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One last year of deficit before steady surpluses

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Highlights

Newfoundland and Labrador expects the 2024-2025 fiscal years to end with a deficit of $252 million, or $100 million more than anticipated in the previous budget. This deterioration can be explained by slightly lower revenues (-$42M) and higher than expected expenses (+$58M). It should be noted that this larger-than-expected deficit has arisen even though the ministry estimates that the province's real GDP grew at an impressive rate of 6.7% in 2024, the highest growth of any Canadian province. For the coming years, the budget is based on economic assumptions that “broadly capture” the impact of the current trade war with the US. Despite the supposed prudence suggested by the ministry, the economic and commodity forecasts supporting the budget seem optimistic overall in our opinion. For 2025-26, the budget forecasts a deficit of $372 million, but it could turn out to be higher, since a provision of $200 million not included in this deficit has also been set aside, a good idea in the current context. The budget then forecasts a return to a balanced budget from 2026-27 and beyond. It must be said that the government is showing discipline, as very few new measures have been announced today, even though we are only a handful of months away from the next election campaign in the province. In fact, the budget essentially commits to not increase and to continue to decrease taxes and fees in the province for the fourth consecutive year and renews more temporary credit for an additional year, such as the 50 per cent reduction for vehicle registration and the home heat rebate. As for the province's indebtedness, the budget forecasts that the net debt to GDP ratio will increase from 44.4% in 2024-25 to 44.8% in 2025-26, despite the strong economic growth, thanks to the deficit. Debt servicing is expected to decrease from 11.1% of total revenue in 2024-25 to 10.7% in 2025-26. On borrowing requirement, Newfoundland and Labrador expects to issue a larger $4.1 billion in 2025-26, following on a $2.8 billion gross borrowing program from 2024-25.

- **Economic outlook** — After being the only province with a decrease in real GDP in 2023, the budget estimate that the economy of the province rebounded by 6.7% in 2024 (non-final), the strongest growth among the confederation. This performance was supported by higher resource production and strong consumer spending. As for nominal GDP, which has a bigger impact on public finances, it is estimated to have grown by 6.9% in 2024. Population growth remained particularly vigorous with a 1.2% increase in 2024 following an impressive 1.4% the year before. Unlike several other Canadian provinces, job creation was able to keep pace with population growth, so that the unemployment rate in March 2025 was unchanged at 10.1% compared to 12 months earlier but was still the highest in the Confederation. Looking ahead, the province's budget outlook could be quickly turned upside down due to the fluid situation in the trade war with the US. However, the budget states that “the impacts of these tariffs have been broadly captured in the economic forecast.” As a result, real GDP in the province is expected to increase by a robust 4.4% in 2025, a forecast that seems particularly optimistic to us in the current context. To support this growth, the budget cites increased oil and mineral production as the main causes. Indeed, the Terra Nova oil project is expected to continue to ramp up production and the Valentine Gold project is expected to start producing this year. Real GDP growth is expected to slow to 1.6% in 2026 before picking up again to 3.5% in 2027 and gradually increasing to 6.9% in 2029. Nominal GDP is expected to be only 4.3% in 2025 (0.1% below real GDP) due to slightly lower commodity prices. Nominal GDP growth is expected to slow to 3.1% in 2026 before picking up again to 5.7% in 2027 and gradually increasing to 9.1% in 2029. Despite this projected robust growth, the labour market is expected to slow down in the coming years. Indeed, the average annual unemployment rate is expected to rise from 10.0% in 2024 to 10.8% in 2025 and reach a peak of 11.4% in 2026. The unemployment rate is then expected to gradually decline to 5.0% in 2029, a level never seen in the province since records began in 1976. The lowest unemployment rate ever recorded in Newfoundland was 8.5% (August 2023), for just one month before rebounding the following month. In view of the particularly strong projected GDP growth and a long-term labour market performance that would break all records, we consider the economic assumptions on which the budget is based to be optimistic.

