BUDGET ANALYSIS

Newfoundland and Labrador: Budget 2024

Major Project Activity and Spending Control Guide Path to Balance

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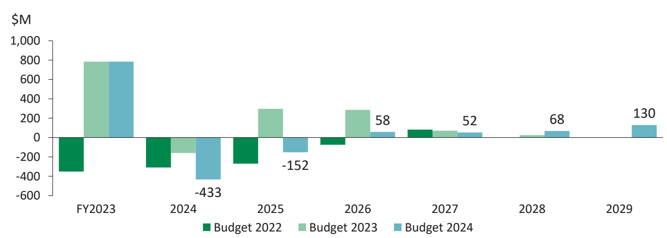
HIGHLIGHTS

- Newfoundland and Labrador's (NL) fiscal year 2024–25 (FY2025) budget plans to dip into deficit in FY2025, then return to surplus thereafter as planned (graph 1). Table 1 on page 2 summarizes the province's updated fiscal forecasts.
- The plan includes huge upward revisions to capital investment and economic growth beginning this calendar year amid a better outlook for major project activity.
- Spending projections were increased, but the province plans to reduce total expenditures beyond FY2025.
- NL expects to borrow $2.8B in FY2025. That figure represents an increase of about $600M versus FY2024.
- Policy announcements were concentrated in the healthcare sector. The province will also introduce a Basic Income pilot program for people aged 60–64, maintained the 15% increase to the Seniors' Benefit of the past two years and has already reduced the Small Business Tax Rate by 0.5%.

Graph 1
Newfoundland and Labrador's Bottom Line



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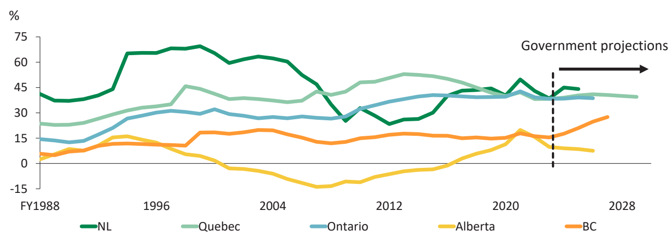
Our Takeaways

NL is forecasting a more downcast near-term fiscal outlook—just like several other provincial governments this budget season—but it should be commended for adhering to plans to balance the books. While this isn't expected to change the relative size of NL's debt load—the largest of any province in Canada (graph 2)—persistent black ink should help bend the path of the public debt burden lower over time.

Still, outer-year projections contain risks. Budget 2024 includes huge upward revisions to economic growth beginning this calendar year, which come when The Rock already had strong economic prospects relative to most other provinces. Revisions appear to primarily reflect an absolutely enormous $33B (117%) increase to capital investment forecasts for 2025 to 2027

Graph 2
How NL's Debt Sustainability Compares

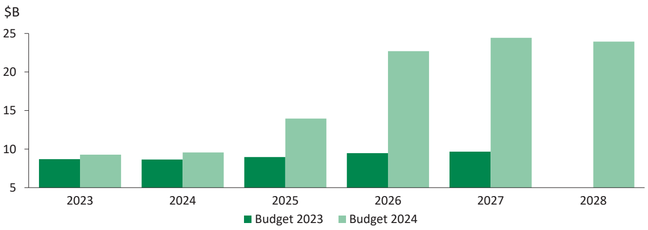


* Ontario figures based on mid-year FY2024 projections
Provincial budget documents and Desjardins Economic Studies

(graph 3). This looks to be the result of new wind-hydrogen developments announced late last year, though investments on the West White Rose offshore oilfield also contributed. These projects are unquestionably positive for NL's economy and finances, but the prospect of delays brings significant downside potential. Keep in mind that plans are going ahead in an environment of acute labour shortages and a [range of other challenges in the construction sector](). Many provinces have altered their infrastructure plans in respect of these effects.

Graph 3
Capital Investment Expected to Spike

Newfoundland and Labrador capital investment projections



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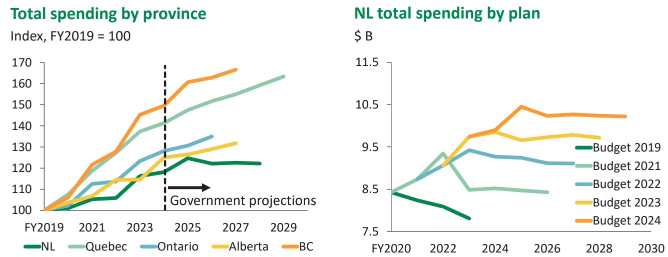
The fiscal blueprint continues to rely heavily on achievement of ambitious expenditure reductions over time. These would keep it on track for the lowest growth of any province when it comes to post-pandemic spending (graph 4). Spending control is one approach to keeping the debt burden from rising in an environment of potentially higher-for-longer interest rates. But it's also a challenging objective for any government, especially if it intends to maintain the existing level of public services. The challenge is made all the more difficult with population aging set to accelerate in the years ahead, [adding significantly to health care costs in all provinces](). And these pressures will arguably be more acute in NL than anywhere else, given the easternmost province's oldest-in-the-nation population.

