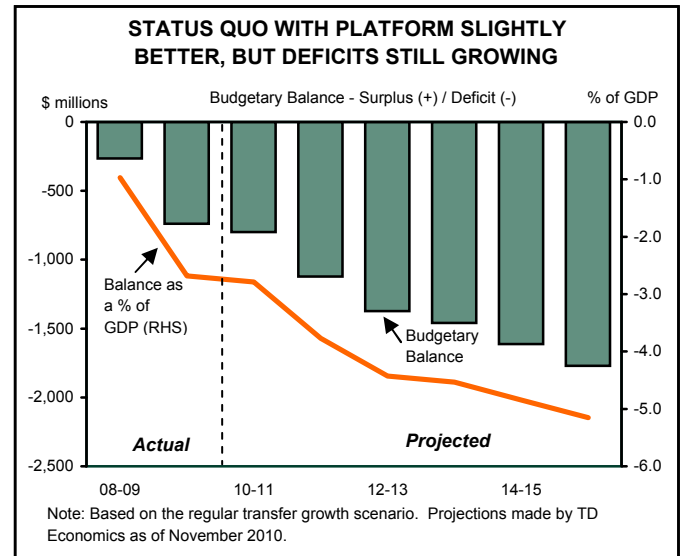
Projections by TD Economics as of November 2010.

- hold the line on cutting the general corporate income tax rates at 10%, rather than the previously planned 8%;
- reduce the small business tax rate by 50% (from 5.0% to 2.5%) over four years; and
- target a 2% annual reduction in program spending and find additional efficiency savings of at least \$10 million per annum; both initiatives combined lead to program spending savings of \$18 million in FY 10-11 and \$160 million in FY 11-12 and beyond.

When generating these scenarios, we have taken into account that the Alward government came into power only a few months ago. As such, we assume that any platform tax commitments made will come into effect in FY 11-12 and beyond. For example, the previously scheduled personal income tax reductions are included in the fiscal projections for FY 10-11, but then are modified based on the govern-

ment's platform commitment starting in FY 11-12. To calculate the fiscal impacts associated with implementing these initiatives, we have used the platform cost estimate if it was available. If a cost was not explicitly provided for the initiative (e.g., cutting the small business tax rate by 50%), we have generated our own estimates. Once again, we have generated two scenarios for a fiscal plan based on the election platform, one that assumes regular federal transfer growth and a second that assumes lower growth in FY 14-15 and beyond.

With cancelling the personal income tax reduction to high-income residents starting next year, we estimate that the government would generate an additional \$30 million in budgetary revenues by FY 15-16. For corporate income taxes, holding the general rate at 10% is expected to generate an additional \$40 million in budgetary revenues by FY 15-16. The estimates for these two tax initiatives are largely in line with the platform cost projections. We have estimated the cost of reducing the small business tax rate to be \$9 million per year come FY 15-16. The commitment to reduce wasteful and unnecessary spending was quite ambiguous in the platform document. Since coming into power, the government has recently clarified its spending target reductions. Government officials have indicated that no department is immune from these savings targets. Also, in arriving at these figures, the 2% cuts described in the platform have simply been applied to the program funding envelope and not just the administration portion related to the provision of services. An additional \$10 million in expenditure savings have been incorporated to reflect the platform's commitment of a smaller government, led by fewer Cabinet Ministers and in turn, fewer senior management positions. These two initiatives are estimated to lead to program spending reductions of \$18 million in FY 10-11



and \$160 million annually in FY 11-12 and afterwards.

Helped on both sides of the ledger, the deficit projections are improved from the status quo scenarios, but not enough to make much of a dent in the magnitude of the deficits or the deficit profile. This is because the deficits projected are still sizeable and relative to the size of the economy, particularly concerning. In the first scenario, where federal transfers grow at current legislated levels, the FY 10-11 deficit is slightly improved as a result of the expenditure restraint measures. The FY 10-11 deficit estimate is \$800 million, or 2.8% of GDP. The deficit profile continues to show year-over-year increases over the period of study, a profile similar to our status quo scenario, albeit with slightly lower deficit levels. Much is the same in the second scenario where federal transfers are cut back by an estimated \$160 million in FY 15-16. The budgetary balance is worse in

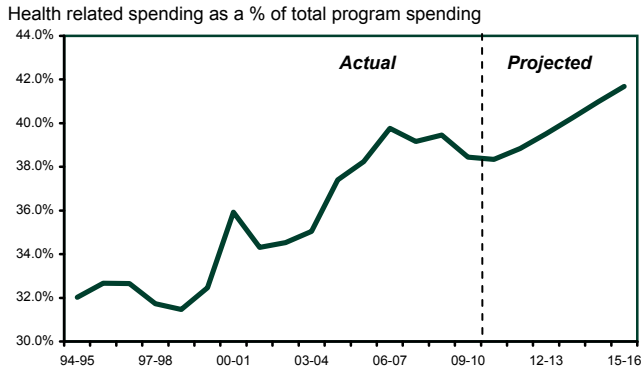
FISCAL PROJECTIONS FOR STATUS QUO 1 WITH ELECTION PLATFORM SCENARIO						
Fiscal Year	Projections					
	10-11	11-12	12-13	13-14	14-15	15-16
Budgetary Balance						
Surplus (+) / Deficit (-)						
\$ (millions)	-800	-1,122	-1,373	-1,459	-1,611	-1,769
% of GDP	-2.8	-3.8	-4.4	-4.5	-4.8	-5.1
Per capita	-1,058	-1,481	-1,811	-1,915	-2,119	-2,324
Net debt						
\$ (millions)	9,322	10,312	11,941	13,636	15,460	17,449
% of GDP	32.5	34.7	38.5	42.4	46.5	50.8
Per capita	12,322	13,615	15,747	17,888	20,334	22,923

Projections by TD Economics as of November 2010.

