

#### Contributors

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## Newfoundland and Labrador: 2022–23 Budget

### BALANCE ON THE HORIZON

- **Budget balance forecasts:** **-\$400 mn** (-1.0% of nominal GDP) in 2021–22 (FY22), **-\$351 mn** (-0.9%) in FY23, **-\$309 mn** (-0.8%) in FY24, **-\$270 mn** (-0.7%) in FY25, **-\$74 mn** (-0.2%) in FY26; surplus targeted for FY27, unchanged from last budget (chart 1).
- **Net debt:** expected to decline to **42.9%** of nominal GDP in FY22 from the pandemic high of **50.7%** in FY21, then remain flat at **42.8%** in FY23 (chart 2).
- **Real GDP growth forecast:** **+3.5%** in 2021, **+0.5%** in 2022—revised down by over 2 pts for both years since last budget due to lower oil production. **2023 real GDP growth was raised slightly to +3.4%**.
- **Borrowings:** **\$2.7 bn** in FY23 (including **\$1.7 bn** in debt maturities), following **\$1.6 bn** total in FY22.
- **Budget continues to highlight a path to balance, this time with slightly eased spending restraint and improved near-term bottom-line. Longer-term fiscal positions remain challenging in light of increasing spending needs and growth uncertainties associated with the aging demographics but this budget is a step in the right direction.**

### OUR TAKE

**Newfoundland and Labrador’s latest budget features some near-term improvements, keeping deficits and debt burden at bay through FY23.** In outer years, the plan maintained the target of returning to surpluses in FY27, pencilling in narrowing deficits of under 0.8% of GDP from FY24 to FY26—largely the same as in the last budget. While the updated fiscal trajectory reversed the aggressive spending cut that underpinned the last budget, expenses will be kept flat throughout the forecast horizon.

**The province expects an improved bottom line, supported by both provincial and federal sources.** Sizable windfalls from taxation and offshore royalties are behind the 1.7% upward revision in FY22 revenues versus the last budget. For FY23, with provincial revenues kept flat, the province expects total revenues to grow by 4.7% thanks to the additional \$422 mn in federal transfers. In spite of favourable oil prices, offshore royalties are projected to decline by nearly 24% in FY23 due to continued falling production, contributing less than 10% of total revenue (versus 32% in 2011–12).

#### Updated Fiscal Forecast

\$ millions except where noted

	FY22		FY23
	Bud.'21	Bud.'22	Bud.'22
Total Revenue	8,518	8,663	9,070
% change	20.2	18.2	4.7
Prov. Revenues	6,628	7,143	7,128
Fed. Transfers	1,890	1,521	1,943
Total Expenditure	9,344	9,063	9,422
% change	7.0	2.8	4.0
Programs	8,349	8,145	8,466
Debt Costs	995	918	956
% of revenue	11.7	10.6	10.5
<b>Budget Balance</b>	<b>-826</b>	<b>-400</b>	<b>-351</b>
% of GDP	-2.3	-1.0	-0.9
<b>Net Debt (bn)</b>	<b>17.2</b>	<b>16.5</b>	<b>17.1</b>
% of GDP	47.1	42.9	42.7

Sources: Scotiabank Economics, Finance Canada, NL Finance.

