

**Economic and Fiscal Update**  
**Hon. Jeannot Volpé, Minister of Finance**  
**Legislative Assembly**  
**August 7, 2003**

Mr. Speaker, I would like to provide this House and the people of New Brunswick with an update on the Province's economic and fiscal situation for this fiscal year. I want New Brunswickers to understand the factors currently affecting economic growth across Canada and in New Brunswick, and the effect this situation could have on our finances. I want to remind people of the steps we have been taking and will continue to take to exercise strong fiscal discipline and management, so that we can continue to meet our top funding priorities for health and senior care, and education, while balancing the budget.

Mr. Speaker, the 2003-2004 Budget was tabled over seven months ago in December 2002. Since that time the world economy has experienced some significant new developments that have weakened economic growth – developments that are affecting growth in Canada as a whole, including New Brunswick.

These include the war in Iraq, the SARS outbreak, and the slowed economic recoveries in the United States, Europe and Japan. The threat of mad-cow disease, the rise in the value of the Canadian dollar, and the slump in tourism and travel worldwide are hampering growth in Canada as well.

In light of these and other developments, the federal finance minister announced recently that economic growth for Canada in 2003 will drop from the 3.2 per cent he predicted in his Budget in February, to 2.2 per cent. He based his announcement on the most recent private sector consensus forecast, which predicts lower economic growth.

He stated in his speech on June 25<sup>th</sup>: *“At the midpoint of 2003, we face a challenging economic environment. And it is important to remember that the problems challenging us are global in nature, although their impact is local.”*

Since that time, the Bank of Canada revised its own economic growth outlook for Canada to 2.0 per cent for 2003, compared to the 2.5 per cent it originally expected in April, just three months earlier.

The Governor of the Bank of Canada stated: *“Economic activity has been undercut by the effects of severe acute respiratory syndrome (SARS) and an isolated case of bovine spongiform encephalopathy (BSE) in Canada. Foreign demand for Canadian products has also been weaker than expected. Moreover, the substantial rise in the value of the Canadian dollar against the U.S. dollar will have a dampening effect on the future growth of demand for Canadian goods and services.”*

While it is anticipated that growth in the Canadian economy will strengthen towards the end of 2003 and through 2004, the current economic situation will still have an impact for the immediate future.

Mr. Speaker, New Brunswickers know that we are not immune from these developments. Our economy is export-based. In fact, New Brunswick is the most trade-reliant economy in all of Canada. Our exporters are being affected by the recent rise in the Canadian dollar – a situation that makes our exports more expensive in U.S. markets. The ongoing softwood lumber trade dispute with the U.S. continues to plague this critical economic sector of our province. Manufacturing shipments are lower than anticipated due to the weakened U.S. and Canadian economies. Inflationary pressures have contributed to weaker than anticipated growth in real personal expenditures and real exports, resulting in lower than anticipated employment growth.

We are not an island, Mr. Speaker, isolated from economic reality. Canadian growth is slowing. U.S. growth remains stagnant. It is affecting New Brunswick. It is as simple as that.

Seven months ago, the 2003-2004 Budget projected real economic growth for New Brunswick at 2.8 per cent. At the time it was a prudent forecast, situated at the low end of private sector forecasts. In fact, private sector estimates for New Brunswick at that time ranged from 2.6 per cent to 3.9 per cent.

Based on the recent economic developments I have just outlined, the Province now anticipates real economic growth of 2.0 per cent, close to the national average as outlined by the federal finance minister. Our forecast remains prudent and is within the current range of private sector forecasters. The Department of Finance will continue to monitor economic and financial developments and assess their implications.

The performance of the economy obviously has implications on the fiscal framework, Mr. Speaker.

At the time we tabled the 2003-2004 Budget, the ongoing effects of the global economic slowdown was identified as a concern. The government stated: *“Now is not the time, therefore, for reckless spending. It is the time for controlled spending and continued strong financial management. We must be prepared to continue to make the necessary choices to ensure a strong financial foundation in the future for the people of New Brunswick.”*

We stated clearly then, as we always have, that we would exercise strong fiscal discipline on behalf of New Brunswick taxpayers so that we could focus our investments on the most important priorities of New Brunswick citizens: health and senior care, and education.

That has not changed, Mr. Speaker. That was our plan then. That is our plan now.

During the election campaign, we stated clearly and forthrightly our intentions and priorities. Our platform, *New Brunswick: Reaching Higher. Going Further.*, states clearly on page 14: *“A new Bernard Lord PC government will continue to create a competitive fiscal and business environment with lower taxes and strong financial discipline, balanced budgets, and less red tape that will help New Brunswick reach higher and go further.”*

As I stated earlier, Mr. Speaker, New Brunswickers want their governments to live within their means. That is exactly what we are doing.

While it is still too early to predict the final budgetary balance for the Province for 2003-2004, it is clear that steps need to be taken now to ensure that we are able to meet our original target. This is the prudent thing to do – rather than wait until too late in the fiscal year to be able to have a positive effect.

The key factors affecting our ability to meet our target relate principally to: reduced budgetary revenues in some areas due to a weaker economy; the ongoing need to fund health and senior care as a top funding priority with ever-increasing demands; anticipated shortfalls for NB Power and the Workplace Health, Safety and Compensation Commission; a higher pension expense due to slumping returns in the stock market in 2002-2003; potential impacts on Equalization revenues due to a weakened national economy, and a possible reduction in federal transfers for Equalization and the Canada Health and Social Transfer due to the negative impact of a smaller population base arising from the 2001 Census.

