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Deficits to persist during ‘transformational change’

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Highlights

Coming off an election victory last fall, New Brunswick's new government tabled its first budget, titled "Driving Change, Delivering Progress". This, of course, comes at an anxious time as the Canadian economy remains mired by trade uncertainty. The province identifies a need to respond to these challenges while delivering needed investments. To this end, New Brunswick sees the outgoing year's budget deficit (which was the first since 2016-17) growing in 2025-26. The \$549 million budgetary shortfall is expected to represent the high watermark but there are nonetheless deficits throughout the four-year fiscal plan. That's in contrast to the 2024 budget, which foresaw small surpluses as far as the eye could see. Still, deficits are relatively modest when expressed as a share of GDP (~1% or less) or as a share of revenue (<4% throughout the plan). Accumulating red ink will push New Brunswick's net debt higher, in dollars and relative to GDP. Indeed, the debt burden will edge up nearly 3%-pts by 2028-29 but 28.5% of GDP is still enviable from a provincial perspective. Likewise, an interest bite of 5.1% of revenue is up from last year but remains manageable and is lower than the provincial average. New Brunswick carried out \$1.78 billion in gross long-term financing in the outgoing fiscal year (inclusive of NB Power and NB MFC) but that figure is set to nearly double in 2025-26 (\$3.49 billion).

- **Economic outlook** — As was the case in 2023, it is estimated that New Brunswick's output grew slightly faster than the national average in 2024, with real GDP growth of 1.5%. This was supported by the second-highest population growth ever recorded (after an all-time high the previous year), a record level of housing starts and robust job creation. However, employment has not been able to keep pace with population growth, resulting in an increase in the average unemployment rate in 2024 to 7.1%, compared to 6.6% the previous year. Looking ahead, the economic outlook on which the budget is based has not directly incorporated the impact of tariffs, but only the impact of the uncertainty surrounding the trade war. This more challenging economic environment, combined with a slowdown in population growth, means that real GDP is only expected to grow by 1.1% in 2025. It should then increase by 1.3% in 2026 and by 1.5% on average from 2027 to 2029. It should be noted that the province's share of goods exported to the United States (rather than other international markets) is the highest in Canada at over 90%. However, international goods exports account for only 46.3% of the provinces' trade, interprovincial trade and service exports representing the balance. As for nominal GDP, which is more important for public finances, the Budget forecasts slower growth of 3.2% in 2025 and 2.7% in 2026 before increasing by an average of 2.6% from 2027 to 2029. As for the labour market, employment growth is expected to slow sharply and more significantly than the working-age population. That would push the unemployment rate from 7.0% in 2024 to 7.3% in 2025, before edging down to 7.2% in 2026. Finally, the Budget does not present an alternative economic scenario in the event of the US introducing tariffs on all Canadian products.
- **Latest (but not yet final) estimate of the 2024-25 budget balance** — As per the third quarter update presented in February, New Brunswick projects a budget deficit of \$399 million (0.8% of GDP) for the outgoing 2024-25 fiscal year. That's a significant swing from the original budget plan which envisioned a modest surplus of \$41 million (0.1% of GDP). The deterioration is largely a function of spending coming in higher than expected (+3.1%) but the revenue side didn't help, coming in slightly below budget guidance (-0.2%). Lower inflows, however, are largely a function of the federal GST/HST holiday. Prior to the federal government announcing the measure, the province's revenue was tracking close to 1% above the plan.
- **Medium-term fiscal outlook (2025-26 & beyond)** — Red ink is seen spilling into 2025-26 and beyond in the province's four-year fiscal plan. In 2025-26, spending growth (+4.9%) is budgeted to outpace revenue growth (+4.0%), a trend we've seen throughout this provincial budget season. These pressures will result in a larger shortfall of \$549 million (0.8% of GDP) for the coming fiscal year. Note that the province also sets aside a contingency of \$50 million which, if utilized, would widen the deficit to \$599 million. In the outer three years of the fiscal plan, revenue growth (+3.4% annually) is seen outpacing expense growth (+2.4% annually) which would reduce the budgetary shortfall over time. However, the planned fiscal consolidation will not be sufficient to eliminate deficits entirely. Indeed, the province has pencilled in a \$447 million shortfall (0.9% of GDP) in 2026-27, followed by \$304 million (0.6% of GDP) in 2027-28 and \$144 million (0.3% of GDP) in 2028-29. Undoubtedly, this plan contrasts starkly with the one laid out a year ago when the province envisioned small surpluses for as far as the eye could see. However, these are still relatively modest shortfalls, both when expressed as a share of GDP (~1% or less) or as a share of revenue (1-4%, depending on the year).
- **New initiatives** - Dubbed "Driving Change, Delivering Progress", Budget 2025 outlines the investment focus of New Brunswick in health care, education, housing, and economic resilience. In response to tariffs imposed by the U.S., the province has established a \$112 million "tariff response support package" which aims to invest in Opportunities New Brunswick and other existing programs to spur productivity and business competitiveness. An additional \$50 million contingency is available in the event of tariff-related economic weakness. The New Brunswick health care system will get a \$239 million boost, with funding being allocated towards community clinics and technological modernization. On housing, the government will provide NBHC an additional \$36.6 million, focused on addressing rental market challenges. New Brunswick will allocate \$200 million over five years to subsidize childcare programs, alongside other investments in youth and education (e.g., \$32.4 million for educational assistance). Lastly, the province will invest \$22 million for nursing home capacity, alongside other funding, to support aging New Brunswickers.
- **Debt burden & interest bite** — New Brunswick's net debt is set to end March 2025 at \$12.5 billion, slightly less than the \$12.67 billion initially pencilled in. On a relative basis, the province's net debt-to-GDP ratio is expected to end the fiscal year at 25.6%, the lowest in Canada east