STATUS QUO WITH ELECTION PLATFORM

- Cancel previously announced PIT tax reductions for those earning more than \$450K per year.
- Hold general CIT rate cuts to 10%, rather than previously planned 8%.
- Reduce small business tax rate by 50% over four years.
- Target 2% annual reduction in program spending and find additional \$10 million in savings per annum.
- Two scenarios for annual growth in major federal transfers (Status Quo 1, Status Quo 2).

HEALTH SPENDING HAS BEEN OUTSTRIPPING OTHER SPENDING OVER THE LAST FIFTEEN YEARS



Note: Projections made by TD Economics as of November 2010 and are based on Status Quo 1 with Platform scenario.
Source: Canada Institute for Health Information.

the later years under this scenario, with the deficit sitting slightly less than \$2.0 billion or 5.7% of GDP in FY 15-16.

There are a few startling highlights for these fiscal projections that we outline next:

- Under the first scenario, the peak deficit is in the vicinity of \$2,400 per provincial resident.
- In the first scenario, the peak deficit to own-source revenue ratio is 34.8%. If the deficit was eliminated through tax increases alone, the tax burden would need to rise across all revenue sources, by 34.8%. Flat-lining program spending to FY 10-11 levels along with savings from reduced public debt charges would bring the province back to balance by FY 15-16.
- Net debt grows steadily over the five-year period and reaches just over 50% relative to the size of the provin-

FISCAL PROJECTIONS FOR STATUS QUO 2 WITH ELECTION PLATFORM SCENARIO MODERATE FEDERAL TRANSFER GROWTH						
Fiscal Year	Projections					
	10-11	11-12	12-13	13-14	14-15	15-16
Budgetary Balance						
Surplus (+) / Deficit (-)						
\$ (millions)	-800	-1,122	-1,373	-1,459	-1,715	-1,949
% of GDP	-2.8	-3.8	-4.4	-4.5	-5.2	-5.7
Per capita	-1,058	-1,481	-1,811	-1,915	-2,256	-2,561
Net debt						
\$ (millions)	9,322	10,312	11,941	13,636	15,564	17,733
% of GDP	32.5	34.7	38.5	42.4	46.8	51.6
Per capita	12,322	13,615	15,747	17,888	20,471	23,296

Projections by TD Economics as of November 2010.

cial economy. On a per capita basis, the debt burden is slightly more than \$2,000 less for each resident relative to the status quo case.

- Interest payments on net debt continue to be significant. By FY 15-16, annual interest payments on net debt are expected to amount to just under \$1.2 billion, representing almost double the interest charges paid today. Debt charges relative to own-source revenues continue to be large. For every dollar raised by the provincial government, 22 cents must be siphoned off for past services consumed, but not financed at the time. This is only two cents less than was the case in our status quo scenario.

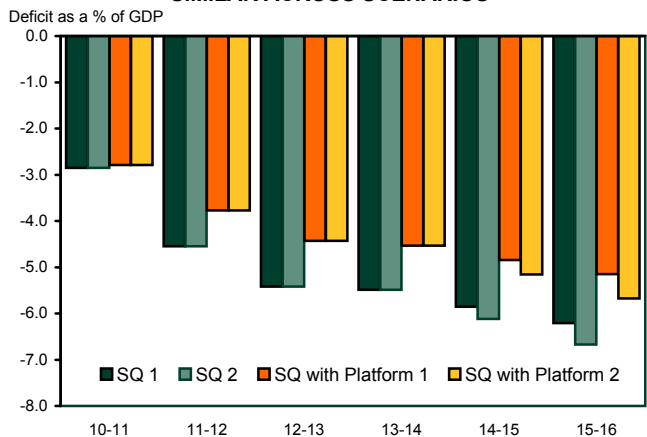
In sum, the initiatives put forward by the current government do not put much of a dent into the magnitude of the deficits or the medium-term deficit profile. As such, it appears that under the current plan alone, the government still has a long way to go to restoring budgetary balance.

Sensitivity of the Structural Deficit

The status quo deficits that we have projected are structural in nature in the sense that by 2012, we have assumed that output is back to its potential level. Therefore, no cyclical economic rebound can be counted on to rein in the deficit in the outer years. However, this is true of most jurisdictions. It is important to note, however, that one cannot be highly certain of the province's future economic performance, in terms of either its potential growth rate or how quickly the output gap will close. If we are correct that the province reaches its potential level of growth two years from now, it would seem that a sizeable share of the deficit reduction would need to come through key structural changes and/or policy reform.

As we have attempted to highlight through our analy-

**MAGNITUDE OF DEFICITS AND DEFICIT PROFILE
SIMILAR ACROSS SCENARIOS**



Note: Forecast by TD Economics as of November 2010.



sis, the government’s fiscal plan is particularly sensitive to changes surrounding federal transfer funding formulas. This is not surprising given that in FY 10-11, federal transfers represented 38% of total budgetary revenues. What’s more, 90% of revenue derived from the federal government comes in the form of the three major transfers, CHT, CST and Equalization. It is not known what the federal government will do once federal-provincial fiscal arrangement legislation expires in FY 13-14. That being said, according to our estimates, the province could face a \$88 million hit in FY 14-15 and \$160 million hit in FY 15-16 to their bottom line if transfer growth is moderated.

Next, we illustrate the sensitivity surrounding the economic assumptions that we have made. More precisely, we calculate the impact on the province’s fiscal position of 0.5 percentage points (ppts) faster growth in nominal GDP annually. Such a change would work its way through the fiscal plan predominately through the own-source revenue line. This is because program expenditures have already been depressed through the government’s efficiency and departmental spending reductions. Running higher nominal GDP by the amount described through our platform commitment scenario, we estimate that own-source revenues would increase by about \$125 million by FY 15-16. Even raising nominal GDP growth by a full percentage point does not make much of a dent. We could just as easily examine the further damage to the fiscal projections if growth is lower than assumed. After having done this sensitivity check, we feel that the risks to the economic assumptions are evenly balanced to the upside and downside.

