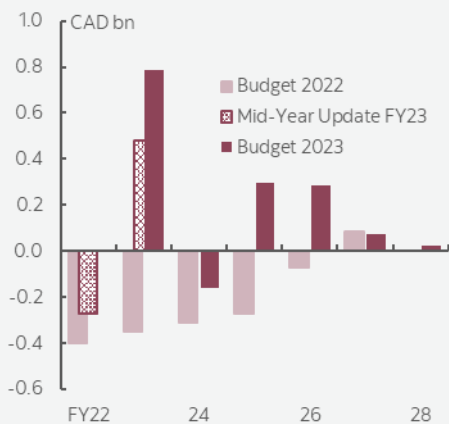


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Chart 1

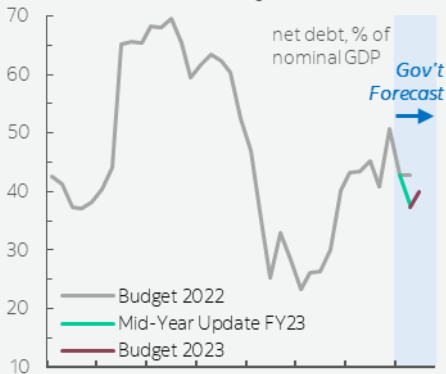
Newfoundland and Labrador  
Budget Balance Projections



Sources: ScotiabankEconomics, NL Finance.

Chart 2

Newfoundland and Labrador  
Net Debt Projections



Sources: ScotiabankEconomics, Finance Canada, NL Finance.

# Newfoundland and Labrador: 2023–24 Budget

## NAVIGATING HOPE AND HURDLES

- **Budget balance forecasts:** \$784 mn (1.9% of nominal GDP) in FY23, -\$160 mn (-0.4%) in FY24, before a return to surplus in FY25 at \$297 mn (0.7%)—two years earlier than anticipated in the previous budget; modest surplus continues at \$286 mn (0.7%) in FY26, \$71 mn (0.2%) in FY27, and \$25 mn (0.1%) in FY28 (chart 1).
- **Net debt:** expected to decline to 37.3% of nominal GDP in FY23, followed by an increase to 39.9% in FY24 (chart 2).
- **Real GDP growth forecast:** +0.3% in 2022, +2.8% in 2023—revised down by 20 bps and 60 bps respectively since last budget. Real GDP growth is expected to pick up to 3.0% in 2024 and 3.1% in 2025.
- **The province plans to deposit another \$127 mn into the newly minted Future Fund this year, which will be used to pay down debt.**
- **Borrowings:** \$1.5 bn in FY24 (including \$0.6 bn in debt maturities), following \$1.7 bn total in FY23.
- **Newfoundland and Labrador’s Budget 2023 was presented amid strong past momentum and looming uncertainties. While the budget carries good news with a balanced book in sight, the province continues to face fiscal challenges with a persistently high net debt burden and a growth path largely reliant on natural resources and major capital projects.**

## OUR TAKE

**Newfoundland and Labrador projects a brief return to a minor deficit in FY24, equivalent to 0.4% of GDP, with a subsequent return to a balanced budget for the remainder of the forecast horizon.** This follows FY23’s surprise surplus, now estimated at \$784 mn (1.9% of GDP), up from the \$479 mn estimated in the mid-year update due to higher revenue (+1.2%) and lower expenditure (-1.9%).

**The brief return to deficit in FY24 reflects falling oil prices and production, partly offset by a jump in federal transfers (\$334 mn).** Total revenue is projected to see a sharp drop of -7.9%, with tax revenues expected to decrease in tandem with the -3.4% contraction forecasted for nominal GDP. Oil revenues—representing 12% of overall revenues—are expected to drop -10.3% from FY23 to \$1.1 bn. Brent crude prices are forecasted to average 86 USD/bbl in FY24—around 10 USD/bbl higher than the spot price on budget day—representing some downside risks to the outlook with a \$1 increase in oil prices linked to approximately \$16 mm in royalties. Oil production is expected to move sideways in 2023 after a sharp drop last year, and is set to pick up by 4.7% next year. On a positive note, increased mineral production and robust capital investment (+8.1%) should give real growth a boost in 2023—the budget estimates are based on the assumptions that Newfoundland and Labrador’s economy will grow by 2.8% this year, and 3.0% next year.

**Despite boosted spending in critical areas such as health care, expense control continues to underpin the path toward fiscal balance.** Total spending is expected to increase only slightly by 1.1% in FY24, but with notable increases in health and community services (+6.8%) and education (+4.6%). Total expenses are projected to remain effectively flat in outer years starting in FY25 as the government keeps new investments incremental and targeted. The budget also maintains measures to support the cost of living, including the extension of the reduction on gas and diesel prices. The province also dedicates \$64 mn towards increasing wages for early child educators, along with \$67.1 mn for the Senior’s Benefit.

March 24, 2023

**The province continues to invest heavily in capital projects.** Investments in infrastructure projects are expected to total \$1.1 bn in FY24, generating \$479 mn in economic activity. The budget includes a significant investment of \$1.4 bn investment over five years towards provincial roads and highways.

**With less debt maturing, the province expects a smaller borrowing program in FY24.** The province expects to borrow \$1.5 bn in FY24—down from the \$1.7 bn completed in FY23—of which \$0.6 bn will be used to refinance maturing debt. With a deficit projected in FY24 and increased capital spending, net debt is expected to rise to 39.9% of GDP, but from a lower level in FY23 (37.3% instead of the 42.7% anticipated in the last budget)—still one of the highest among the provinces despite the improvement from last year's forecast.

Multi-Year Fiscal Forecast						
\$ millions except where noted						
	FY23	FY24	FY25	FY26	FY27	FY28
Total Revenue	10,525	9,689	9,974	10,055	9,905	9,802
Less: Oil Risk Adjustment			20	40	50	60
% change		-7.9	2.7	0.6	-1.6	-1.1
Total Expenditure	9,741	9,849	9,657	9,729	9,784	9,717
Base Expenses		9,378	9,296	9,358	9,413	9,346
100% Funded		471	361	371	371	371
% change		1.1	-1.9	0.7	0.6	-0.7
<b>Budget Balance</b>	<b>784</b>	<b>-160</b>	<b>297</b>	<b>286</b>	<b>71</b>	<b>25</b>
% of GDP	1.9	-0.4	0.7	0.7	0.2	0.1

Sources: Scotiabank Economics, NL Finance.

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