

# ECONOMIC RESEARCH AND STRATEGY



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## **Newfoundland & Labrador Budget 2024 – Rapid Deficit Reduction Planned**

The 2024 Newfoundland & Labrador (N&L) budget reveals a bold deterioration in public finances for the FY 2023-24, ending in a few days. The Province is on track to run a large \$433M deficit, a major gap relative to the mid-year update showing a \$154M shortfall. This negative surprise is equally explained by lower revenues (oil royalties and corporate tax revenues) and higher expenses (health care, high inflation). As we explained in our *Provincial Economic Outlook* released in February, maintenance delays and mechanical and weather-related events at the Hebron and White Rose projects led to a 13.3% plunge in oil production last year. 2023 was also a subpar year for the nickel industry key to N&L's mining sector.

A double-digit increase in oil production to 86M barrels in FY 2024-25 will contribute to boosting revenues, in addition to global oil conditions favorable for Brent prices. Brent prices are assumed to be US\$82 per bbl in FY 2024-25 (a US\$1 variation over a full year implies a \$24M change in revenues). The path of the CADUSD, projected at 0.747 in FY 2024-25, is equally important, as a one US cent variation implies a \$26M change in revenues. Furthermore, construction activity on the West White Rose drilling platform is expected to bring new oil production in 2025. These favorable factors explain the unusually elevated real GDP growth forecasts of 6.9% and 7.3% used in this budget for 2024 and 2025, respectively.

Accordingly, Budget 2024 proposes a credible and rapid turnaround in the budgetary balance. The first step is to shrink the deficit by slightly less than half in FY 2024-25 (to \$152M), followed by a return to balanced budgets starting in FY 2025-26. Besides favorable oil conditions, the first federal equalization payment N&L will get since 2008 (\$218M) contributes to the reduction of the deficit in FY 2024-25. Furthermore, the rapid deficit reduction is possible by holding spending virtually unchanged from the prior year. Budget 2024 also includes targeted policy measures. For instance, small businesses will benefit from a lower tax rate on the first \$500K of income (2.5% retroactive to January 1<sup>st</sup>, 2024, down from 3%). Earlier this month, the government announced the extension of the tax reduction on gasoline until March 2025.

After tapping the bond market for \$2.2B in FY 2023-24, borrowing requirements are projected at \$2.8B in FY 2024-25. The budget cites the possibility of opportunities to lower the cost of borrowing, such as the *“European borrowing program so the province has the option to issue bonds beyond the Canadian market”*.



In summary, investors should interpret the larger deficit of FY 2023-24 and the manageable shortfall proposed in FY 2024-25 as a temporary soft spot. The Province's financial situation largely improved since the fragile period experienced during the pandemic. Large annual surpluses were registered prior to FY 2023-24. In Budget 2024, the N&L government also recognized again the \$5.2B financial assistance from Ottawa provided in 2021 to fix the costly Muskrat Falls hydro project. Additionally, in 2022, the Province established the Future Fund to improve debt management. Beyond this budget, Equinor explores options to improve the economic feasibility of the potential Bay du Nord deepwater oil project. Finally, interest in the onshore wind power potential of N&L to produce emissions-free hydrogen continues to grow.

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