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Economics

PROVINCIAL BUDGET BRIEFS

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Newfoundland & Labrador budget 2024

After posting a larger-than-expected budget shortfall in the outgoing fiscal year due to lower offshore royalties, a decline in corporate income tax revenue and higher healthcare expenses, the province sees the deficit shrinking in fiscal 2024/25, and small surpluses over the balance of the forecast horizon. The $433mn deficit for the outgoing fiscal year (roughly 1% of GDP), relative to the $160mn shortfall that was projected in last year's budget, is expected to shrink to $152mn in the upcoming fiscal year, on the back of an expected 12% jump in oil production that will support offshore royalties, following oil production declines over the prior three years. The return to modest surpluses was pushed back one year relative to budget 2023's projection. This upcoming year, long-term borrowing is projected to increase to $2.8bn, up from $2.2bn as the province is borrowing $1.2bn for debt maturities.

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

Fiscal measure	2022/23 Actual	2023/24 23 Budget	2023/24 24 Budget	2023/24 Change	2024/25 24 Budget	2025/26 24 Budget	2026/27 24 Budget	2027/28 24 Budget	2028/29 24 Budget
Revenue	10,526	9,689	9,554	-135	10,296	10,311	10,365	10,366	10,349
Own source	7,948	6,454	7,112	659	7,954	-	-	-	-
• % Change	16.7	-18.8	-10.5	8.3	11.8	-	-	-	-
Federal transfers	1,726	2,229	1,473	-756	1,486	-	-	-	-
Net income: Government business enterprises	852	1,006	969	-38	856	-	-	-	-
Net Expenditure	9,741	9,849	9,987	138	10,448	10,233	10,268	10,238	10,219
Program spending	8,700	8,797	8,825	28	9,295	-	-	-	-
• % change	9.8	1.1	1.4	0.3	5.3	-	-	-	-
Public debt charges	1,041	1,052	1,162	110	1,153	-	-	-	-
Oil risk adjustment	0	0	0	0	0	-20	-45	-60	-70
Budget balance	784	-160	-433	393	-152	58	52	68	60

Oil production returns to growth

Higher oil production in 2024 is expected to bring about a reversal of fortunes for the province, which sees real GDP growth rebounding by 5.1%, well above what's likely to be seen in the rest of the country, where higher interest rates are weighing on activity. Higher expected exports tied to oil and nickel will be the main driver of growth in Newfoundland and Labrador, in addition to investment tied to the West White Rose offshore oil field and other exploration and development projects, as well as a recovery in homebuilding. That should result in modest employment growth, which should be enough to see the unemployment rate average 10.0% over 2024, a little below its current level. A moderation in the pace of population growth is projected, consistent with an expected slowdown in international immigration.

A further acceleration in real GDP growth is expected in 2025, to 6.9%, which will be supported by a recovery in international demand as interest rates are set to be falling globally, supporting demand for commodities. The province also expects a boost in the coming years from investment in major projects and exploration in the mining, oil and gas sector, in addition to municipal infrastructure projects, with the province projecting a 48% y/y increase in real capital investment in 2025, and 66% y/y in 2026. However, the province expects crude prices in 2024 to average roughly in line with 2023 levels for Brent at $US82/bbl, below the current spot price, and to ease off through the rest of the forecast horizon. Oil revenues in 2024/25 are expected to account for 15% of total revenues, compared to 33% in 2011/12.

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

Economic assumptions	2023	2024	2025	2026-28
Real GDP	-2.1	5.1	6.9	5.5
Nominal GDP	-6.2	5.8	3.7	5.5
Employment	1.8	0.9	1.5	0.9
Unemployment rate (%)	10.0	10.0	9.4	8.5
Household disposable income	4.0	5.0	3.3	3.8
Retail sales	1.8	2.8	2.7	3.2
Housing starts (k)	-29.1	33.0	19.5	-2.3
Real capital investment	-3.4	1.5	48.4	22.7
CPI	3.3	2.6	2.3	2.3
Population	1.3	0.8	0.5	0.4

Table 3: Key financial assumptions

Financial assumptions (fiscal yr)	2024/25	2025/26	2026/27-2028/29
Brent oil (US$/bbl)	82.0	81.0	78.3
Exchange Rate (US$/Cdn$)	0.75	0.77	0.76