Although we have argued that the province is less influenced by changes to short-term borrowing rates, significant increases to the deficit, as we have projected to be the case, will likely make it more difficult for the province to borrow to finance its debt. Case in point, the province’s credit rating has already been recently downgraded due to its inability to clearly articulate how the government plans to restore budgetary balance. With our scenarios showing the provincial deficit and net debt nearly doubling over a

five-year horizon, interest payments on debt may sky-rocket. This would be due to higher risk premiums being built into the interest rates required to finance the province’s debt. In this case, it may create a vicious, repeating cycle where ballooning debt charges increase the deficit which in turn, further increases debt charges.

What to Do Next?

As part of our analysis, we estimated the revenue yield that would be generated from several potential tax hikes. In particular, we estimate that, per annum, a percentage point increase to:

- personal income tax rates would generate about \$100 million in additional revenue;
- general corporate income tax rates would generate about \$40 million in additional revenue; and
- Harmonized Sales Tax (HST) rate would generate about \$125 million in additional revenue.

Although each of these policy measures produces a healthy amount of additional revenues, compared to the size of the deficit, a lot of percentage point increases would be required. For example, to erase the deficit, the personal income tax rate would need to increase by 18 percentage points or the HST by 14 percentage points. Although the exclusive use of one particular tax source is highly unlikely and the need for step-wise changes ever present, this example helps highlight the shear magnitude of the provincial deficits and how different tax initiatives alone can bring the fiscal plan back to balance.

Alternatively, on the program spending side, if we consider the status quo scenario that builds in the government’s platform commitments and assumes that federal transfer growth continues under current legislated maximums, flat-lining program spending (at FY 10-11 levels) could eliminate the deficit by FY 15-16. However, for this to occur, we must also assume reduced interest payments as a result of a lower stock of debt. Under this example:

- Program spending, including health-related spending, would be flat-lined. This means that real, per capita spending has to be lowered by about 2.5% per year, so that by FY 15-16, spending is about 12% below FY 10-11 levels on this basis.
- When NB previously balanced its budget in the late 1980s and the early 1990s, under the McKenna govern-

TAX RULES-OF-THUMB

- One percentage point increase in PIT (all rates): \$100 million additional revenue per year.
- One percentage point increase in CIT (all rates): \$40 million additional revenue per year.
- One percentage point increase in HST: \$125 million additional revenue per year.

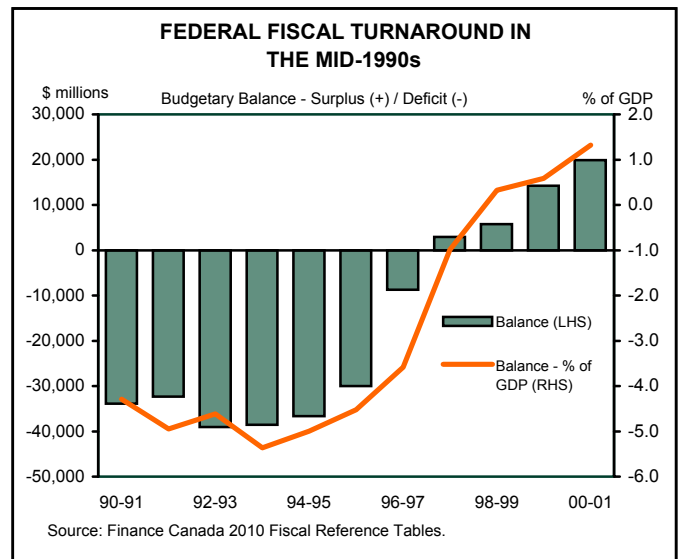
ment, expenditure restraint measures were also used. As is evident from the current example, the program spending contractions required today are larger and must last longer than was the case the last two times the NB government tried to balance its budget.

There are examples of other provinces cutting back health care spending for a few years including Ontario in the early to mid-1990s; Saskatchewan in 1992 and 1993; and Alberta from 1993 to 1995. However, it is important to note that without underlying reform of the system, the evidence suggests that pressures build, growth soars for a few years of payback and finally, the government is right back on the 5-6% annual spending growth rate treadmill. Case in point, only two years after Alberta's health care spending contraction from 1993 to 1995 ended, year-over-year provincial health care expenditure growth surged to 10.7%.

As we have shown, it will be difficult to restore provincial fiscal order through revenue measures such as tax hikes alone. It will be no simpler task to get back to positive fiscal territory through expenditure restraint measures either. Although asset sales are often thought of as a saving grace, they could be considered for efficiency reasons, but not necessarily deficit reduction. This is because asset purging provides a one-time gain that hopefully offsets the loss in future income. What's more, the fiscal challenges currently facing NB are structural in nature and as such, cannot be addressed through one-time actions. Like most fiscal consolidation efforts, the solution will almost certainly be a combination of revenue measures and expenditure savings. That being said, with all eyes across the country watching, drafting the austerity package for New Brunswick will be no small feat.

What Have Others Done?