- **Oil price assumptions & official sensitivities –** Budget 2025 is based on an average of US$73/bbl price point for Brent in 2025-26. That price is seen to be fairly stable throughout the budget projection period, settling at US$75/bbl in 2029-30. For context, the prompt Brent contract is currently trading at around US$65/bbl. If the economic scenario presented in the budget holds, oil royalties should make up 15% of revenues in 2025-26, which is equal to the revenue share the province presented last year. The Canadian Dollar, another important input to the fiscal plan, is assumed to average US$0.697 in the upcoming fiscal year, while the projection beyond 2025-26 sees the CAD strengthen to US$0.733 by 2028-29. As for sensitivities, Newfoundland and Labrador estimates that each dollar per barrel is worth $29 million, while each 1 US cent change in the CAD/USD exchange rate should provide a $31 million fiscal impact.

- **Budget balance for the year ending (2024-25)** — Newfoundland and Labrador now estimates the 2024-25 budget shortfall at $252 million (0.6% of GDP). Last year, the province had pencilled in the deficit lower at $152 million, while the mid-year update (October 2024) estimated a $218 million shortfall. The deterioration reflects revenues coming in $42M (0.4%) lower and expenses $58M (0.6%) higher relative to the outgoing budget. The increase in deficit can be mainly attributed to lower oil royalties and increased health care spending.

- **Medium-term budget outlook (2025-2026 and beyond)** – 2025-26 is expected to be Newfoundland and Labrador’s third consecutive year in deficit, as the budget signals a $372 million shortfall, equivalent to 0.8% of GDP. That’s expected to be driven by a 4% jump in revenues, which is more than offset by expenses (100% funded), which are set to come in a little over 5% higher. The 2025-26 deficit that’s now being signalled means the return to balance will again be pushed out by a year relative to prior 2024 guidance. In light of heighted uncertainty, the province imbeds a $200 million contingency into the 2025-26 tally which is available to “nimbly and quickly respond as required to leverage and enhance Federal Government efforts.” The province now sees 2026-27 as the next time the balance is set to be written in blank ink, with a budgetary swing of $468 million to reach a surplus of $96 million. The surplus is expected to remain little changed in 2027-28, before surging higher to $571 million in 2029-30, the end of the projection horizon. Over that four-year period beyond the upcoming fiscal year, revenue is expected to advance at a CAGR of 1.3% while expenses are seen almost unchanged (set to grow at 0.1% annualized). Like last year's budget, Newfoundland and Labrador has opted to embed an 'oil risk adjustment' in its fiscal forecasts. That starts in 2026-27 at $20 million, growing to $70 million in the final fiscal year of the plan, a nod to the inherent volatility in oil prices.

- **New initiatives** – Dubbed "Smarter. Stronger. Better", this budget, published a few months ahead of the next provincial elections, is not exactly showering us with electoral goodies. Indeed, the main new measures announced today are the renewal of certain temporary credits, such as the 50 per cent reduction for vehicle registration and the home heat rebate. In addition, the budget includes no increases and continued decreases in provincial taxation and fees for the fourth year. Health remains a priority for the government, with healthcare spending now reaching $4.4 billion (40% of the budget), compared to $4.1 billion last year. This includes $35 million to hire additional health care providers for the family care teams, $10 million on recruitment and retention efforts, $10 million to expand MRI and CT services, and $7 million to add more seats in Memorial's faculty of medicine. The budget also increases by $20 million in the teaching services budget to address the shortage of K-12 teachers and an additional $4 million to add childcare spaces. Among other measures, the government is planning $90 million over 3 years to support offshore oil exploration, $10 million for a loan guarantee program aimed at locally owned restaurants, $10 million for a new venture capital fund for technology companies, and is indexing the Seniors' Benefit amount and income threshold.

