

Newfoundland & Labrador Budget 2026



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The PC government presented its first budget since winning a majority at the October election. FY 2025-26 ended with a \$729M deficit (1.7% of NGDP), the third consecutive annual shortfall and the largest since the pandemic. At the same time, this figure marks an improvement relative to the \$948M deficit reported in the mid-year update last December. The sudden surge in Brent oil prices fueled revenues in March, the last month of FY 2025-26.

FY 2026-27 proposes similar figures relative to the year prior: a deficit projection of \$688M (1.5% of NGDP) and borrowing requirements of \$3.9B (versus \$4.1B in FY 2025-26). Both expenses (+1.1%) and revenues (+1.5%) are projected to advance at a very slow pace.

Slow fiscal revenue growth contrasts with the 2026 real GDP projection (+5.5%) driven by a 3.9% projected increase in oil production and improving mining output including gold. Also, the budget assumes a 10% jump in nominal GDP during 2026 driven by the recent global oil supply disruption. Such gap between fiscal revenues and GDP growth comes from the implementation of several election platform promises shaving taxation revenues: gradual reduction of the small business tax rate, reducing motor vehicle registration fees by 50%, extension of the home heating supplement program, +34% increase to the basic personal amount income tax exemption to \$15K, \$45M credit to substantially taper off the upcoming July electricity rate increase related to Newfoundland Power, etc.

Timing makes a big difference. Alberta and Saskatchewan published their respective budget prior to the Middle East war, using a ~US\$60 bbl WTI assumption. The N&L government was able to incorporate the Strait of Hormuz closure and associated disrupted supply. The budget assumes \$2B in oil royalties during FY 2026-27, 19% of total revenues, based on Brent prices averaging US\$79 bbl. Multiple illustrative scenarios from various private forecasters incorporating one additional month of Hormuz closure suggest Brent could easily exceed US\$100 bbl. Considering the fiscal sensitivity of a US\$1 variation equals ~\$33M variation in revenues on an annual basis, the N&L deficit could shrink materially relative to the baseline scenario proposed. FX market developments will be important to monitor as well (FY 2026-27 forecast CADUSD of 0.74; sensitivity of a 1 cent variation equals \$35M variation in revenues on an annual basis).

Altogether, lower taxes and affordability measures were a priority in this budget. Such choice is a key driver behind the absence of improvement to the annual deficit in FY 2026-27. But there will be other budgets and opportunities to narrow and eliminate the deficit. During his budget speech, Finance Minister Craig Parry referred to a *"fiscal challenge that will require time, effort, and energy to fix ... make no mistake, we will manage the province's fiscal future responsibly ... the job is not done. This is just the beginning"*. Clearly, a structural deficit is not an option. As such, market participants should not overly focus on the 5-year outlook projecting annual deficits close to \$1.1B from FY 2027-28 to FY 2029-30 and \$865M in FY 2030-31. These numbers will eventually be revised.

Besides future policy choices that will foster fiscal sustainability, future economic development projects will also play a role. Particularly, two major news caught our attention lately. In March, the N&L government reached agreements on benefits, royalties and equity options relative to the promising Bay du Nord offshore oil project. The N&L government news release indicates up to \$6.4B in direct fiscal revenue to the province during the first phase of the project. A final investment decision is expected by 2027. The Bay du Nord project, with a life expectancy north of 10 years, could add ~160K bbl per day starting in 2031. It would mark a material increase in comparison to the 2026 projected average daily production of ~265K bbl.

Also, in April, the federal government announced up to \$8B in investments over time to modernize infrastructure at the Royal Canadian Air Force base located in the Goose Bay area. Finally, an independent panel is expected to give recommendations on April 30th to the N&L government regarding the MOU reached between Hydro-Québec and Newfoundland and Labrador Hydro in December 2024. Under the proposed MOU, Quebec would notably pay more per kilowatt hour for Churchill Falls electricity, generating \$1B annually to N&L Hydro until an escalation clause kicks in during 2041.