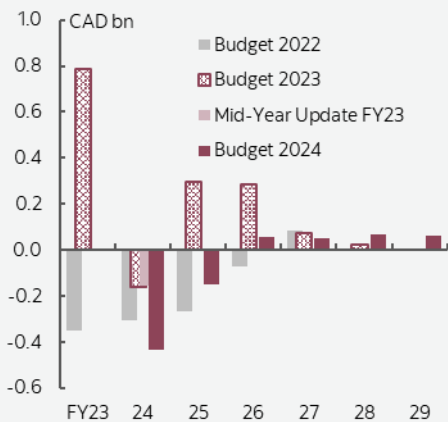


Contributors

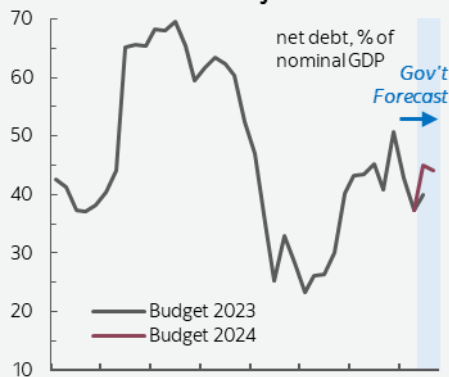
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Chart 1
Newfoundland and Labrador
Budget Balance Projections



Sources: Scotiabank Economics, NL Finance.

Chart 2
Newfoundland and Labrador
Net Debt Projections



Sources: Scotiabank Economics, Finance Canada, NL Finance.

Newfoundland and Labrador: 2024–25 Budget

BUDGETING FOR GROWTH

- **Budget balance forecasts:** **-\$433 mn (-1.1% of nominal GDP) in FY24, -\$152 mn (-0.4%) in FY25, before a return to surplus in FY26 at \$58 mn (0.7%)—one year later than anticipated in the previous budget; modest surpluses continue in the order of \$60 mn (0.1%) through FY29 (chart 1).**
- **Net debt:** **expected to increase to 45% of nominal GDP in FY24—over 5 pts higher than in the last budget—before levelling off to 44.1% in FY25 (chart 2).**
- **Real GDP growth forecast:** **-2.1% in 2023 instead of the +2.8% in the last budget. Real growth is expected to accelerate to +5.1% in 2024, +6.9% in 2025 and +7.3% in 2026—a much higher growth trajectory than in the last budget.**
- **The province plans to deposit another \$72.4 mn into the Future Fund, bringing its balance to \$359 mn.**
- **Borrowings:** **\$2.8 bn in FY25 (including \$1.2 bn in debt maturities), following \$2.2 bn total in FY24.**
- **Newfoundland and Labrador’s Budget 2024 foresees a sharp rebound in growth following four years of stagnant or negative growth, against the backdrop of heightened uncertainties. While the budget charts an ambitious course towards fiscal balance with aggressive spending restraints, the province remains entrenched in fiscal challenges from a persistently high debt burden and a growth strategy heavily reliant on natural resources and major capital projects.**
- **The strides made in transforming the province’s finances are commendable, especially evident in prudent fiscal planning, resolution of the Muskrat Falls project, and establishment of the Future Fund. Yet, additional steps are required to materially improve its fiscal standing.**

OUR TAKE

Newfoundland and Labrador plans for a swift turnaround to exit deficit territory post-FY25, buoyed by an optimistic revenue outlook and rigorous spending restraint measures. Following a deeper-than-anticipated deficit in FY24, now estimated at **-\$433 mn (-1.1% of GDP)** driven by a sharper reversal of the revenue windfall, FY25 deficit is projected to narrow to **-\$152 mn (-0.4%)** as revenue jumps by 7.8%. Compared to its previous multi-year blueprint, the government plans to finance additional spending through windfalls—total revenue is projected to come in **\$1.6 bn higher** over the next four years, while spending was lifted by **\$2.3 bn** over the same period.

