

2024 Newfoundland and Labrador Budget Another Deficit, But Surpluses on the Horizon

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Highlights

- Newfoundland & Labrador is projecting a second consecutive year in deficit territory. The government forecasts a return to balance by FY 2025/26.
- At 45%, the government's debt-to-GDP ratio is still the highest among the provinces. Still, its budget plan is expected to yield a modest decline in the burden this year.
- Exceptionally strong growth projections are driven by a rebound in commodities production alongside robust levels of capital investment.

Newfoundland & Labrador (N.L.) is projecting a \$152 million deficit in FY 2024/25 (or -0.4% of GDP). This represents an improvement from the much deeper deficit of \$433 million now estimated for FY 2023/24. The latter balance was eroded by decreased offshore royalties, a drop in corporate income taxes and higher health care expenses. All said, the province expects to spend back-to-back years in red ink before slim surpluses (representing about 0.1% of GDP) re-emerge and extend out until FY 2028/29.

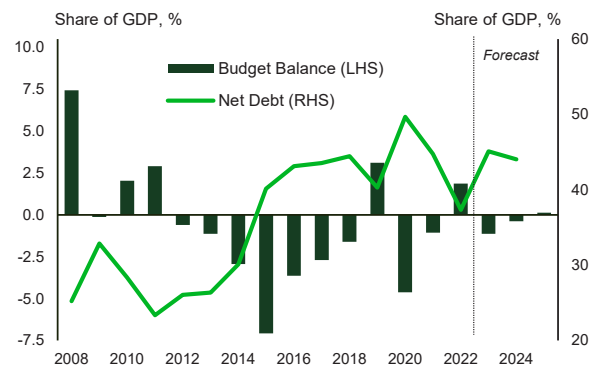
Spending Boost Followed by Restraint

Total spending is projected to rise by 4.6% in FY 2024/25. For the rest of the five-year planning horizon, expenses are forecast to drop on average in real per-capita terms, which highlights the government's intention to hold the line on medium-term spending.

New spending was geared towards the healthcare sector to fund infrastructure improvements, hire health care providers, and expand services. Seniors care and businesses were also allocated new funding. Further, no new taxes or affordability measures were unveiled, but the government announced that it would extend the 8.05 cent/litre gas tax reduction, the 50% reduction in passenger vehicle registrations, the home heating supplement as well as the elimination of retail sales tax on home insurance.

Meanwhile, the government significantly boosted its capital investment forecast. Relative to last year's budget, cumulative capital investment by the year 2027 will be nearly \$30 billion greater.

Chart 1: A Brief Return to a Modest Deficit



Source: Newfoundland and Labrador Department of Finance, TD Economics.

Newfoundland & Labrador Economic Assumptions		
[Per cent change unless otherwise noted]		
Fiscal Year	2024	2025
Real GDP	5.1	6.9
Nominal GDP	5.8	3.7
Unemployment Rate (%)	10.0	9.4
Employment	0.9	1.5
Retail Sales	2.8	2.7
Population	0.8	0.5
		2024-25
Exchange Rate (USD/CAD)		0.747
Brent Price (\$US per barrel)		82.0
Source: Newfoundland and Labrador Department of Finance, TD Economics.		

Strong Economic Growth Pulling Up Revenues

On the heels of last year's contraction, the N.L. government assumes an above-consensus rebound in real GDP of around 5% this year, which underpins a 7.8% rise in revenues for FY 2024/25. In nominal terms, the government's projection is still higher, but closer to our own estimates. GDP growth this year hinges on ramped up export volumes from increased oil, iron ore and nickel production, as well as solid levels of capital spending. For now, oil royalty revenues are projected to jump by over 60%, while an \$82/bbl average Brent price is anticipated for 2024. This is a reasonable assumption and carries a \$24 million revenue sensitivity per \$1/bbl movement. In the following years, average revenue growth is expected to flatline, though the Province does build in an oil risk adjustment to hedge its financial position against oil price volatility.

Financial Challenges Exist, But Should Ease Over the Medium-Term

Newfoundland and Labrador plans to borrow \$2.8 billion this fiscal year of which \$1.6 billion represents a net new funding requirement. This figure is higher than the \$2.2 billion in gross requirements this past fiscal year. Increased borrowing and current deficits are driving net debt to a projected \$17.8 billion in FY 2024/25, or around 44% as a share of GDP. This represents a slight easing from the 45% recorded last fiscal year, which came in around five percentage points (ppts) higher than expected in last year's spring budget. Still, the ratio has moved sharply higher over the last two years and stands as the highest debt burden across Canada's provinces.

With GDP projected to rise at a solid clip over the next few years, the debt ratio should gradually decline. Supporting the push to lower net debt, the government is contributing \$72.4 million to the Future Fund, bringing the total contributions to \$358.8 million. The Future Fund, established in October 2022, is a vehicle for managing provincial government debt in the long-term whereby portions of excess resource revenues and occasional one-time contributions are funneled.

Bottom Line

The N.L. government is set to spend another year in deficit territory before an improved economic growth backdrop lifts coffers and returns the budget into the black in FY 25-26. While the government's 2024 GDP forecast is on the optimistic side, commodity price assumptions build in some prudence.

Newfoundland & Labrador Fiscal Position						
[C\$ millions, unless otherwise noted]						
<i>Fiscal Year</i>	23-24	24-25	25-26	26-27	27-28	28-29
Revenues*	9,554	10,296	10,291	10,320	10,306	10,279
% change	-9.2%	7.8%	0.0%	0.3%	-0.1%	-0.3%
Less: Oil Risk Adjustment	-	-	20	45	60	70
Expenditures	9,987	10,448	10,233	10,268	10,238	10,219
% change	2.5%	4.6%	-2.1%	0.3%	-0.3%	-0.2%
Base Expense	9,987	9,938	9,854	9,893	9,867	9,851
100% Funded		510	379	375	371	368
Surplus (+)/Deficit (-)	-433	-152	58	52	68	60
% of GDP	-1.1%	-0.4%	0.1%	0.1%	0.1%	0.1%
Net Debt	17,200	17,800				
% of GDP	45.0%	44.1%				
*Includes net income of Government Business Enterprises and Federal Government transfers (including one-time Atlantic Accord Payment) Source: Newfoundland and Labrador Department of Finance.						

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