LAURENTIAN BANK

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March 29, 2023

Newfoundland & Labrador Budget 2023 – Significant Short-Term Improvement in Public Finances

N&L's population grows at its fastest pace since the mid-1970s, allowing real GDP momentum to stay in positive territory. Managing growth led the government to announce a major 7.6% increase in health care spending, the flagship measure of Budget 2023. Health care spending should reach $3.9B, or 40% of the entire $9.7B budget. Of course, consistent annual increases of this magnitude would be unsustainable over the long run for any program. However, one exception to the rule like this attempt to improve the health-care system does not materially compromise the state of public finances.

Such efforts targeting the health care system was possible in part because FY 2022-23 surpassed expectations extensively. N&L recorded a large $784M surplus, a stunning 1.9% of NGDP. Total revenues jumped to a record high of $10.5B versus $9.7B in spending. Suddenly, N&L's net debt-to-NGDP ratio fell like a stone from a concerning figure of 50% two years ago to 37% today.

Economic assumptions of Budget 2023 are conservative, including a 3.8% pullback in nominal GDP during 2023 as Brent crude oil prices are projected to dip to US$86 per barrel versus US$101 in 2022 (a US$1 variation change annual royalties by CAD$16M). The CADUSD is currently 2 cents lower than the FY 2023-24 assumption of 0.757 (1 US cent appreciation leads to a decline in annual royalties of CAD$18M). Altogether, total revenues are poised to fall by $0.8B to $9.7B after the amazing FY 2022-23. At the same time, a prudent approach on the spending side excluding health care will bring total expenditures at $9.8B in FY 2023-24, virtually the same as a year ago. Altogether, 2023 budget proposes a brief return in deficit territory ($160M in FY 2023-24) before returning to a structural, modest surplus position ($297M in FY 2024-25). The $160M deficit appears even smaller once we consider that $127M will be dedicated to the Future Fund. In this Fund, the government saves today's non-renewable revenues for later, tapering off fiscal volatility. The first-ever contribution to the Future Fund, of $157M, was announced and made in FY 2022-23. These contributions are relatively elevated. In comparison, Quebec's annual deposits to the Generations Fund during the first two years of existence of the Fund in 2006 and 2007 stood around $0.6B.

Beside health care, the other Budget 2023 priority relates to hefty investments in roads and highways costing $1.4B over 5 years. Borrowing requirements are projected at $1.5B in FY 2023-24, a notch lower relative to figures recorded in the previous two years (FY 2022-23: $1.7B; FY 2021-22: $1.55B). Earlier in March, Premier Andrew Furey and Finance Minister Siobhan Coady were at the London Stock Exchange to launch the new European borrowing program, meaning the Province will ultimately issue less than $1.5B domestically in FY 2023-24.

In summary, N&L moved far away quickly from the vulnerable 2020 period triggered by the pandemic. The fast-growing population keeps household spending growth in the fast lane, more than offsetting the seesaw movements in mining and oil production, but also creates public health care cost pressures.

Over the long term, we highlighted positive developments in our Provincial Outlook released last February. Markets are aware of the upcoming construction of the Bay du Nord project with first oil expected in 2025. Furthermore, the province released earlier this year its wind-hydrogen fiscal framework including crown land fees and water royalties. NL has the potential to become a major producer of green hydrogen with renewable wind to serve the Maritimes and European markets. Canada and Germany reached an agreement last year to accelerate the global energy transition.

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