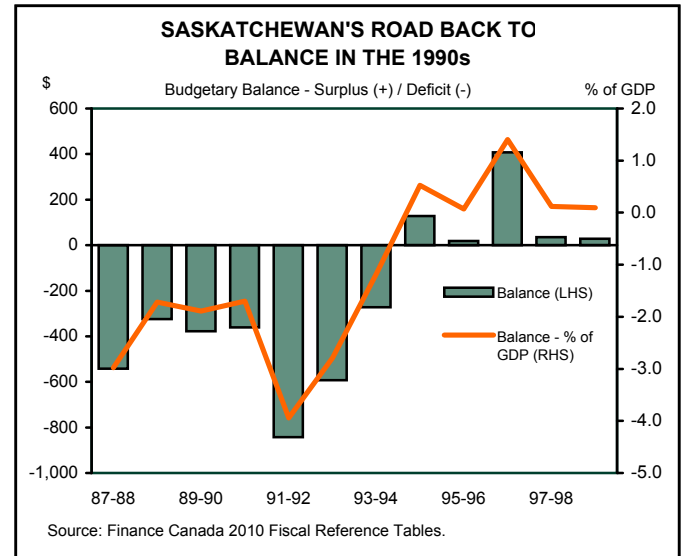
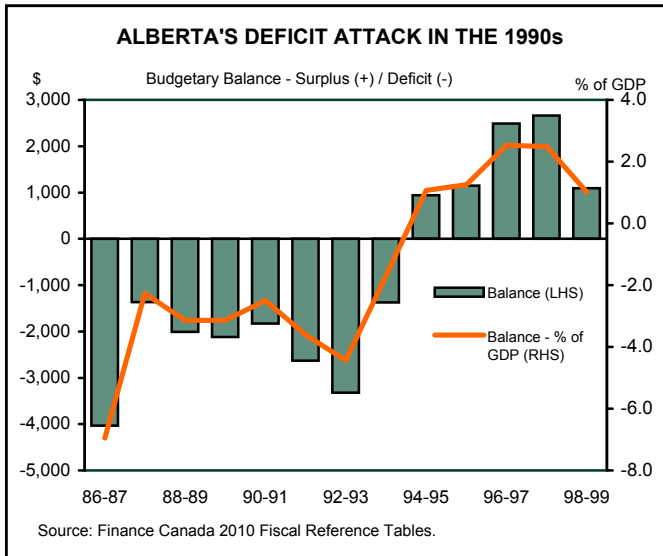
By the mid-1990s, financial markets' unease with Canada's fiscal and external imbalances led to a precipitous sell-off in the Canadian dollar, forcing the Bank of Canada to step in and defend the currency with significant rate hikes, a development that resonated across the country. With budgetary revenues hit hard as a result of the 1990s recession, the federal government and several provincial governments found themselves with large deficits and a mountain of debt during the late 1980s and the 1990s. With the general public growing particularly uneasy about the state of public sector finances, fiscal responsibility was a central theme in the 1993 federal election and was on the radar in several other provinces including Alberta, Saskatchewan, New Brunswick and Ontario. Helped by a public who were already



bracing themselves for the short-term pain to come, these governments set out to eliminate (or at least reduce) their respective deficits. In spite of their different situations as well as approaches, all of these governments were successful in their efforts.

In FY 92-93, relative to the size of its economy, the federal government's deficit and net debt were 5.6% and 69.6% respectively. Upon becoming elected in 1993, the federal government, led by Prime Minister Jean Chrétien, outlined a three-pillar plan to reduce the deficit to 3.0% of GDP within three years. The savings targeted were predominately a result of planned expenditure restraint measures (87.5%) rather than revenue generating initiatives (12.5%). All departments faced significant cuts to their operating budgets as well as deep cuts to their grants and contributions, with many needing to cut 15-25% and some even more. Transfers to the provinces were also cut deeply. While technically not a tax increase, the federal government got a large boost to its deficit-reduction mission by keeping Employment Insurance contributions high, while benefits under the program dropped sharply due to program eligibility tightening and an improving labour market. With the economy helped by strong growth, budgetary revenues increased on average by 7.0% per annum over this period, and helped the government reach its deficit target, one year ahead of schedule.

With the deficit sitting at \$3.3 billion or 4.4% of GDP in FY 92-93, Premier-to-be Ralph Klein made a campaign promise to balance Alberta's budget within three years and get the province debt-free within ten years. To accomplish both of these targets, the Alberta government opted to rely exclusively on spending and service cuts, rather than raise taxes or create user fees. With this focus in mind, the gov-



ernment enacted the *Deficit Elimination Act* which called for \$700 million in cuts in each of the first two years of the plan. All departments faced significant cuts, including education and health, and social assistance rates were reduced by almost 20% over three years. In an effort to reduce the size of government, nearly 10,000 public service positions were eliminated, the remaining civil servants faced wage cuts, and many social services were contracted out to non-governmental agencies. With expenditure restraint the focus of the province's plan, there were six consecutive years of program spending levels reduced or held constant (from FY 92-93 to FY 98-99) relative to the pre-restraint spending level. Helped as well by a return in resource-related revenues, the province returned to a surplus position in FY

94-95, three years after the fiscal consolidation efforts began.

The efforts of Saskatchewan in the early 1990s were in direct response to a localized, fiscal crisis. When Saskatchewan Premier Roy Romanow won the 1991 election, he took the helm of a province that was close to defaulting on its debt which, at the time, was close to \$6 billion. The federal government had to step in with emergency financial assistance and contingency plans were drawn up in the event the province found itself in a position where it could not raise money in the foreign bond markets. After the crisis subsided, the plan to return to balance was dubbed "The Saskatchewan Way" and included seven consecutive years of program spending levels reduced or held constant (from FY 90-91 to FY 97-98) relative to the pre-restraint spending level. In addition to departmental cuts, the province also imposed several expenditure management initiatives such as civil service wage freezes and more generally, reducing the size of government. Welfare reform was also implemented, with changes aimed at encouraging further independence through earned income supplements and training initiatives. The consolidation plan was not exclusive to the expenditure side of the ledger, however, as several tax increases were announced to help bring in additional revenues. The province returned to balance in FY 94-95, three years after embarking on its fiscal consolidation efforts.

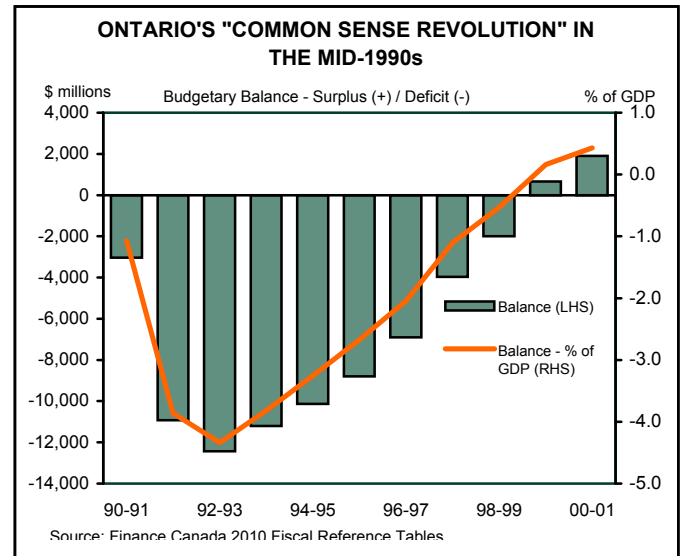
New Brunswick residents will be familiar with fiscal restraint eras, having lived through two episodes under the leadership of former Premier Frank McKenna. In FY 86-87, the provincial deficit and net debt stood at \$368 million (3.5% of GDP) and \$2.6 billion (24.7% of GDP) respectively. Relative to the size of the economy, these measures are roughly in line with the current fiscal situation. Efforts

