

Economics

PROVINCIAL BUDGET BRIEFS

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Newfoundland & Labrador budget 2023

Similarly to last year, a decline in oil production has prevented Newfoundland and Labrador from fully taking advantage of the increase in oil prices over the last year, but the province is still on course for an unexpected surplus in the outgoing fiscal year. What was initially expected to be a \$351mn deficit for fiscal 2022/23 has turned into a \$784mn surplus, as revenues grew more than anticipated. For the coming 2023/24 fiscal year, higher transfers from the Federal Government will partially offset a decline in own-source revenues and a small increase in spending, leaving the province with a modest \$160mn deficit (0.4% GDP). The province is expected to sustainably return to budget balance by fiscal 2024/25, which would be two years earlier than Budget 2022's projections. Meanwhile, long-term borrowing for the upcoming year is projected to be \$0.2bn lower than the outgoing year, at \$1.5bn, as a result of lower debt maturities.

Table 1: Summary of fiscal position: (C\$millions)

Fiscal measure	2021/22 Actual	2022/23 22 Budget	2022/23 23 Budget	2022/23 Change	2023/24 23 Budget	2024/25 23 Budget	2025/26 23 Budget	2026/27 23 Budget	2027/28 23 Budget
Revenue	8,596	9,070	10,526	1,456	9,689	9,974	10,055	9,905	9,802
Own source	6,813	6,213	7,948	1,734	6,454	-	-	-	-
• % Change	27.9	-6.5	16.7	23.1	-18.8	-	-	-	-
Federal transfers	1,387	1,943	1,726	-217	2,229	-	-	-	-
Net income: Government business enterprises	396	914	852	-62	1,006	-	-	-	-
Net Expenditure	8,868	9,422	9,741	320	9,849	9,657	9,729	9,784	9,717
Program spending	7,926	8,466	8,700	235	8,797	-	-	-	-
• % change	3.1	3.9	9.8	5.8	1.1	-	-	-	-
Public debt charges	942	956	1,041	85	1,052	-	-	-	-
Oil risk adjustment	0	0	0	0	0	-20	-40	-50	-60
Budget balance	-272	-351	784	1,610	-160	297	286	71	25

Oil production once again limits growth

Much like last year, growth in Newfoundland and Labrador was limited by a large decline in oil production (-10.4%). That limited real GDP growth to just 0.3% in 2022, well below the Canadian average. However, significantly higher crude oil prices led to much stronger growth for nominal GDP, which advanced 10.9% in 2022, on the back of a 17.7% gain in 2021. Oil production is expected to decline once again in 2023, though this time the drop is projected to be much smaller (-0.6%). However, higher mineral production and strong investment growth, notably as construction on the West White Rose project resumes, are expected to push real GDP growth to 2.8% for the year. Meanwhile, nominal GDP is expected to drop by 3.4%, as the province expects lower prices for many key commodities, such as oil, iron ores and nickel. Further ahead, oil production is expected to rebound in 2024 and 2025, which should help real GDP growth stay around 3% for those two years.

Forecasts for oil prices show Brent averaging \$86/bbl in fiscal 2023/24, which is above the current spot price by about \$10/bbl. Prices are then expected to ease and average around \$79/bbl between 2025/26 and 2027/28. A \$1/bbl deviation in oil price typically equates to around \$16mn in revenue according to provincial sensitivities.

Like other Atlantic provinces, Newfoundland and Labrador is enjoying exceptional population growth. After growing by 1.1% in 2022, the province is expected to repeat that in 2023, with another 1% increase, as it continues to benefit from international and interprovincial migration.

Table 2: Key assumptions (Y/Y % chg)

Economic assumptions	2022	2023	2024	2025-27
Real GDP	0.3	2.8	3.0	2.1
Nominal GDP	10.9	-3.4	2.9	2.7
Employment	4.4	2.2	-0.4	0.4
Unemployment rate (%)	11.3	10.1	10.5	10.0
Household disposable income	8.1	3.9	2.8	3.1
Retail sales	7.5	3.4	1.8	2.4
Housing starts (k)	35.1	2.4	14.6	-0.1
Real capital investment	6.0	6.9	-2.2	2.0
CPI	6.4	3.2	2.6	2.2
Population	1.1	1.0	0.2	0.2

Table 3: Key financial assumptions

Financial assumptions (fiscal yr)	2023/24	2024/25	2025/26-2027/28
Brent oil (US\$/bbl)	86.0	82.0	78.7
Exchange Rate (US\$/Cdn\$)	0.76	0.78	0.79

A return to budget balance earlier than expected

From an anticipated \$351mn deficit at the time of last year's budget, the province is now expecting a \$784mn surplus for fiscal 2022/23. The improvement is mainly due to higher own-source revenue, primarily taxation as labour compensation grew strongly, though federal transfers were also larger than expected.

