

# 2020 Newfoundland & Labrador Budget

## Pandemic Further Hammers Province's Finances

Omar Abdelrahman, Economist | 416-734-2873

October 1, 2020

### Highlights

- Newfoundland & Labrador's pandemic budget projected a deficit of \$1.84 billion (6.2% of GDP) for the current fiscal year.
- The surge in the deficit reflects dramatic changes on both sides of the ledger. Expenditures are anticipated to increase by 6.2%, primarily on COVID-19-related spending. Meanwhile, own-source revenues (excluding federal transfers) are expected to decline by 3.9%.
- The deficit is expected to lift gross borrowing needs this year to \$3 billion. At an estimated 55.7% in fiscal 2020-21, Newfoundland and Labrador is home to the highest net debt to GDP ratio in the country.

The government of Newfoundland & Labrador (N&L) released a pandemic budget projecting a deficit of \$1.84 billion or 6.2% of GDP. To put this in perspective, only one other province (Alberta) is anticipating a higher shortfall in GDP terms this year. However, this amount of red ink would fall slightly short of the budget shortfall recorded in N&L following the oil price shock in 2015 (\$2.2 billion or 7.1% of GDP). Battered offshore royalties drive the decline on the revenue side of the ledger. Meanwhile, much of the increase in spending is fuelled by COVID-19-related outlays (\$487 million). Increased borrowing requirements are set to catapult N&L's net debt to GDP ratio to 55.7%, second to none in the country.

### Pandemic Hits 2019 and 2020 Finances

The fiscal outlook has improved modestly since the Province's fiscal update in July, which forecasted a deficit of \$2.1 billion for the year. However, the Province's finances have still deteriorated significantly relative to what was anticipated in last year's budget. Much of the impact of the pandemic-related hit to oil prices were already reflected in last year's revised results, where an initially forecasted surplus of \$1.9 billion was revised down to \$1.1 billion. The bulk of this downward revision was attributable to lower taxation and offshore royalties. Recall that the surplus was a result of the special accounting treatment of the Atlantic Accord payment (\$2.5 billion).

The one-time nature of the Accord payment on last year's revenue tally has made this year's projected drop

<b>Newfoundland &amp; Labrador Fiscal Position</b>		
[ C\$ millions, unless otherwise noted ]		
<i>Fiscal Year</i>	<b>19-20</b>	<b>20-21</b>
<b>Revenues*</b>	<b>9,557</b>	<b>7,129</b>
% change	22%	-25%
<b>Revenues Excluding Federal Transfers**</b>	<b>5879</b>	<b>5647</b>
% change	-12%	-3.9%
<b>Expenditures</b>	<b>8,443</b>	<b>8,967</b>
% change	0.8%	6.2%
<b>Surplus (+)/Deficit (-)</b>	<b>1,114</b>	<b>-1,838</b>
% of GDP	3.3%	-6.2%
<b>Net Debt</b>	<b>14,400</b>	<b>16,441</b>
% of GDP	42.1%	55.7%

\* Includes net income of Government Business Enterprises and Federal Government transfers (including one-time Atlantic Accord Payment) \*\*Excludes Federal Government transfers but includes net income from Government Business Enterprises  
Source: Newfoundland and Labrador Department of Finance

in total revenue look much worse. Looking at own-source revenues (excluding all federal government transfers but including income from government enterprises), the decline is less drastic at -3.9%. As expected, the bulk of the decline is driven by a \$429.5 (-44.6%) drop in offshore royalties. Taxation income is expected to hold relatively flat. Higher corporate income taxes (+81.7%) are expected to offset lower sales (-9.7%) taxes.

Total expenditures are set to rise by \$524 million, or 6.2%. As noted in the Budget speech, this is primarily driven by \$487 million in planned pandemic-related outlays. The budget contained little in the way of major policy changes. Some smaller-scale policy announcements include:

- An increase in tobacco and vaping taxes.
- An increase in gasoline and diesel taxes.
- A \$25 a day childcare program (2021).
- A \$30 million Small Business Assistance Program.

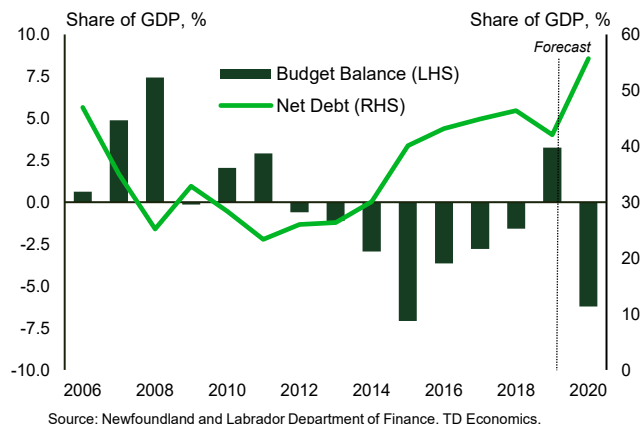
### Economic Outlook Gloomy, but Projections are Generally Prudent

At -4.8%, the government’s real GDP projection is more optimistic than that of TD Economics (-7.5%). Still, its nominal GDP (the more relevant metric for taxation projections) forecast of -13.7% is slightly more conservative (-13%). The government’s Brent price forecasts for the fiscal year (US\$39) are also reasonably prudent.

Newfoundland & Labrador Economic Assumptions		
[ Per cent change unless otherwise noted ]		
Fiscal Year	2019*	2020
Real GDP	4.0	-4.8
Nominal GDP	2.9	-13.7
Unemployment Rate (%)	11.9	13.9
Employment	0.6	-5.8
Retail Sales	-0.1	-6.0
Population	-0.8	-0.3
		<b>2020-21</b>
Exchange Rate (USD/CAD)		0.74
Brent Price (\$US per barrel)		39.0

Note: \* Estimate  
Source: Newfoundland and Labrador Department of Finance, TD Economics

Net Debt to GDP, Budget Deficit to Spike



The double whammy of pandemic-related restrictions and the oil price shock are generating a disproportionate economic hit in the province this year. Indeed, the oil shock has heavily impacted the value of the province’s manufacturing shipments and exports. At the same time, capital expenditures are anticipated to witness the steepest hit across the provinces in 2020. That said, one area that provides some respite is N&L’s continuously low virus case count. While no Canadian region is out of the woods yet, a lower caseload reduces the risk of renewed COVID-19-related restrictions. Relative to larger provinces in Central and Western Canada, the milder COVID-19 curve is also expected to result in a lesser negative impact to service-oriented industries.

### Borrowing and Net Debt to Rise Sharply

Borrowing needs are set to climb to \$3 billion this year (\$2 billion of which have been borrowed) from \$1.2 billion last, lifting the Province’s net debt to \$16.4 billion. As a result, Newfoundland and Labrador’s net debt to GDP ratio is projected to rise to 55.7%, the highest in the country.

### Bottom Line

As expected, the double whammy of COVID-19-related restrictions and the oil price shock have dealt a heavy blow to Newfoundland and Labrador’s finances. Encouragingly, the outlook has improved over the summer, supported by a gradual firming in oil prices. That said, the province’s high debt burden, its challenging demographic picture, and its exposure to volatile resource revenues mean that the path forward will be long and arduous.

## Disclaimer

This report is provided by TD Economics. It is for informational and educational purposes only as of the date of writing, and may not be appropriate for other purposes. The views and opinions expressed may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The report does not provide material information about the business and affairs of TD Bank Group and the members of TD Economics are not spokespersons for TD Bank 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. This 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 the TD Bank 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.