Some of these factors, notably relating to Equalization revenues and the impact of the Census, will not be fully known until the fall of this year at the earliest. Nevertheless, as prudent financial managers, we must plan for a likely reduction in order to continue to meet our health and senior care, and education, commitments.

Several of these factors are out of the direct financial control of the Province. These include risks to Equalization, possible implications of the Census on federal transfer payments, the pension expense due to poor capital markets in 2002-2003, and the financial results of NB Power and WHSCC. Nevertheless, they appear on the bottom line of the Province's financial statements and must be accounted for. New Brunswick has already called upon the federal government to forgive any negative impacts associated with the Census and was successful at the most recent Annual Premiers' Conference in Charlottetown in securing all-province support, including Ontario and Alberta, for our demand.

With respect to federal transfers, it is important to recognize that funding from the 2003 Health Accord will not just be offset, but exceeded by, our own provincial expenditures on health care. All provinces and all premiers said at the time that the federal contribution to health care was insufficient, and we are being proved right. The federal finance minister recently suggested that Ottawa might not come through with the additional contingent \$2 billion in federal funding for health care as committed in the February health agreement, despite being needed. This is very worrisome and completely unacceptable. If the federal government withholds this \$2 billion, this would mean \$48 million less for health care here in New Brunswick over the next 3 year. Nevertheless, this government will follow through on its commitments to fund health care, Mr. Speaker, even if the federal government does not.

Mr. Speaker, I have described a series of economic uncertainties, spending pressures and fiscal challenges facing New Brunswick. New Brunswickers know that our financial room to manoeuvre is limited as a Province, but these issues must still be addressed.

As a government, we are committed to balanced budgets. That is why we recently took a prudent, proactive step by announcing a 5 per cent one-time reduction to selected programs only in government departments. This measure could yield in-year savings of approximately \$49 million. In total, it adds up to less than 1 per cent of overall government spending.

By taking action now, departments have eight to nine months to realize these savings.

It is important to reiterate that this reduction will not apply to key public priorities such as delivery of health care, funding for schools and universities, cost-shared programs such as highway agreements, grants to municipalities, and funding for the RCMP.

It is also important to emphasize that the government is committed to ensuring our resources are spent in the most meaningful manner. To this end, we will continue to evaluate expenditures to be sure that every dollar is being spent wisely.

Mr. Speaker, section 5(1)(b) of the *Financial Administration Act* gives the Board of Management the authority to manage government expenditures year-round, not just at budget time. The section states: "*The Board shall act as a committee of the Executive Council on all matters relating to the review, monitoring and adjustment as necessary of the annual expenditure plans, programs and results of the various departments.*"

This is precisely what we are doing.

When we released our platform for the next four years on May 26<sup>th</sup>, we also released a framework that set out our top funding priorities and the principles that would guide future funding.

We stated six key funding principles that I will reiterate here today:

This includes:

- focusing on key funding priorities of health and senior care, education, jobs, and infrastructure;
- balancing the budget over the 4-year balanced budget period set out in legislation;
- realizing cost-efficiencies and savings to taxpayers by eliminating duplication and overlap in government spending and redirecting savings from administration to front-line services;
- remaining accountable for government spending;
- lowering taxes responsibly and abiding by the *Taxpayer Protection Act*, and
- adding to the Fiscal Stabilization Fund, when possible, to protect health and education spending and allowing for better management and planning of the province's finances.

These are the principles we will follow, Mr. Speaker.

Unfortunately for them, the Opposition has no financial management principles. They had none before the election campaign when they demanded the Fiscal Stabilization Fund be spent even

before it was set aside. They had none during the election campaign when the words ‘balanced budgets’ never even appeared in their platform. And they have none now, by tabling five separate spending motions on the first full day of this session that could result in close to \$450 million in additional new spending over the next four years, without explaining once how they would pay for their expensive promises.

Mr. Speaker, the government remains hopeful that the global economy will recover as the year unfolds. The government is also pleased to see recent improvements and growth in equity market returns. It is also encouraging that the strengthening of the Canadian dollar and lower than anticipated interest rates should lead to a reduction in our spending for service of the public debt.

We must, nevertheless, continue to make the necessary choices, both now and in the months and years ahead, to ensure we can focus our spending priorities on what matters most to New Brunswickers.

During the course of the remainder of the fiscal year, the situation can change further, depending on economic developments and factors not within our control. The government will continue to monitor the economy and fiscal situation and take any necessary, corrective action to meet its objectives.

In closing, Mr. Speaker, I want to emphasize that the government stands by its commitments. We have taken the steps we needed for one overriding reason: so that we can continue to invest in the most important priorities of New Brunswickers, including health and senior care, and education. These priorities are untouched by our restraint measures.

We will continue to invest in initiatives to build prosperity. We will deliver on our platform commitments, including further reasonable and gradual income tax reductions. We will do so in a fiscally responsible manner because New Brunswickers have come to expect strong fiscal management from this government.

We believe in balanced budgets and debt reduction. We have a mandate to ensure the Province lives within its means. The future prosperity of New Brunswickers depends upon it.

Thank you, Mr. Speaker.