PROGRAM SPENDING AND BUDGETARY BALANCE UNDER THE McKENNA GOVERNMENT		
Fiscal Year	Program Spending	Budgetary Balance
		Surplus (+) / Deficit (-)
(\$ millions)		
86-87	2,866	-368
87-88	3,100	-335
88-89	3,179	-79
89-90	3,260	-24
90-91	3,507	-182
91-92	3,686	-354
92-93	3,737	-264
93-94	3,705	-266
94-95	3,732	-79
95-96	3,791	41
96-97	3,840	66
97-98	3,865	0

Source: Finance Canada 2010 Fiscal Reference Tables.

were put in place to reduce the deficit, and in FY 89-90, just three years later, the deficit shrank to \$24 million. In spite of these efforts, the return to roughly a balanced budget was fleeting, as just a few years later in FY 91-92, the deficit and net debt ballooned up again to 2.6% and 26.4% of GDP respectively. These levels too are roughly in line with where things stand today. Through a combination of revenue raising and expenditure restraint efforts, the deficit was eliminated this time by FY 95-96. In particular, program spending was restrained after FY 91-92, but as in the earlier fiscal consolidation efforts, did continue to grow, albeit modestly at an annual growth rate of 0.7% from FY 91-92 to FY 95-96, or 0.8% if we look at the longer period from FY 91-92 to FY 97-98. From the return to balance in FY 95-96, the province managed to stay more-or-less on course in fiscal order, and even recorded several surpluses along the way, up until this latest recession blew the province off course in FY 08-09.

After more than five consecutive years of deficits in Ontario, Premier-to-be Mike Harris ran in the 1995 provincial election with a platform called the “Common Sense Revolution” or CSR. The platform was underpinned by four key objectives: tax reduction, balancing the budget, reducing the size of government, and a heightened emphasis on individual economic responsibility. With the deficit sitting at \$10.1 billion (or 3.3% of GDP) in FY 94-95, Premier Harris went on to implement his election platform almost in its entirety. Over several years, personal and corporate income tax rates were cut by nearly 30%. Expenditure re-



straint was exercised, with the exception of health-related spending, in an attempt to counter rising costs and federal transfer cuts. The two most dramatic reforms implemented included social assistance rate cuts and additional funding responsibilities for municipal governments. On the economic front, a strong performance vis-à-vis the other provinces also helped boost Ontario’s budgetary revenues. This strong growth coupled with the expenditure efforts led to the provincial deficit being eliminated by FY 99-00, four years after the CSR efforts began.

There are only a few instances since the mid-1980s (when available data begin) of jurisdictions in Canada keeping program spending below or flat relative to the pre-restraint spending level for more than a few years. These jurisdictional examples include Saskatchewan at seven years (FY 91-92 to FY 97-98); Alberta at six years (FY 93-94 to FY 98-99) and the federal government for four years (FY 95-96 to FY 99-00). However, these restraint examples are the stuff of folklore in Canadian and even international public finance. Even under the infamous McKenna deficit attack in NB, program spending grew marginally year-over-year, and in Ontario, the Harris government accomplished this for only three years (FY 96-97 to FY 98-99). These historical experiences hopefully set the appropriate mindset for NB’s current fiscal challenges. Heroic, historic action will be required.

The specific fiscal consolidation plans imposed by the governments highlighted here reflected the economic circumstances at the time, the political climate and the unique longer-term challenges facing the province or country. Still, while strategy played a significant role in framing expectations and getting the buy-in of the public, governments got

NUMBER OF YEARS KEEPING PROGRAM SPENDING AT OR BELOW PRE-RESTRAINT LEVEL SINCE FY 86-87

Province	# of years	Years
Saskatchewan	7	FY 91-92 to FY 97-98
Alberta	6	FY 93-94 to FY 98-99
Federal government	5	FY 95-96 to FY 99-00
Ontario	3	FY 96-97 to FY 98-99
Québec	3	FY 95-96 to FY 97-98
Nova Scotia	2	FY 93-94 to FY 94-95
New Brunswick (Round 2)	2	FY 93-94 to FY 94-95
Prince Edward Island	2	FY 96-97 to FY 97-98
Newfoundland and Labrador	2	FY 96-97 to FY 97-98
New Brunswick (Round 1)	0	--
Manitoba	0	--
British Columbia	0	--

Source: Finance Canada 2010 Fiscal Reference Tables.

a big helping hand from economic fortunes. Strong growth largely linked to high export demand from a rapidly-growing US economy in the mid- to late-1990s set the stage for stronger-than-expected government revenue intake. A healthy terms-of-trade gain and a low Canadian dollar also helped out. Rapidly-declining deficits were further supported by falling interest rates, which along with a declining debt load, created a virtuous cycle. As such, consolidation efforts coupled with strong economic performances likely led to the fiscal successes for the governments highlighted in this section. With global and domestic economic growth expected to moderate into 2012, economic fortunes will not likely help the fiscal consolidation efforts of New Brunswick for some time to come, and in turn, should not be counted upon.

Conclusion

The NB government, led by Premier Alward, will have to follow a four-step plan to devise its fiscal consolidation efforts.

To start, the government will have to do its own status quo fiscal projections to determine the most likely scenario for the deficit with the platform commitments built in. The NB government might wish to also consider involving third-party experts in preparing a status quo fiscal outlook, as other Atlantic provinces have recently done.