Graph 4
Fiscal Plan Still Builds in Outer-Year Spending Cuts

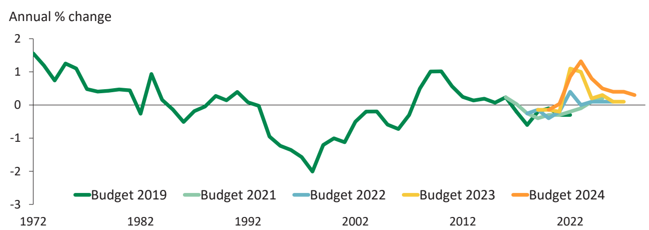


* Ontario figures based on mid-year FY2024 projections
Statistics Canada, provincial budget documents and Desjardins Economic Studies

Against this backdrop, expectations that population growth will continue to far outstrip the longer-run trend (graph 5) have mixed implications for fiscal sustainability. On the one hand, international and interprovincial migration could stimulate government revenues—just as they have since the pandemic—by adding to the labour force, thereby offsetting some of the economic drag from population aging. On the other, they add to existing spending and infrastructure pressures. The announcement by the federal government constraining the number of non-permanent resident admissions—made just after the budget was released—could further complicate the population projection.

Graph 5
Near-Record Population Gains Expected to Persist

Newfoundland and Labrador population forecasts



Statistics Canada, Newfoundland and Labrador Ministry of Finance and Desjardins Economic Studies

TABLE 1
Summary of Fiscal Forecasts

	2023–2024		2024–2025		2025–2026		2026–2027		2027–2028		2028–2029
IN $M (EXCEPT IF INDICATED)	Q2 FY2024	Bud. 2024	Bud. 2023	Bud. 2024	Bud. 2023	Bud. 2024	Bud. 2023	Bud. 2024	Bud. 2023	Bud. 2024	Bud. 2024
Total revenues	9,893	9,554	9,974	10,296	10,055	10,311	9,905	10,365	9,802	10,366	10,349
Total expense	10,047	9,987	9,657	10,448	9,729	10,233	9,784	10,268	9,717	10,238	10,219
Oil Risk Adjustment	—	—	20	—	40	20	50	45	60	60	70
Budget balance	**-154**	**-433**	**297**	**-152**	**286**	**58**	**71**	**52**	**25**	**68**	**130**
% of GDP	*-0.4*	*-1.1*	*0.7*	*-0.4*	*0.7*	*0.1*	*0.2*	*0.1*	*0.1*	*0.1*	*0.3*
Net Debt, % of GDP	*42.9*	*45.0*	—	*44.1*	—	—	—	—	—	—	—
Borrowing Requirement	2,200	2,200	—	2,800	—	—	—	—	—	—	—
Real GDP, % change	*-0.7*	*-2.1*	*3.4*	*5.1*	*2.6*	*6.9*	*1.1*	*7.3*	*2.3*	*4.9*	*4.2*
Nominal GDP, % change	*-5.1*	*-6.2*	*-3.0*	*5.8*	*1.9*	*3.7*	*1.3*	*6.2*	*3.5*	*5.9*	*4.5*

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Fiscal Plan Details

Projections for total revenues were lifted by a combined $1.6B versus last year's fiscal blueprint for the FY2025 to FY2028 period. Part of the strength in the economy and revenues reflects construction work on the West White Rose offshore oil project, expected to peak in 2024. But the bigger contributor appears to be activity in the wind-hydrogen sector, as noted above. In its major projects inventory, the province highlighted three projects with capital costs exceeding $5B expected to go ahead over the next several years. It further stated that "the spending associated with these projects is expected to significantly contribute to capital investment and GDP growth in the coming years."

Oil price assumptions look prudent. As usual, NL based its budget on oil price assumptions in line with the private sector average. In fact, their forecast that Brent crude will hover near US$80/barrel over the next few years is more pessimistic than our own, suggesting some upside revenue potential. The province also included its standard oil risk adjustment—this time averaging $50M per year from FY2025 to FY2029—to help mitigate risk to its financial position from crude value volatility.

Relative to Budget 2023, total expenditure plans were lifted by a combined $2.3B for FY2025 through FY2028, but the overall spending picture is more complex. Spending plans for the fiscal year ahead were raised by about $800M (8%) versus Budget 2023 plans and this increase carried forward to the outer years of the forecast period. But beyond FY2025, Newfoundland and Labrador plans to reduce total expenditures by an average of 0.5% per year. This approach is consistent with that of fiscal blueprints dating from before the pandemic.

New policy announcements largely amounted to details of funding allocations for the healthcare sector. These included funding for infrastructure improvements, expansion of virtual care services, and hiring of additional healthcare providers. The province will also introduce a Basic Income pilot program for people aged 60–64, maintained the 15% increase to the Seniors' Benefit of the past two years and has reduced the Small Business Tax Rate by 0.5%.

NL expects to borrow $2.8B in FY2025. That figure represents an increase of about $600M versus FY2024. The FY2025 number includes $1.2B in debt maturities and $1.6B in net new borrowing.

Like the other oil-producing provinces, spreads between The Rock's bond yields and those of other Canadian governments should track crude values closely in the coming months. Overall market risk sentiment should also play an outsized role. However, if the province succeeds in achieving its plans for surpluses, that should also help bring NL's borrowing costs down.