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Updated Fiscal Forecast \$ millions except where noted

	FY23	
	Bud.'22	Fall '22
Total Revenue	9,070	10,404
Total Expenditure	9,422	9,925
Budget Balance	-351	479
% of GDP	-0.9	1.1
Net Debt (bn)	17.1	16.0
% of GDP	42.7	37.8

Sources: Scotiabank Economics, NL Finance

Newfoundland and Labrador: 2022–23 Mid-Year Update

SAVING FOR THE FUTURE

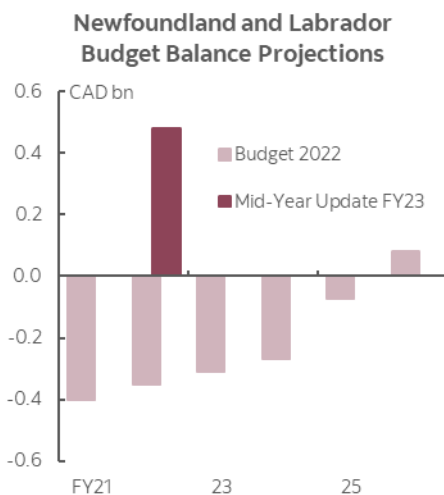
- **Budget balance forecasts:** \$479 mn (1.1% of nominal GDP) in FY23, \$830 mn better than the -\$351 mn (-0.9%) deficit projected in Budget 2022 (chart 1).
- **Net debt:** expected to decline to \$16.04 bn (37.8% of GDP) in FY23, down from \$17.05 bn projected in Budget 2022 (45.0%) (chart 2).
- **Economic forecast:** 0.9% real growth in calendar year 2022—up from 0.5% in Budget 2022; nominal growth forecast raised from 3.6% to 10.1%.
- **Oil prices:** raised Brent crude forecast to 102 USD/bbl from 86 USD/bbl in Budget; oil production outlook improved slightly by 3.5%.
- **Borrowing requirements:** reduced by \$900 mn to \$1.8 bn in FY22.
- **The province deposits \$157 mn into the newly launched Future Fund, which will be used to pay down debt.**
- **The update shows substantial improvement in the province's bottom-line this year, supported by stronger commodity prices and higher nominal growth. However, challenges remain as slowing growth and rising interest rates cloud the province's outlook, while high and persistent inflation making it increasingly difficult to rein in spending.**

OUR TAKE

Newfoundland and Labrador's mid-year update reveals an encouraging turnaround, projecting a \$479 mn surplus in FY23, putting the province ahead of its initial plan to achieve budget balance by FY27. The province raised its revenue forecast by 14.7%—over a quarter of the improvement comes from non-renewable energy royalties, not a surprise given the conservative oil price assumptions that underpinned the forecast in Budget 2022 (86 USD/bbl). The Update expects Brent price to average 102 USD/bbl in FY23, very close to the current year-to-date average of around 104 USD/bbl. A significant upward revision in nominal growth forecast also stood out as a driver behind the largely improved bottom-line, from 3.6% in the Budget to 10.1%, in line with our expectations.

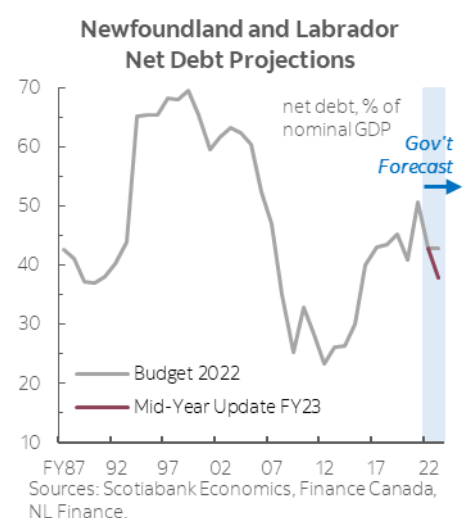
With inflation expected to remain well above targets through 2023, it could become increasing challenging to keep spending levels flat, as intended in Budget 2022. FY23 expenditures are projected to be 5.3% higher than initially estimated in the Budget, a

Chart 1



Sources: Scotiabank Economics, NL Finance.

Chart 2



Sources: Scotiabank Economics, Finance Canada, NL Finance.

October 19, 2022

reasonable increase as high-than-anticipated inflation puts pressure on the spending side. This also includes the \$194 mn budgeted to fund the relief program, which delivers one-time cheques for residents with income of \$125,000 or less. Additional expenses related to Hurricane Fiona could add to spending pressure as the province announces relief efforts, yet to a limited extent.

As clouds clear in major project timelines, capital spending in the oil and gas industry should start to benefit the province's economic and fiscal outlook. 2023 growth should get a boost with the planned reopening of the Terra Nova site later this year and the conversion of the Come By Chance refinery. The progression of major projects such as The Bay du Nord project could provide more employment opportunities down the line.

Expecting the windfalls to be short-lived as growth slows sharply and interest rates climb, the government continues to focus on sustainable fiscal planning and reducing its debt servicing burden. The province will contribute \$157 mn to the newly established Future Fund—\$107 mn from royalties received in 2021–22 and \$50 mn from revenue increases in FY23. Through a \$5.2 bn rate mitigation plan with the federal government, the completion of the Muskrat Falls—a major risk to NL's financing—signals some stabilization in the province's debt servicing burden. The province's prudent financial planning was welcomed by rating agencies, as Moody's, S&P Global and DBRS Morningstar all upgraded their outlook of the province from negative to stable.

FY23 borrowing requirement projections were lowered to \$1.8 bn, representing a \$900 mn reduction from the Budget 2022 forecast. In line with this year's anticipated surplus, net debt is projected to decline sharply as a share of nominal output to 37.8% in FY23, well below that of Ontario as a share of GDP.

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