Second, provided this first part reveals a fiscal imbalance as troubling as the one we have portrayed here, the government must communicate the results openly and honestly to the people of New Brunswick. Residents will not support the actions required if they are not made aware of the problem. And yes, this will involve doing what has now become a cliché for incoming governments, declaring that the fiscal books are in a lot worse shape than politicians had understood during the election. This would be understandable,

RECOMMENDATIONS

1. NB prepare its own status quo outlook.
2. Transparently communicate the fiscal challenges and engage residents.
3. Develop plan to restore fiscal balance in a timely fashion.
4. Consult/communicate on the plan and build alliances with other jurisdictions, especially in health

after all, as the previous government did produce a budget before the election that showed a small surplus by FY 14-15. Lacking, however, were any details on the policy actions required to achieve this. The shock of such a large potential change in projected fiscal fortunes underscores the need for extensive communication and consultations with residents.

Third, the government should develop a plan to return to budgetary balance in a timely and responsible fashion. Again, if the government's projections are similar to ours, it is not likely credible to think of a return to balance before FY 15-16. To the extent possible, the province needs to remain competitive on the tax side. So aside from cancelling the remaining steps of the previous government's personal and corporate income tax cuts, as per the election platform, the focus should first be on how much of the deficit reduction can be accomplished through expenditure restraint. This will essentially require flat-lining total program spending at today's level over the next five years. We cannot emphasize enough that this is easy to do on paper and in a table, but extremely difficult to do in reality. It cannot be accomplished by across-the-board cuts to departmental spending. Rather, it will require a thorough examination of every cent the province spends. Many programs will have to be cancelled so the valuable ones can be preserved. As such, many difficult decisions will be required, especially regarding the provision of health care. There are few success stories of any government in Canada or elsewhere leveling health care spending for more than a few years. What's more, it is very unlikely it can be done without dramatic underlying reform. We have outlined the experiences of some other jurisdictions in getting out of deep fiscal holes. These efforts were not pretty. Rather, they required drastic action, mostly through deep spending cuts. And even then, most of these jurisdictions benefitted from an economic lift that may not be forthcoming this time around.

Because it will prove difficult to flatten total program spending over a five-year period, an open mind should be

EXAMPLE OF FISCAL IMPACTS UNDER EXPENDITURE RESTRAINT MEASURES						
Fiscal Year	Projections					
	10-11	11-12	12-13	13-14	14-15	15-16
Status quo 1 deficit with platform	-800	-1,122	-1,373	-1,459	-1,611	-1,769
Savings from flattening program spending at FY 10-11 level	--	317	609	915	1,235	1,527
Reduced Debt Charges	--	12	45	78	123	179
Resulting deficit projection	-800	-793	-720	-467	-254	-63

Projections by TD Economics as of November 2010.



kept on relying, to some extent, on tax increases. After all, as we have demonstrated, few jurisdictions in Canada have been able to flatten total program spending for more than a few years and even the NB government under Premier McKenna did not quite go that far during either of his expenditure restraint campaigns. It would nevertheless be a shame to raise taxes given the recent and enviable drive in New Brunswick to make its tax system more competitive. But restoring fiscal balance is also a worthy objective. The two goals can be reconciled to a degree if tax increases are chosen to have the least possible economic cost. This would make an increase in the HST the preferred choice. Of course, this is tainted territory, politically speaking, given the backlash the British Columbia government is facing over HST implementation. In addition, in his election platform, Premier Alward committed not to increase the HST. With the political implications duly noted, an HST increase makes sense as it inflicts far less damage to the economy than increases in personal or corporate income tax rates. Note that a two percentage point hike in HST, such as that recently implemented by the Nova Scotia government, would raise \$250 million and hence, could be a valuable and necessary complement to spending restraint efforts. With this in mind, HST increases may need to be brought back to the table of possible solutions. However, learning from the British Columbia experience, the key to reviving this option will be a careful explanation of the broad fiscal challenges before

the people of the province.

With the status quo in hand, and the strategies generated, the government must repeat the second part of the exercise – communicate, consult and in every way conceivable, engage the people of New Brunswick. This will certainly be difficult. However, fiscal consolidation cannot be carried out without the support of the people. And that support will never be forthcoming if the general public does not understand the problem, why dramatic action is required, and why the strategy advocated is “fair.” The NB government will also wish to work closely with other governments across Canada, particularly on the health care side. This is because all jurisdictions are facing similar challenges related to health-related spending. In particular, challenges relating to how to get off the 6% annual growth treadmill on health spending, the “Pac Man” of provincial budgets. If nothing else, provinces can offer political cover to each other. For example, governments can use their collective purchasing power to lower costs as in bulk drug purchases. What’s more, a collective effort should be able to help with coming up with good ideas and reporting the successes and failures of what has been tried.

The New Brunswick fiscal challenge is serious. It will require bold action very soon. It is not the task any new government would wish to face. But, this is the hand the Alward government of NB has been dealt.