of Saskatchewan. Consistent with the budget speech, which argued that fiscal responsibility was not a mere function of debt reductions and balanced budgets, net debt is set to increase nearly \$930 million in 2025-26. This pace of debt accumulation will be sustained in 2026-27 (+\$917 million) but will decelerate in the final two years of the fiscal plan (+\$675 million and +\$486 in 2027-28 and 2028-29, respectively). The path for net debt-to-GDP is pointed higher (compared to the downward trajectory from Budget 2024), climbing just shy of 3%-pts over the multi-year plan. Specifically, the debt burden will jump to 26.6% in 2025-26 and reach 28.5% by 2028-29. It is expected to cost \$673 million to service the public debt in 2025-26, consuming a larger but relatively manageable 5.1% of total provincial revenue (vs. 4.6% in 2024-25). With a lower-than-average debt burden, New Brunswick's interest bite will remain less painful than the weighted provincial average.

- **Borrowing requirement** —New Brunswick carried out \$1.78 billion in gross long-term financing in the outgoing fiscal year, inclusive of New Brunswick Power and New Brunswick Municipal Finance Corporation. That's slightly above the original budgeted estimate (\$1.69 billion) and the underlying requirement (\$1.72 billion). The latter reflects prefunding and means the province will begin 2025-26 ahead of schedule by a modest \$60 million. Next year, New Brunswick's gross requirement (*not* including NB Power or MFC) is pencilled in at \$2.44 billion, of which \$1.01 billion is refinancing. In addition, NB Power will need to borrow a sizeable \$900 million (after \$150 million in 2024-25) while NB MFC will raise a further \$150 million (after \$84 million in 2024-25). In aggregate, gross needs of \$3.49 billion are nearly double the borrowing conducted by the province in 2024-25.
- **Current long-term credit ratings** — S&P: A+, Positive | Moody's: Aa1, Stable | 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		
	2025 Estimate	2025 Revised	2026 Estimate
Revenue			
Ordinary Account.....	12,761,453	12,722,145	13,196,567
Capital Account.....	26,820	34,757	23,470
Special Purpose Account.....	172,486	180,666	196,132
Special Operating Agencies (net).....	128,037	111,091	153,941
Sinking Fund Earnings.....	207,400	217,200	222,200
Total Revenue	13,296,196	13,265,859	13,792,310
Expense			
Ordinary Account.....	12,066,835	12,486,189	13,033,891
Capital Account.....	197,862	208,441	188,121
Special Purpose Account.....	199,565	199,812	225,190
Special Operating Agencies (net).....	128,415	106,664	201,442
Amortization of Tangible Capital Assets.....	662,659	663,606	692,703
Total Expense	13,255,336	13,664,712	14,341,347
Surplus (Deficit) - Before Contingency	40,860	(398,853)	(549,037)
Contingency.....	-	-	(50,000)
Surplus (Deficit) - After Contingency	40,860	(398,853)	(599,037)

Multi-Year Plan (\$ millions)

	2025-2026	2026-2027	2027-2028	2028-2029
	Budget	Plan	Plan	Plan
Revenue	13,792	14,247	14,749	15,260
Expense	14,341	14,694	15,053	15,404
Surplus (Deficit)	(549)	(447)	(304)	(144)
(Increase) Decrease in	(929)	(917)	(675)	(486)
Net Debt				
Net Debt-to-GDP (%)	26.6%	27.7%	28.3%	28.5%



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