

Newfoundland and Labrador: 2021–22 Mid-Year Update

SLIGHTLY AHEAD OF SCHEDULE ON ROAD TO RECOVERY

- **Budget balance forecasts:** **-\$595 mn (-1.5% of nominal GDP) in FY22, \$231 mn better than the -\$826 mn (-2.3%) in May 2021 Budget; that builds on a \$100 mn narrowing versus the fiscal plan in FY21 (chart 1).**
- **Net debt forecast:** **expected to fall to 43.4% of nominal GDP in FY22—lower than the 47% share expected in Budget and a material improvement from the 50.7% rate attained in FY21 (chart 2, p.2).**
- **Economic forecast:** **5.8% real growth in calendar year 2021—up 0.2 ppts from Budget 2021; projected nominal expansion raised from 16% to 22%.**
- **Borrowing requirements:** **reduced by \$200 mn to \$1.5 bn in FY22, in line with improvement in projected deficit.**
- **Oil prices:** **raised Brent crude forecast to 74 USD/bbl from 64 USD/bbl in Budget; however, production is down and total export volumes are expected to fall by 6.5% in 2021.**
- **The update shows an incremental improvement in NL's fiscal trajectory, but the road ahead remains challenging.**

OUR TAKE

This Update lays out reductions in Newfoundland and Labrador's projected budget balances and net debt levels, which are incrementally positive from a fiscal sustainability perspective. A stronger-than-previously anticipated economic recovery—particularly in nominal GDP—leaves the province with stronger revenues and puts it slightly ahead of prior consolidation plans. For the moment, that also puts NL's net debt burden roughly in line with that of Ontario as a share of GDP in FY22.

Still, the path ahead will not be easy. The province still possesses an elevated debt load, and prospects for additional revenue windfalls will likely be constrained by population aging. The return to surplus pencilled in for FY27 at Budget time will require continued attention to expenditures and emphasis on stimulating long-run growth.

Oil production and major project timelines present additional risks to the economic and fiscal outlook. The Terra Nova offshore oil field has been offline since 2019, while Hibernia field drilling was scaled back due to COVID-19. Work that would have extended the life of the White Rose field also stopped last year. NL expects operations to resume at the first field before end-2022 and a decision to restart the third could come next year, but there is clearly uncertainty in this respect.

CONTACTS

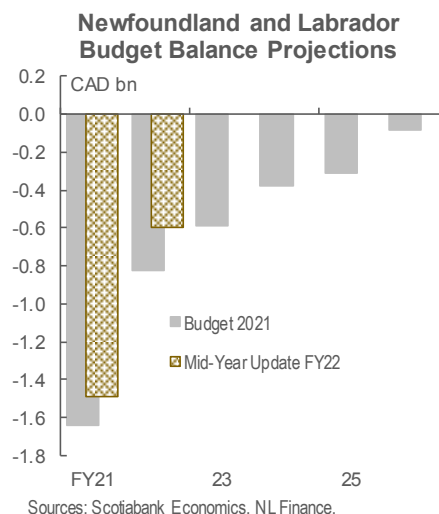
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Updated Fiscal Forecast		
\$ millions except where noted		
	FY22	
	Bud.'21	Fall '21
Total Revenue	8,518	8,704
Total Expenditure	9,344	9,299
Budget Balance	-826	-595
% of GDP	-2.3	-1.5
Net Debt (bn)	17.2	16.7
% of GDP	47.1	43.5

Sources: Scotiabank Economics, Finance Canada, NL Finance.

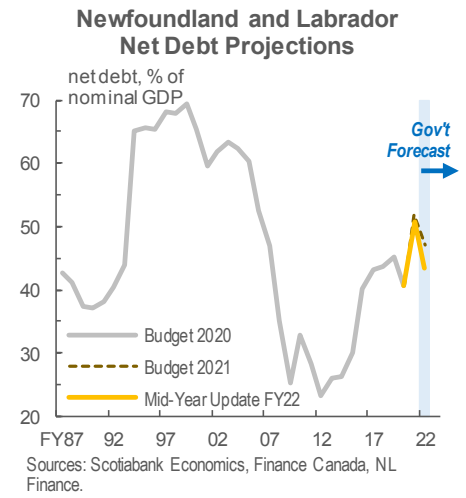
Chart 1



The completion of the Muskrat Falls hydroelectric dam announced this week is a positive development after years of delays and cost increases. This follows the deal in principle that was announced in August that should see federal support (\$5.2 bn) for the project, removing an important tail risk that electricity rate mitigation measures would be brought onto NL’s books. With details still under negotiation, the impact on the province’s finances is not yet available, but our baseline is that they should be fiscally neutral vis-à-vis the deficit path as discussed [here](#).

FY22 borrowing requirement projections were lowered to \$1.5 bn. That represents a \$200 mn reduction from the Budget 2021 forecast, in line with changes to this year’s anticipated deficit.

Chart 2



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