Despite a lower starting point, revenue projections were lifted across the planning horizon, reflecting strong oil, gas and mining production outlooks and the impact of major projects breaking ground. The government expects revenue to expand by 7.8% in FY25 to a record high and remain elevated for the next four years. This optimistic outlook mainly stems from favourable projections for oil and mineral production. The Terra Nova oil project is expected to ramp up to full production levels and the newly converted Come By Chance refinery started production of renewable diesel. The completion of the Voisey’s Bay Mine Expansion project could drive increased value of mineral shipments. Oil production is set to jump by around 12% each year this year and next before continuing the expansion at 6% till FY28. The Brent price assumption was nudged down to a more conservative US\$82/bbl in FY25, slightly higher than Scotiabank GBM’s January forecast of US\$81/bbl but still reasonable given the recent strength in prices from a tighter supply-demand dynamic.

The province also anticipates major projects to buck the trend of a global slowdown and sustain medium-term growth. Capital investment is expected to jump by 3.0% in 2024 as construction work ramps up on the West White Rose offshore oil project, combined with continued government investment in infrastructure projects. The wind-hydrogen sector brings significant upside to growth, with four companies granted rights to develop projects on crown lands, and a fifth expected on private land, projecting significant spending down the line and contributing to capital investment and GDP growth in the years to come.

Despite increased spending on crucial areas like healthcare, seniors, and housing, fiscal restraint remains essential for achieving fiscal balance. Total spending is expected to increase by 4.6% in FY25 with notable investments to improve healthcare, support affordability, enhance senior benefits, and increase housing supply. Despite additional spending announced in the budget that adds to this year's deficit, the government plans to cut spending by -2.1% in FY26 and maintain it at that level to achieve a balanced budget.

The province continues to invest heavily in capital projects. Investments in infrastructure projects are expected to total \$1.1 bn in FY25, generating \$600 mn in economic activity with health, education and housing as key areas.

The near-term deterioration in budget shortfalls is putting pressure in net debt which will is now projected to hit 45% versus the earlier -anticipated 42.9% but it would resume a modest descent over the planning horizon. Nevertheless, this indicates that reducing debt burden remains the province's priority. The near-term outlook remains challenging, but medium to long-term growth seems promising once Terra Nova is back to full capacity and large capital projects break ground. The province recently launched a Green Transition Fund using payments from West White Rose, which could potentially boost green investments in Newfoundland and Labrador. DBRS Morningstar upgraded Newfoundland and Labrador's credit rating to A from A (low) in light of the province's improving fiscal outlook and the receding risks related to Muskrat Falls. We will continue monitoring Newfoundland and Labrador's progress with major capital projects in the wind hydrogen space, as well as the discussions on Bay du Nord.

Multi-Year Fiscal Forecast												
\$ millions except where noted												
	FY24			FY25		FY26		FY27		FY28		FY29
	Bud. '23	Fall '23	Bud. '24	Bud. '23	Bud. '24	Bud. '23	Bud. '24	Bud. '23	Bud. '24	Bud. '23	Bud. '24	Bud. '24
Total Revenue	9,689	9,893	9,554	9,974	10,296	10,055	10,311	9,905	10,365	9,802	10,366	10,349
Less: Oil Risk Adjustment	—	—	—	20	—	40	20	50	45	60	60	70
% change	-7.9	-6.0	-9.2	2.7	7.8	0.6	0.0	-1.6	0.3	-1.1	-0.1	-0.3
Total Expenditure	9,849	10,047	9,987	9,657	10,448	9,729	10,233	9,784	10,268	9,717	10,238	10,219
Base Expenses	9,378	—	—	9,296	9,938	9,358	9,854	9,413	9,893	9,346	9,867	9,851
100% Funded	471	—	—	361	510	371	379	371	375	371	371	368
% change	1.1	3.1	2.5	-1.9	4.6	0.7	-2.1	0.6	0.3	-0.7	-0.3	-0.2
Budget Balance	-160	-154	-433	297	-152	286	58	71	52	25	68	60
% of GDP	-0.4	-0.4	-1.1	0.7	-0.4	0.7	0.1	0.2	0.1	0.1	0.1	0.1
Net Debt	16.2	17.1	17.2	—	17.8	—	—	—	—	—	—	—
% of GDP	41.2	42.9	45.0	—	44.1	—	—	—	—	—	—	—

Sources: Scotiabank Economics, NL Finance.

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