Swinging into modest surpluses

After posting a wider-than-anticipated deficit in 2023/24, the province is on track for a smaller deficit in the upcoming fiscal year, before posting expected surpluses in the following three years. Higher-than-expected debt servicing charges, and lower federal transfers, contributed to the downside surprise in the outgoing fiscal year's deficit, in addition to the factors mentioned above. In fiscal 2024/25, a jump in own-source revenues tied to higher offshore royalties amongst other items is expected to bolster an 8% increase in revenues. Expenditures are expected to increase by 5%, allocated to housing, health care, infrastructure, and other items, which will help to support the strong population growth seen in recent years. The province is maintaining some cost-of-living measures that were previously introduced, including the reduction in provincial sales tax on gasoline and diesel, and the home heating supplement for furnace and stove oil.

In fiscal 2025/26, the province sees the budget balance swinging into a small surplus, at $58mn, and remaining in surplus over the rest of the forecast horizon, with revenues averaging very modest growth in those years, and expenditures averaging slightly negative in y/y terms over that period.

Borrowing requirements higher due to future debt maturities

In last year’s budget, Newfoundland & Labrador’s term debt borrowing requirements for this outgoing year were projected to be $1.5bn. However, as a result a slightly larger deficit and a few other changes, term debt borrowing is projected to finish at $2.2bn. That amount was raised through six transactions, one of which included a carve-out valued at $300mn. All of the deals were completed in the domestic market, while their only foreign denominated bond outstanding matured this past October. The budget stated that opportunities such as their European borrowing program could help lower borrowing costs, signaling that future international deals may be on the table.

For this upcoming year, an increase in capital investments, a projected deficit that needs to be funded, as well as a few other changes, sees term debt borrowing higher at $2.8bn. Meanwhile, the province does not have to refinance any maturing bonds this fiscal year as their next bond coming due is a $1.05bn bond in June of 2025. However, $1.2bn of the gross borrowing amount is slated for debt maturities, signaling that the province is borrowing ahead for that maturity.

The province does not provide medium-term projections for borrowing. However, there are three bonds maturing in the 2025/26 fiscal year totalling $1.3bn, while one bond maturing in 2026/27 worth $1.0bn. Coupled with capital investment that will be made, although the surplus projection will help offset requirements, that should translate to similar levels of borrowing, all else being equal.

Table 4: Borrowing requirement (C$millions)

Borrowing requirements	2023/24 Budget 2023	2023/24 Latest	2024/25 Forecast
Budgetary (Surplus)/Deficit	160	433	152
Investment in Capital Assets	726	648	820
Net Investments	8	14	59
Debt Retirement	589	746	47
Other	17	358	1,722
Total	1,500	2,200	2,800

Table 5 Sources of funding (C$millions)

Funding requirements	2023/24 Budget 2023	2023/24 Latest	2024/25 Forecast
T-Bills	0	0	0
Bonds & MTNs	1,500	2,200	2,800
Total	1,500	2,200	2,800

Net debt increasing due to capital spending

The province's net debt for the fiscal year ended March 31, 2024 is forecasted to be $17.2bn, up from the 2023 budget's estimate of $16.2bn. That is mostly a result of capital investments and the projected deficit. As for the year-ending March 31, 2025, net debt is forecasted to increase to $17.8bn. Meanwhile, nominal GDP is forecasted to be $40.4bn for the 2024 calendar year. Using that estimate which encompasses three-quarters of the fiscal year, places the net debt-to-GDP ratio around 44% for this upcoming fiscal year.

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 one time 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 due to record investments

The province is planning record investments in infrastructure for health, education, and housing. That includes making its largest-ever investment in health care at approximately $4.1bn, which represents almost 40% of the entire budget. Meanwhile, the province is committing $620mn over 10 years to provide a new modernized health information system. There is also close to $300mn slated for upgrades to provincial highways and roads.

For this upcoming year, there is a total of $1.1bn allocated for infrastructure projects. That is projected to help generate approximately $600mn in economic activity and create hundreds of new jobs for the province's skilled tradespeople.

Overall, capital investments in the province are expected to increase by 3% to $9.6bn in 2024, as construction activity associated with the West White Rose project continues and residential construction rebounds from the declines seen in 2023.

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