Chart 1

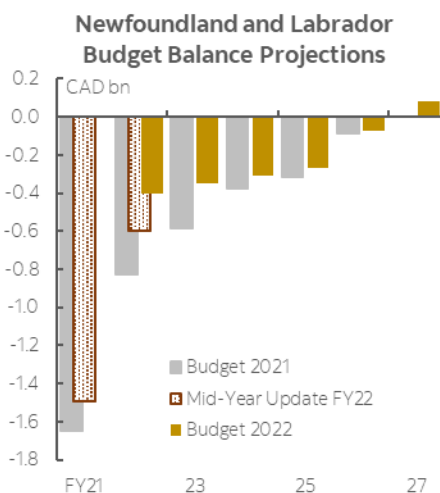
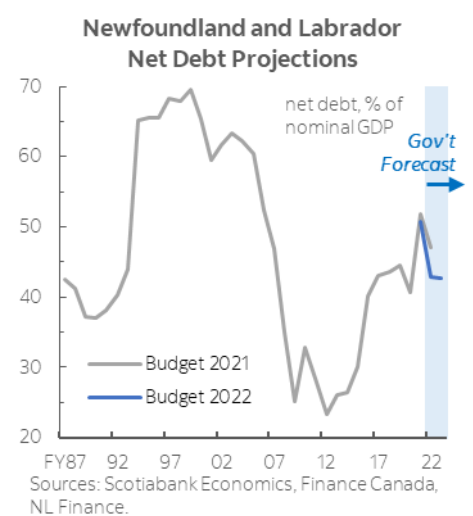


Chart 2



April 7, 2022

**New policy measures focus on assisting with expected higher cost of living, eroding some own-source revenue gains in the near-term.**

New relief measures include 1) a one-year elimination of retail sales tax on home insurance; and 2) a 50% cost cut in vehicle registrations. These measures are broadly targeted but narrower in scale compared to other provinces that made similar announcements, and hence less likely to spur further inflation pressure.

**Spending restraint is still front and centre in the medium-term.** Federally funded program expenses offset the 10% spending cut initially planned in the last budget, keeping the overall level of spending flat before achieving balance in FY27. The flat level of spending is consistent with the weak population growth in the province, but combined with expected price inflation over the next few years suggests that it will be challenging to maintain the current level of public service provision.

**Conservative oil price assumptions leave room for limited upside.** The budget is based on a composite of price projections from 11 private-sector forecasts, which comes to a mean Brent value of 86 USD/bbl in FY23, around 15 USD/bbl below the current trending price on budget day. Offshore royalties get a \$13 mn boost with each 1 USD/bbl increase in oil price, yet any potential gain could be limited by continued production decline. Budget also includes contingencies for oil price-related risks starting next fiscal year; the value of those provisions increases gradually from \$10 mn in FY24 to \$50 mn in FY27.

**Major project timelines could be consequential to the outlook.** The Muskrat Falls project—the completion of which was likely delayed for another year—secured a \$5.2 bn federal funding package. The package includes \$2 bn in federal financing, \$3.2 bn in Hibernia revenues, and \$2 bn from the conversion of GNL equity to preferred shares. This aims at staving off massive electricity rate hikes. We discussed the impact of the project on the province's finances [here](#). The Bay du Nord project—approved on the same day as the budget release—could provide more upside in capital investments and employment opportunities. With details of the timeline still in the making, this offshore oil project is anticipated to go into production as early as 2028.

**The province expects to increase its FY23 borrowing program to \$2.7 bn, of which \$1.7 bn will be used to refinance maturing debt.** Mirroring the smaller deficits anticipated, net debt is projected to decline sharply as a share of nominal output from 50.7% in FY21 to 42.9% in FY22, and remain at the same level in FY23.

Multi-year Fiscal Forecast						
\$ millions except where noted						
	FY22	FY23	FY24	FY25	FY26	FY27
Total Revenue	8,663	9,070	8,969	8,998	9,076	9,238
Less: Oil Risk Adjustment			10	25	35	50
% change	18.2	4.7	-1.2	0.2	0.8	1.6
Total Expenditure	9,063	9,422	9,268	9,243	9,115	9,106
Base Expenses		8,647	8,779	8,799	8,626	8,671
100% Funded		774	489	444	489	435
% change	2.8	4.0	-1.6	-0.3	-1.4	-0.1
<b>Budget Balance</b>	<b>-400</b>	<b>-351</b>	<b>-309</b>	<b>-270</b>	<b>-74</b>	<b>82</b>
% of GDP	-1.0	-0.9	-0.8	-0.7	-0.2	0.2

Sources: Scotiabank Economics, NL Finance.

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