

FISCAL PULSE

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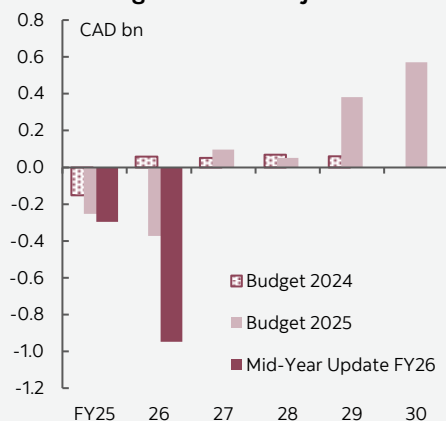
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Chart 1

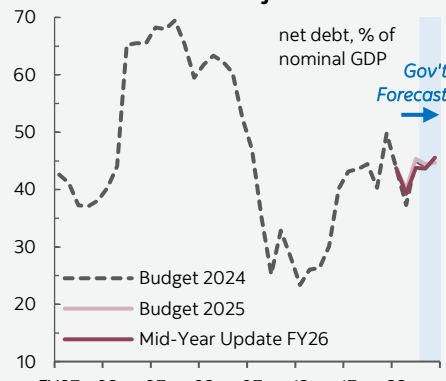
Newfoundland and Labrador Budget Balance Projections



Sources: Scotiabank Economics, NL Finance.

Chart 2

Newfoundland and Labrador Net Debt Projections



Sources: Scotiabank Economics, Finance Canada, NL Finance.

Newfoundland & Labrador: 2025–26 Mid-Year Fiscal Update

DEFICIT HIGHER ON LOWER TOBACCO AND OIL REVENUE, HIGHER HEALTH SPENDING

- Budget balance for fiscal year 2025–26 (FY26) has been revised to -\$948 mn (-2.2% of nominal GDP), a larger deficit than the -\$372 mn (-0.9%) planned in Budget 2025 (chart 1) in the first fiscal update by the new Progressive Conservative government.** Lower revenue and higher expenditure combine for a deficit that is more than double what was presented in the Spring Budget for this fiscal year, challenging previous plans to bring the budget back in the black for FY27 onwards.
- Total revenue for the current fiscal year has been revised lower to \$10.3 bn, down \$347 mn (-3.3%) compared to Budget 2025.** The lower revenue forecast is driven by removing about \$350mn in revenues related to the tobacco settlement as well as a reduction in oil revenue of about \$190mn due to lower oil prices, which have been partially offset by increases in taxation revenue. Revenue for the current fiscal year is now projected to be marginally lower (-0.4% year-over-year) compared to FY25.
- Meanwhile, total expenditure has been revised up by \$229 mn (+2.1%) compared to the Spring Budget.** The increased spending is primarily due to higher health care costs, estimated around \$430 mn higher than budget, which have been partially offset by lower spending on cost-shared programs. Provincial spending is now projected to be \$11.3 bn in FY26, up 5.7% compared to FY25.
- Net debt for FY26 has been revised up to \$19.9 bn (45.6% of nominal GDP) from \$19.4 bn (44.7%) expected in Budget 2025 (chart 2).** Net debt levels are projected to increase 7.9% y/y from FY25, outpacing the growth forecast for nominal GDP in 2025 that was revised down to 3.4% from 4.3% previously amid reduced forecasts for inflation (now 1.2% vs previous 2.5%). However, real GDP growth for 2025 was revised higher to 5.3% y/y, up from 4.4% projected in the Spring, amid stronger growth forecasts for retail sales, less weakness in the labour market with flat employment, and a steady unemployment rate.
- The new government has indicated that its priorities are enhancing healthcare, lowering taxes, and safer communities.** Adding back the remaining tobacco settlement funds into the fiscal framework will help to reduce the deficit, but the government will also have to contend with downside fiscal risks, including lower oil prices, ongoing trade uncertainty, and possible delays to the Churchill Falls expansion project.

Updated Fiscal Forecast

\$ millions except where noted

	FY25		FY26	
	Bud. '25	Final	Bud. '25	Fall '25
Total Revenue	10,254	10,365	10,670	10,323
Less: Oil Risk Adjustment	—	—	—	44
% change	6.5	7.6	4.1	-0.8
Total Expenditure	10,506	10,662	11,042	11,271
% change	4.1	5.7	5.1	5.7
Budget Balance	-252	-297	-372	-948
% of GDP	-0.6	-0.7	-0.9	-2.2
Net Debt (\$ bn)	18.5	18.4	19.4	19.9
% of GDP	44.4	43.7	44.7	45.6

Sources: Scotiabank Economics, NL Finance.

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