Looking ahead, the province is expected to have a small \$160mn deficit in fiscal 2023/24, before sustainably returning to budget balance as of 2024/25, two years earlier than anticipated in last year's budget. An increase in federal transfers in 2023/24 will be key to limiting the size of the coming deficit, as own-source revenues are projected to decline, in part due to continuing measures to help with the cost of living. Offshore royalties are also expected to be \$125mn lower (-10%) due to the anticipated drop in oil production and lower oil prices. Meanwhile, program spending is projected to increase slightly as the province boosts investment in health care and plans to spend more than \$1.1bn on infrastructures such as provincial roads and highways. The longer-term projections show a surplus of \$297mn in fiscal 2024/25, slowly decreasing to \$25mn by 2027/28.

Borrowing requirements down due to lower debt maturities

In last year's budget, Newfoundland and Labrador's term debt borrowing requirements for this outgoing year were projected to be \$2.7bn. However, as a result of the positive position throughout the year, term debt borrowing is finishing at a reduced \$1.7bn. That sum was raised through five transactions, one of which included a carve-out valued at \$200mn. All of the deals were completed in the domestic market, while only one foreign denominated bond remains outstanding for the province. That is a US\$200mn bond maturing October 13, 2023, which was originally issued in 1993. As a result, the province recently launched a European borrowing program to help diversify its debt.

For this upcoming year, although capital investments are increasing and a return to a deficit is projected, debt retirements are lower at \$589mn, down from \$1,763mn. That allows the province to lower its term debt borrowing from this outgoing year, projecting a requirement of \$1.5bn.

The province does not provide medium-term projections for borrowing. However, there are three bonds maturing next fiscal year totalling \$1.3bn. Coupled with capital investment that will be made, although the surplus projection will help offset requirements, that should translate to elevated levels of borrowing, all else being equal.

Table 4: Borrowing requirement (C\$millions)

Borrowing requirements	2022/23 Budget 2022	2022/23 Latest	2023/24 Forecast
Budgetary (Surplus)/Deficit	351	-784	160
Investment in Capital Assets	525	459	726
Net Investments	18	2	8
Debt Retirement	1853	1763	589
Other	358	208	-96
Total	3,106	1,648	1,387

Table 5 Sources of funding (C\$millions)

Funding requirements	2022/23 Budget 2022	2022/23 Latest	2023/24 Forecast
Cash Balances & T-Bills	406	-52	-113
Bonds & MTNs	2,700	1,700	1,500
Total	3,106	1,648	1,387

Net debt increasing due to capital spending

The province's net debt for the fiscal year ended March 31, 2023 is forecasted to be \$15.7bn, which is lower than the 2022 budget's estimate of \$17.1bn. Much of that improvement is a result of a surplus, rather than the deficit that was previously projected. As for the year-ending March 31, 2024, net debt is forecasted to increase to \$16.2bn. Roughly two-thirds of that increase is due to increased capital spending, while the remaining amount is due to the deficit forecast.

Net debt excludes debt of self-supporting crown corporations such as Nalcor and Newfoundland and Labrador Hydro (NLH) that are supported through electricity rates charged to customers. Projected provincial borrowings also do not include borrowings on behalf of crown corporations.

When these entities need long-term debt, the province will borrow on behalf of them under separate loan authority and on-lend to them. As was the case in 2021/22, when the province borrowed \$300mn for them. NLH at used to borrow directly, but stopped issuing debt in 2017. However, its outstanding directly placed debt is fully guaranteed by the province.

Capital spending increasing

The province is making its largest-ever investment in health care at approximately \$3.9bn, which represents almost 40% of the entire budget. That includes more than \$21mn for 10 new Family Care Teams, as well as \$23mn for recruitment and retention of health care professionals. Also, the province is investing \$1.4bn over five years in provincial roads and highways, while \$1.1bn of infrastructure projects in 2023/24 will generate an estimated \$479mn in economic activity.

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