ANNEX 1: STATUS QUO 1 - FISCAL PROJECTIONS

NEW BRUNSWICK GOVERNMENT'S FISCAL POSITION										
STATUS QUO 1 - NO MODIFICATION OF GROWTH FOR MAJOR FEDERAL TRANSFERS										
Millions of C\$ unless otherwise indicated										
Fiscal Year					Projected					
	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15	15-16
Revenues	6,649	6,962	7,113	6,990	7,033	6,957	7,014	7,370	7,660	7,968
% change	5.5	4.7	2.2	-1.7	0.6	-1.1	0.8	5.1	3.9	4.0
% of GDP	25.7	25.7	26.0	25.4	24.5	23.4	22.6	22.9	23.0	23.2
Own source revenues	4,185	4,385	4,386	4,089	4,289	4,376	4,509	4,733	4,889	5,051
% change	6.5	4.8	0.0	-6.8	4.9	2.0	3.0	5.0	3.3	3.3
% of GDP	16.2	16.2	16.0	14.9	14.9	14.7	14.6	14.7	14.7	14.7
Federal transfers	2,464	2,578	2,727	2,901	2,745	2,581	2,505	2,637	2,770	2,917
% change	3.9	4.6	5.8	6.4	-5.4	-6.0	-2.9	5.3	5.1	5.3
% of GDP	9.5	9.5	10.0	10.5	9.6	8.7	8.1	8.2	8.3	8.5
Expenditures	6,415	6,876	7,403	7,728	7,851	8,308	8,695	9,136	9,606	10,100
% change	4.9	7.2	7.7	4.4	1.6	5.8	4.7	5.1	5.1	5.1
% of GDP	24.8	25.4	27.0	28.1	27.4	27.9	28.0	28.4	28.9	29.4
Program spending	5,853	6,299	6,796	7,125	7,206	7,623	7,915	8,221	8,541	8,875
% change	6.5	7.6	7.9	4.8	1.1	5.8	3.8	3.9	3.9	3.9
% of GDP	22.6	23.3	24.8	25.9	25.1	25.6	25.5	25.5	25.7	25.8
Debt charges	562	577	607	603	645	685	780	915	1,065	1,225
% of net debt (t-1)	8.4	8.8	8.7	8.2	7.7	7.3	7.4	7.3	7.3	7.4
% of GDP	2.2	2.1	2.2	2.2	2.2	2.3	2.5	2.8	3.2	3.6
Surplus/Deficit (-)	234	87	-290	-738	-818	-1,352	-1,681	-1,766	-1,946	-2,132
% of GDP	0.9	0.3	-1.1	-2.7	-2.8	-4.5	-5.4	-5.5	-5.9	-6.2
per capita	311	115	-385	-977	-1,081	-1,785	-2,217	-2,317	-2,560	-2,801
Net Debt	6,575	6,949	7,388	8,353	9,322	10,560	12,497	14,498	16,657	19,009
% of GDP	25.4	25.7	27.0	30.4	32.5	35.5	40.3	45.0	50.1	55.3
per capita	8,733	9,219	9,789	11,056	12,322	13,942	16,480	19,019	21,908	24,972

Source: New Brunswick Department of Finance; Projections by TD Economics as of November 2010.



ANNEX 2: STATUS QUO 2 - FISCAL PROJECTIONS

NEW BRUNSWICK GOVERNMENT'S FISCAL POSITION										
STATUS QUO 2 - MAJOR FEDERAL TRANSFER GROWTH RESTRAINT POST FY 13-14										
Millions of C\$ unless otherwise indicated										
Fiscal Year	Historical				Projected					
	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15	15-16
Revenues	6,649	6,962	7,138	6,990	7,033	6,957	7,014	7,370	7,571	7,808
% change	5.2	4.7	2.5	-2.1	0.6	-1.1	0.8	5.1	2.7	3.1
% of GDP	25.7	25.7	26.1	25.4	24.5	23.4	22.6	22.9	22.8	22.7
Own source revenues	4,185	4,385	4,386	4,089	4,289	4,376	4,509	4,733	4,889	5,051
% change	6.5	4.8	0.0	-6.8	4.9	2.0	3.0	5.0	3.3	3.3
% of GDP	16.2	16.2	16.0	14.9	14.9	14.7	14.6	14.7	14.7	14.7
Federal transfers	2,464	2,578	2,727	2,901	2,745	2,581	2,505	2,637	2,682	2,757
% change	3.9	4.6	5.8	6.4	-5.4	-6.0	-2.9	5.3	1.7	2.8
% of GDP	9.5	9.5	10.0	10.5	9.6	8.7	8.1	8.2	8.1	8.0
Expenditures	6,415	6,876	7,403	7,728	7,851	8,308	8,695	9,136	9,606	10,100
% change	4.9	7.2	7.7	4.4	1.6	5.8	4.7	5.1	5.1	5.1
% of GDP	24.8	25.4	27.0	28.1	27.4	27.9	28.0	28.4	28.9	29.4
Program spending	5,853	6,299	6,796	7,125	7,206	7,623	7,915	8,221	8,526	8,855
% change	6.5	7.6	7.9	4.8	1.1	5.8	3.8	3.9	3.7	3.9
% of GDP	22.6	23.3	24.8	25.9	25.1	25.6	25.5	25.5	25.6	25.8
Debt charges	562	577	607	603	645	685	780	915	1,080	1,245
% of net debt (t-1)	8.4	8.8	8.7	8.2	7.7	7.3	7.4	7.3	7.4	7.4
% of GDP	2.2	2.1	2.2	2.2	2.2	2.3	2.5	2.8	3.2	3.6
Surplus/Deficit (-)	234	87	-265	-738	-818	-1,352	-1,681	-1,766	-2,035	-2,292
% of GDP	0.9	0.3	-1.0	-2.7	-2.8	-4.5	-5.4	-5.5	-6.1	-6.7
per capita	311	115	-351	-977	-1,081	-1,785	-2,217	-2,317	-2,677	-3,012
Net Debt	6,575	6,949	7,388	8,353	9,322	10,560	12,497	14,498	16,746	19,258
% of GDP	25.4	25.7	27.0	30.4	32.5	35.5	40.3	45.0	50.3	56.1
per capita	8,733	9,219	9,789	11,056	12,322	13,942	16,480	19,019	22,025	25,299

Source: New Brunswick Department of Finance; Projections by TD Economics as of November 2010.