- **Debt outlook and interest bite** – At ~$18.5 billion, net debt was equivalent to 44.4% of nominal GDP in 2024-25. Given the planned deficit and other requirements (including for capital), the province expects to add $965 million in net new debt in the coming fiscal year. Factoring in assumed growth in nominal GDP (4.3%), covered earlier, the corresponding net debt-to-GDP ratio is officially slated to rise 0.4%-pts to 44.8% for the fiscal year ending March 2026. Scaled to total revenue, the net debt burden is projected to end 2025-26 at 182% (vs. 180% in 2024-25), residing at the higher end of the provincial spectrum. With the baseline fiscal framework telegraphing a string of surpluses and output/revenue pointed higher, relative leverage metrics would be expected to gradually improve over the medium term. Gross debt expenses are slated to hold relatively steady in 2025-26 at $1.14 billion, consuming a somewhat smaller share of the forecasted revenue dollar. Specifically, the interest bite is set to ease from 11.1% to 10.7% in 2025-26 (the weighted provincial average closer to 6% of revenue).

- **Borrowing requirements** – Matching original guidance, Newfoundland and Labrador borrowed $2.8 billion in 2024-25. Beyond the traditional focus on domestic benchmark deals, the province tapped European markets for the first time (in both EUR and CHF), effectively broadening the investor base. Gross borrowing needs are projected to grow to $4.1 billion this fiscal year, equivalent to roughly $7,500 in per capita terms or 38% of total revenue. (Based on the other seven provincial budgets presented in 2025, the weighted average gross long-term borrowing need is estimated at ~$3,700 per person.) Stripping out scheduled maturities, net bond supply of $2.6 billion in 2025-26 compares to $2.8 billion in 2024-25. Meanwhile, the practice of pre-funding for upcoming maturities is designed to ensure adequate levels of liquidity, with new debt required to have a sinking fund attached. Contributions to the *Future Fund*—pursuant to a legislated framework and designed for the repayment of legacy debt and/or other strategic purposes—further bolster liquidity. A contribution of $108 million is scheduled for 2025-26, bringing cumulative deposits in the *Future Fund* to $467 million, en route to what is expected to be $1.3 billion by 2029-30.

- **Current long-term credit ratings** — S&P: A, Stable | Moody's: A1, Stable | DBRS: A, Stable

  *[Refer to our **Provincial Ratings Snapshot** for additional colour on specific credit rating drivers/considerations]*

Newfoundland & Labrador

$000,000	Budget 2024/25	Forecast 2024/25	Budget 2025/26	Outlook 2026/27	Outlook 2027/28	Outlook 2028/29	Outlook 2029/30
Provincial Revenue	7,028	7,221	8,061				
Provincial tax sources	4,406	4,667	4,652				
Personal Income Tax	1,816	1,944	1,885				
Sales Tax	1,486	1,569	1,785				
Corporate Income Tax	506	589	418				
Mining Tax and Royalties	116	89	75				
Other Taxes	481	477	489				
Offshore Royalties	1,551	1,322	1,591				
Other Provincial Sources	616	701,552	751				
Government of Canada	2,412	2,175	2,134				
Net Income of Government Business Enterprises	856	858	475				
Total Gross Revenue	**10,296**	**10,254**	**10,670**	**10,819**	**10,726**	**11,150**	**11,391**
Program Expenses	9,333	9,365	9,903				
Debt Servicing	1,115	1,141	1,139				
Total Gross Expenses	**10,448**	**10,506**	**11,042**	**10,703**	**10,636**	**10,714**	**10,745**
Consolidated surplus (deficit)	**(152)**	**(252)**	**(372)**	**116**	**90**	**436**	**646**
Oil risk adjustment	-	-	-	(20)	(40)	(55)	(75)
Adjusted surplus (deficit)	**(152)**	**(252)**	**(372)**	**96**	**51**	**381**	**571**
as a % of revenue	-1.5%	-2.5%	-3.5%	0.9%	0.5%	3.4%	5.0%
as a % of GDP	-0.4%	-0.6%	-0.9%	0.2%	0.1%	0.8%	1.0%
Debt servicing as a % of revenue	10.8%	11.1%	10.7%				
Offshore Royalties as a % of revenue	15.1%	12.9%	14.9%				
Net Debt - End of period	**17,818**	**18,484**	**19,449**				
Net debt - End of period as a % of GDP	44.1%	44.4%	44.8%				

Source: Budget documents of Newfoundland & Labrador Ministry of Finance.

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