

# ECONOMIC RESEARCH AND STRATEGY



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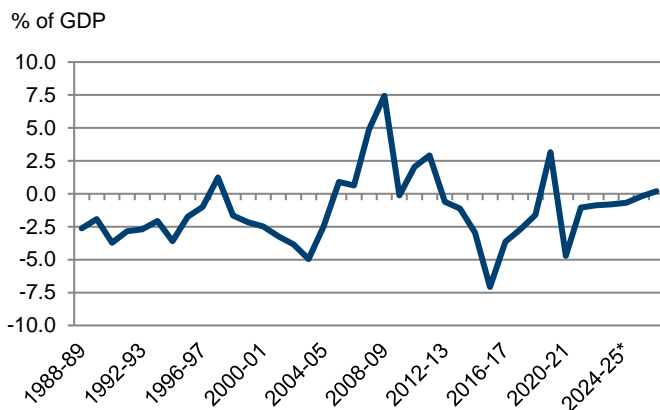
## Newfoundland and Labrador Budget 2022: Improved oil industry outlook and fiscal restraint still on the table

Newfoundland and Labrador continues on the path toward a structural balanced budget initiated last year. Budget 2022 delivered last week reaffirms the province's goal to generate a surplus by FY 2026-27. Although, the starting point has improved. Indeed, the Ministry of Finance revised down last year's deficit to \$400M (1.0% of GDP, chart 1), \$200M less than estimated in November 2021, and less than half the original estimate in Budget 2021. Improved results mainly come from lower-than-expected expenses.

### Lower oil production in 2022 but improved long-term prospects

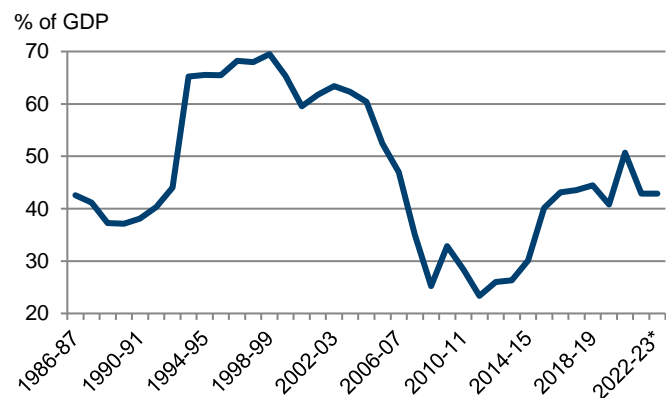
For FY 2022-23, at \$351M (0.9% of GDP), the government only projects a small improvement to the deficit. The budget assumes 4.7% growth in total revenues, supported by provincial tax sources. Despite decade-high oil prices, NL expects offshore royalties to decline from \$1.1B in FY 2021-22 to \$866M in FY 2022-23. A 12% decline in oil production, to 225K b/d, due to "lower well performance and planned maintenance and shutdowns" explains that discrepancy and drives down real GDP growth to only 0.5% in 2022. Over the next five years, oil production is only expected to increase by 35K b/d, or 95.1M total barrels. Drilling at the Hibernia oil field, the largest off-the-coast project, should resume by the end of 2022, likely extending the platform's lifespan. Also, after retooling and maintenance, the Tera Nova platform will resume production in late-2022. Altogether, royalties are poised to bounce back starting in 2023. Furthermore, the future of Newfoundland and Labrador's oil industry looks brighter than a year ago as the federal government gave its final approval for the Bay du Nord offshore oil project last week. Companies involved, led by Equinor, estimate recoverable oil at 300M barrels over a lifespan of 12 to 20 years, with production expected to start in 2028. Evenly distributed over a 16-year period, Bay du Nord would yield 51K b/d in oil equivalent, or nearly 20% of current production. In other goods producing-industries, the restart of the *Come By Change* refinery, converted to produce low-emission fuel, will provide support to the industry. We also see upside surprises to iron ores prices. Finally, barring any new severe COVID-19 variants, tourism activity should partly recover in 2022.

Chart 1: NL Budgetary Balance



Source: Newfoundland and Labrador Government, LBS Econ. Res. and Strategy calculations.

Chart 2: Newfoundland and Labrador Net Debt



Source: Newfoundland and Labrador Government, LBS Econ. Res. and Strategy calculations.



### Cost of living measures in 2022, spending restraint to restore fiscal sustainability

As inflation continues to rise, the provincial government offers some relief. Budget 2022 eliminates the retail sales tax on home insurance for one year and cuts the cost of registering passenger vehicles by 50%. Sharing costs with the federal government, Newfoundland and Labrador also implements the National Child Care strategy *i.e.* 10\$/day daycare.

Overall, expenditures are set to rise 4% in FY 2022-23, to \$9.4B. Then, spending will shrink by 0.8% on average for the following four years as the government moves forward with key proposals from the 2021 Big Reset Committee chaired by Dame Moya Greene. That report includes several suggestions to bring Newfoundland and Labrador back toward fiscal sustainability. Of note, Budget 2022 reaffirms the already announced strategic review of all provincial assets with a focus on the province's participation in oil and gas projects, the Newfoundland and Labrador Liquor Corporation, provincial registries, and Marble Mountain. The government intends to merge the four current Health Authorities into one to streamline services and generate efficiencies. Investors will also welcome the introduction of a "Future Fund" to offset liabilities and make critical investment for a green transition. Details remain unknown, but the Greene report recommended to deposit 50% of oil and mineral royalties into the Fund, lowering the province's oil dependency and reduce revenue volatility in the long run. One caveat to the Government's modernization and transformation plan is the absence of costed figures associated to each measure.

Overall, the government anticipates borrowing \$2.7B in FY 2022-23, up from \$1.6B in FY 2021-22, but mostly due to \$1.7B in debt refinancing needs this fiscal year, and \$0.6B for capital investment. The net-debt-to-GDP ratio is projected at 43%, close to the average observed since FY 2016-17 (chart 2). NL's debt burden remains the highest among provinces, ahead of Ontario ranking second at 41%.

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