

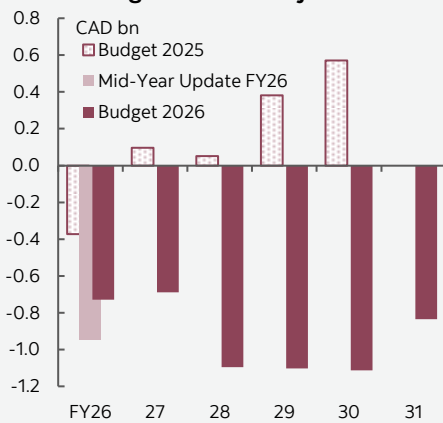
Contributors

Mitch Villeneuve
 Director, Economic Policy
 Scotiabank Economics
 416.350.1175
mitch.villeneuve@scotiabank.com

John Fanjoy
 Economist
 Scotiabank Economics
 416.866.4735
john.fanjoy@scotiabank.com

Chart 1

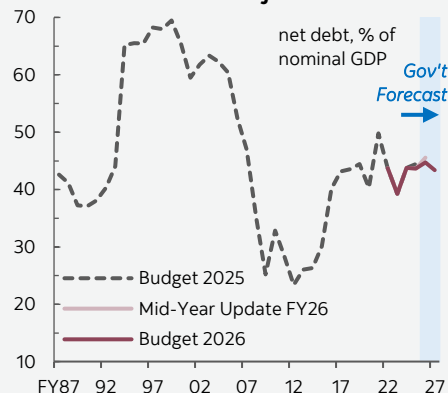
Newfoundland and Labrador
 Budget Balance Projections



Sources: Scotiabank Economics, NL Finance.

Chart 2

Newfoundland and Labrador
 Net Debt Projections



Sources: Scotiabank Economics, Finance Canada, NL Finance.

Newfoundland and Labrador: 2026–27 Budget

FISCAL OUTLOOK DETERIORATES DESPITE HIGHER OIL PRICES

- **Bottom line:** In its first budget, Newfoundland & Labrador’s new government has implemented a number of its campaign promises, including several tax cuts and increases to health spending. This comes at the cost of projecting sizeable deficits across the forecast horizon, despite the province already having an elevated debt burden. However, revenue performance could end up stronger in the near-term thanks to high oil prices, and in the longer-run could be significantly impacted by the final version of the agreement with Quebec regarding Churchill Falls.
- **Budget balance:** estimated to be **-\$729 mn (-1.7% of nominal GDP)** in FY26, with a smaller deficit of **\$688 mn (-1.4%)** in FY27 that expands to around **\$1.1 bn (2.1–2.2%)** across FY28 through FY30 before pulling back to **-\$835 (-1.6%)** in FY31 (chart 1).
- **Economic assumptions:** GDP is assumed to grow **5.5% in real terms and 10% nominal in 2026**, up from an estimated **4.8% real and 3.3% nominal in 2025**.
- **Net debt:** estimated to be **44.7% of nominal GDP in FY26**, down from **45.6%** in the mid-year update, and falling to **43.5%** in FY27 owing to nominal GDP growing faster than net debt levels (chart 2).
- **Borrowing requirements:** **\$3.9 bn of gross borrowing in FY27**, down from **\$4.1 bn in FY26**.

OUR TAKE

Newfoundland and Labrador’s Budget 2026 plans for deficits over the outlook as the new government implements a number of campaign promises. The budget balance for fiscal year 2025–26 (FY26) is estimated to be **-\$729 mn (-1.7% of nominal GDP)**, roughly double the deficit planned in last year’s budget, and is expected to ease to **-\$688 mn (-1.4%)** in FY27. The deficit is then projected to fall further into the red, with deficits around **\$1.1 bn (~2.2% of GDP)** over FY28 through FY30, owing to a weaker revenue outlook amid tax cuts coupled with higher spending plans. The deficit is then expected to fall to **\$835 mn (1.6%)** in FY31.

