

ECONOMIC RESEARCH AND STRATEGY



**LAURENTIAN BANK
SECURITIES**

October 19, 2022

Sébastien Lavoie,
Chief Economist
LavoieS@vmbi.ca
514 350-2931

Luc Lapointe,
Senior Economist
LapointeL@vmbi.ca
514 350-2924

Newfoundland & Labrador Fiscal Update – Better Performance on Higher Oil Prices and Income Taxes

The fiscal update season continues with another better-than-expected FY 2022-23 performance. The Province of NF&L ended FY 2021-22 with a net loss of \$400M according to the public accounts. This deficit nonetheless represents a major improvement relative to the initial expectation of a \$826M shortfall. Net new borrowing for FY 2021-22 did stand at \$1.3B, resulting in a net debt of \$16.5B. Gross borrowing stood at \$1.6B.

In the official April budget for FY 2022-23, revenue was expected to reach \$9.07B while expenses were budgeted at \$9.42B for a deficit of \$351M. Gross borrowing, at \$2.7B, did include \$1.7B in debt maturities. Net new borrowing was expected at \$1.0B and the net debt was calculated at \$17.1B.

With greater than expected offshore royalties, corporate income tax, personal income tax and sales tax, the government is now projecting higher than forecast revenue by \$1.33 billion for the fiscal year ending March 31, 2023. This represents \$10.4B in total revenue for the fiscal year. Higher volume of oil production (86 million barrels versus 83M in the initial budget) and greater oil prices translates to \$375M in higher revenue. The Ministry of Finance's view on oil price is however on the high side: staff project \$102US per barrel for the Brent (up from \$86US budgeted) with an exchange rate of 0.78 CAD to USD.

Expenses at \$9.925B were updated \$500M higher than budgeted. NF&L is making the first-ever contribution to the Future Fund as a result of a strong fiscal and economic outlook for 2022-23. The intention of the Future Fund is to have a positive impact on the province's financial position through increased savings and income from long-term investments. The government's intention in today's fiscal update is to contribute \$157 million to the newly established Future Fund. \$107 million is based on non-renewable resource royalties received in 2021-22, as specified in the regulations. An additional one-time payment of \$50 million will be contributed to the Future Fund based on the 2022-23 projected increase in revenues. This is in addition to the recently announced one-time cost of living relief; bringing the total to \$430 million in targeted short- and long-term investments since March 2022 to help residents with the currently high inflation. In the end, the province is expecting to go from a budgeted deficit of \$351M to a surplus of \$479M for FY 2022-23. If it materializes, NF&L would register only its second surplus in a decade, or since crude oil prices stood steadily near the US\$100 mark during the 2011-14 period. Over the period 1980 to 2022, there has only been a budget surplus eight out of 44 fiscal years, making deficit financing a chronic condition.

The Government of Newfoundland and Labrador is also reducing debt and borrowing. The projected increase in revenues enables government to reduce the net debt to \$16.04B, from the original Budget 2022 estimate of \$17.05B. Borrowing requirements are reduced from \$2.7B to \$1.8B for 2022-23. \$519M has been borrowed so far.



On the economic side, the improvement in real GDP growth (at 0.9%) relative to budget (0.5%) reflects better than expected oil prices and oil production. Tourism sector continues to benefit from a pandemic rebound and the “Come Home 2022” campaign. Employment, population, household income, retail sales and housing starts are all stronger than anticipated. But no words on the recent hurricane impacts in the update. The Province set aside \$30M to support impacted residents and communities in late September.

Sébastien Lavoie | Chief Economist
514 213-4571 | LavoieS@vmbl.ca

Luc Lapointe | Senior Economist
514 350-2924 | LapointeL@vmbl.ca

This document is intended only to convey information. It is not to be construed as an investment guide or as an offer or solicitation of an offer to buy or sell any of the securities mentioned in it. The author is an employee of Laurentian Bank Securities (LBS), a wholly owned subsidiary of the Laurentian Bank of Canada. The author has taken all usual and reasonable precautions to determine that the information contained in this document has been obtained from sources believed to be reliable and that the procedures used to summarize and analyze it are based on accepted practices and principles. However, the market forces underlying investment value are subject to evolve suddenly and dramatically. Consequently, neither the author nor LBS can make any warranty as to the accuracy or completeness of information, analysis or views contained in this document or their usefulness or suitability in any particular circumstance. You should not make any investment or undertake any portfolio assessment or other transaction on the basis of this document, but should first consult your Investment Advisor, who can assess the relevant factors of any proposed investment or transaction. LBS and the author accept no liability of whatsoever kind for any damages incurred as a result of the use of this document or of its contents in contravention of this notice. This report, the information, opinions or conclusions, in whole or in part, may not be reproduced, distributed, published or referred to in any manner whatsoever without in each case the prior express written consent of Laurentian Bank Securities.