ANNEX 3: STATUS QUO 1 WITH ELECTION PLATFORM - FISCAL PROJECTIONS

NEW BRUNSWICK GOVERNMENT'S FISCAL POSITION										
STATUS QUO WITH ELECTION PLATFORM 1 - NO MODIFICATION OF GROWTH FOR MAJOR FEDERAL TRANSFERS										
Millions of C\$ unless otherwise indicated										
Fiscal Year	Historical				Projected					
	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15	15-16
Revenues	6,649	6,962	7,138	6,990	7,033	7,011	7,127	7,467	7,759	8,071
% change	5.2	4.7	2.5	-2.1	0.6	-0.3	1.7	4.8	3.9	4.0
% of GDP	25.7	25.7	26.1	25.4	24.5	23.6	23.0	23.2	23.3	23.5
Own source revenues	4,185	4,385	4,386	4,089	4,289	4,431	4,622	4,830	4,989	5,154
% change	6.5	4.8	0.0	-6.8	4.9	3.3	4.3	4.5	3.3	3.3
% of GDP	16.2	16.2	16.0	14.9	14.9	14.9	14.9	15.0	15.0	15.0
Federal transfers	2,464	2,578	2,727	2,901	2,745	2,581	2,505	2,637	2,770	2,917
% change	3.9	4.6	5.8	6.4	-5.4	-6.0	-2.9	5.3	5.1	5.3
% of GDP	9.5	9.5	10.0	10.5	9.6	8.7	8.1	8.2	8.3	8.5
Expenditures	6,415	6,876	7,403	7,728	7,833	8,133	8,500	8,926	9,371	9,840
% change	4.9	7.2	7.7	4.4	1.4	3.8	4.5	5.0	5.0	5.0
% of GDP	24.8	25.4	27.0	28.1	27.3	27.3	27.4	27.7	28.2	28.6
Program spending	5,853	6,299	6,796	7,125	7,188	7,463	7,755	8,061	8,381	8,715
% change	6.5	7.6	7.9	4.8	0.9	3.8	3.9	3.9	4.0	4.0
% of GDP	22.6	23.3	24.8	25.9	25.0	25.1	25.0	25.0	25.2	25.4
Debt charges	562	577	607	603	645	670	745	865	990	1,125
% of net debt (t-1)	8.4	8.8	8.7	8.2	7.7	7.2	7.2	7.2	7.3	7.3
% of GDP	2.2	2.1	2.2	2.2	2.2	2.3	2.4	2.7	3.0	3.3
Surplus/Deficit (-)	234	87	-265	-738	-800	-1,122	-1,373	-1,459	-1,611	-1,769
% of GDP	0.9	0.3	-1.0	-2.7	-2.8	-3.8	-4.4	-4.5	-4.8	-5.1
per capita	311	115	-351	-977	-1,058	-1,481	-1,811	-1,915	-2,119	-2,324
Net Debt	6,575	6,949	7,388	8,353	9,322	10,312	11,941	13,636	15,460	17,449
% of GDP	25.4	25.7	27.0	30.4	32.5	34.7	38.5	42.4	46.5	50.8
per capita	8,733	9,219	9,789	11,056	12,322	13,615	15,747	17,888	20,334	22,923

Source: New Brunswick Department of Finance; Projections by TD Economics as of November 2010.



ANNEX 4: STATUS QUO 2 WITH ELECTION PLATFORM - FISCAL PROJECTIONS

NEW BRUNSWICK GOVERNMENT'S FISCAL POSITION										
STATUS QUO WITH ELECTION PLATFORM 2 - MAJOR FEDERAL TRANSFER GROWTH RESTRAINT POST FY 13-14										
Millions of C\$ unless otherwise indicated										
Fiscal Year	Historical				Projected					
	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15	15-16
Revenues	6,649	6,962	7,138	6,990	7,033	7,011	7,127	7,467	7,671	7,911
% change	5.2	4.7	2.5	-2.1	0.6	-0.3	1.7	4.8	2.7	3.1
% of GDP	25.7	25.7	26.1	25.4	24.5	23.6	23.0	23.2	23.1	23.0
Own source revenues	4,185	4,385	4,386	4,089	4,289	4,431	4,622	4,830	4,989	5,154
% change	6.5	4.8	0.0	-6.8	4.9	3.3	4.3	4.5	3.3	3.3
% of GDP	16.2	16.2	16.0	14.9	14.9	14.9	14.9	15.0	15.0	15.0
Federal transfers	2,464	2,578	2,727	2,901	2,745	2,581	2,505	2,637	2,682	2,757
% change	3.9	4.6	5.8	6.4	-5.4	-6.0	-2.9	5.3	1.7	2.8
% of GDP	9.5	9.5	10.0	10.5	9.6	8.7	8.1	8.2	8.1	8.0
Expenditures	6,415	6,876	7,403	7,728	7,833	8,133	8,500	8,926	9,386	9,860
% change	4.9	7.2	7.7	4.4	1.4	3.8	4.5	5.0	5.2	5.1
% of GDP	24.8	25.4	27.0	28.1	27.3	27.3	27.4	27.7	28.2	28.7
Program spending	5,853	6,299	6,796	7,125	7,188	7,463	7,755	8,061	8,381	8,715
% change	6.5	7.6	7.9	4.8	0.9	3.8	3.9	3.9	4.0	4.0
% of GDP	22.6	23.3	24.8	25.9	25.0	25.1	25.0	25.0	25.2	25.4
Debt charges	562	577	607	603	645	670	745	865	1,005	1,145
% of net debt (t-1)	8.4	8.8	8.7	8.2	7.7	7.2	7.2	7.2	7.4	7.4
% of GDP	2.2	2.1	2.2	2.2	2.2	2.3	2.4	2.7	3.0	3.3
Surplus/Deficit (-)	234	87	-265	-738	-800	-1,122	-1,373	-1,459	-1,715	-1,949
% of GDP	0.9	0.3	-1.0	-2.7	-2.8	-3.8	-4.4	-4.5	-5.2	-5.7
per capita	311	115	-351	-977	-1,058	-1,481	-1,811	-1,915	-2,256	-2,561
Net Debt	6,575	6,949	7,388	8,353	9,322	10,312	11,941	13,636	15,564	17,733
% of GDP	25.4	25.7	27.0	30.4	32.5	34.7	38.5	42.4	46.8	51.6
per capita	8,733	9,219	9,789	11,056	12,322	13,615	15,747	17,888	20,471	23,296

Source: New Brunswick Department of Finance; Projections by TD Economics as of November 2010.

This report is provided by TD Economics for customers of TD Bank Financial Group. It is for information purposes only and may not be appropriate for other purposes. The report does not provide material information about the business and affairs of TD Bank Financial Group and the members of TD Economics are not spokespersons for TD Bank Financial Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. The report contains economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise TD Bank Financial Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.