Total revenue was revised down by \$1.35 bn across FY27 through FY30 relative to last year’s budget. Revenue is projected to increase 1% annually on average over the outlook, increasing from **\$10.8 bn in FY27 to \$11.2 bn in FY31**, but contract 3.5% in FY28. Elevated oil prices are providing a revenue windfall in the near term, with oil royalties estimated to have a **\$2 bn impact on the budget’s bottom line in FY27**. The Budget assumes Brent oil prices will average **\$79 (USD/barrel)** this year, up from **\$72** assumed in last year’s budget, before easing to **\$71** in FY28 and gradually rising each year thereafter albeit along a lower path than the previous outlook. Tax cuts will pose headwinds to revenue growth but keep more money in taxpayers’ pockets. The province is permanently reducing the gas tax which is estimated to save consumers **\$67 mn annually**. Other measures include increasing the Basic Personal Exemption amount to **\$15,000**, and reducing the Small Business Tax Rate to **1%** by January 1st, 2028. Longer-run risks to the revenue outlook could come from significant changes to the electricity MOU signed with Quebec.

Total expenses were revised up by \$3.9 bn across FY27 through FY30 in the new budget relative to last year’s outlook. Expenses are projected to grow 1.1% annually from **\$11.5 bn in FY26 to \$12.1 bn in FY31** as the new government follows through on campaign promises. Spending on health care is expected to account for approximately **42% of expenses**, the largest share by sector and up from **40%** in last year’s budget, as the province aims to improve access to health care services and providers. Other affordability

measures include increasing the Seniors' Benefit by 20%, and expanding the Newfoundland and Labrador Child Benefit to 3,000 additional children. The budget also plans for \$1.1 bn of investments in infrastructure for health care facilities, schools, housing, roads, and municipal infrastructure.

Net debt is estimated to be \$19.5 bn at the end of FY26, approximately 44.7% of nominal GDP, a lower handoff from the \$19.9 bn (45.6%) projected in the mid-year fiscal update and in line with last year's budget expectations. The province's net debt level is planned to rise to \$20.8 bn in FY27 with the debt burden as a share of GDP decreasing to 43.5%, as nominal GDP is assumed to grow 10% in 2026 supported by higher prices of commodity exports. The Budget assumes that the province's real GDP will accelerate further amid the oil price shock, increasing 5.5% in 2026, up from 4.8% in 2025, grow 3.9% in 2027 and easing thereafter, as elevated oil prices should support the province's exports, while headwinds from tariffs and slower population gains weigh on potential growth.

Gross borrowing requirements are projected to be \$3.9 bn in FY27, down from \$4.1 bn in FY26, while new net borrowing is projected to increase to \$2.9 bn in FY27, up from \$2.6 bn in FY26, and will likely remain elevated over the outlook owing to plans for deeper deficits as opposed to small and growing surpluses in last year's budget.

Updated Fiscal Forecast											
\$ millions except where noted											
	FY26		FY27		FY28		FY29		FY30		FY31
	Bud.'25	Bud.'26	Bud.'25	Bud.'26	Bud.'25	Bud.'26	Bud.'25	Bud.'26	Bud.'25	Bud.'26	Bud.'26
Total Revenue	10,670	10,677	10,819	10,838	10,726	10,459	11,150	10,578	11,391	10,863	11,233
Total Expenses	11,042	11,406	10,703	11,526	10,636	11,554	10,714	11,680	10,745	11,975	12,068
Budget Balance	(372)	(729)	96	(688)	51	(1,095)	381	(1,102)	571	(1,112)	(835)
% of GDP	(0.9)	(1.7)	0.2	(1.4)	0.1	(2.2)	0.8	(2.2)	1.0	(2.1)	(1.6)
Net Debt (\$ bn)	19.4	19.5	—	20.8	—	—	—	—	—	—	—
% of GDP	44.7	44.7	—	43.5	—	—	—	—	—	—	—
Debt Service	1,139.1	1,114	—	1,178	—	—	—	—	—	—	—
% of Revenue	10.7	10.4	—	10.9	—	—	—	—	—	—	—

Sources: Scotiabank Economics, NL Finance.

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including: Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorized by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, and Scotia Inverlat Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.