

NEWFOUNDLAND & LABRADOR BUDGET 2019

April 17, 2019

One-time windfall from federal government leads to unexpected surplus in 2019-2020

Highlights

- Biggest surprise is a \$1.9 billion surplus projected for the current fiscal year thanks to a \$2.5 billion federal transfer from the recently signed Atlantic Accord.
- Deficits projected in the following two fiscal years, but on the path to balance the books in FY 22/23.
- No new taxes or fees in this budget, however some tax cuts offered in the form of eliminating surtax on auto insurance.

Overview

The budget presented yesterday made a splash with an unexpected \$1.9 billion surplus, courtesy of the one-time \$2.5 billion transfer from the federal government that came with the renewed Atlantic Accord signed on April 1st 2019. Under the new terms of the Accord, the federal government will give the proceeds from its equity interest in the Hibernia project to the province over the next 38 years. Accrual accounting rules recognize this stream of income all at once. That one-time \$2.5 billion windfall represents 24% of provincial revenues in FY 19/20 - a huge boost! However, only \$135 million of that amount will actually be transferred this year, while the rest will trickle in through 2056.

Without the \$2.5 billion, Newfoundland and Labrador would have posted a \$575 million deficit in FY 19/20. The province will revert back to deficits in the next two years. The government remains committed to achieve surplus position as previously promised by FY 22/23.

Revenues

Due to the one-off jump in revenues in FY 19/20 from the federal transfer, revenue growth will see a big 34% jump in the current fiscal year. Excluding this transfer, revenues are still expected to increase but to a smaller degree (1.3%), with the majority of that increase still stemming from government transfers. In fact, own-revenues are expected to decline slightly (0.1%) in FY 19/20. Total revenues are projected to stabilize over the remainder of the fiscal plan. Over the three years beyond the current fiscal year, revenue growth is limited to an average of 0.3%, despite nominal GDP growth averaging 2.2% during that period.

The only tax reduction seen in the budget is the elimination of retail sales tax on automobile insurance – a \$60 million measure. Vehicle licensing fees are also being reduced by \$5 for seniors and an additional 10% for military veterans. (There were no cost estimates provided for these measures.)

Newfoundland and Labrador budget balance

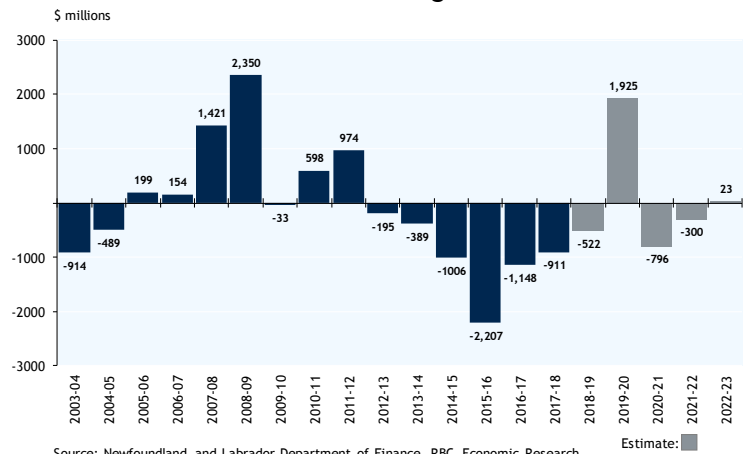


Table 2: Economic Assumptions

Year-over-year % change	Estimate		Projection	
	2019	2020	2021	2022
Budget 2019				
Real GDP growth	4.1	0.2	2.4	-0.1
CPI	1.5	2.0	2.0	2.1
Nominal GDP growth	2.6	1.6	3.9	1.2
Unemployment Rate*	13.1	13.5	13.4	13.4
RBC Economics				
Real GDP growth	2.3	0.4		
CPI	1.4	2.6		
Nominal GDP growth	2.6	2.9		
Unemployment Rate*	13.2	14		

*Average level, **Average level, fiscal year

Source: RBC Economics Research, Newfoundland and Labrador Department of Finance



Expenditures

The federal windfall gave the Newfoundland and Labrador government an opportunity to delay spending cuts announced in Budget 2018 (which projected a 1.4% reduction in total expenses in FY 19/20). However some departments like healthcare and transportation and works still will see some restraint. The Natural resources sector on the other hand will see spending almost double from previous year levels.

The road to achieving a balanced budget by FY 22/23 involves expenditure cuts starting in FY 20/21. After a 1.8% projected increase in expenditure this fiscal year, the next three years of the plan involve an average decline in expenditure of 2.5% per year, with the aim to bring overall expenditure to \$7.8 billion – the lowest level in over a decade. There are few examples of such restraint in the annals of public finance in Canada! However details on how this restraint will be achieved is largely absent in the budget.

An ‘oil revenue risk adjustment’ (a form of contingency reserve) continues to be featured in the out-years of the fiscal plan to allow for unforeseen weakening in oil prices, but is absent in FY 19/20. This adjustment rises from \$20 million in FY20/21 to \$70 million in FY22/23.

Net debt

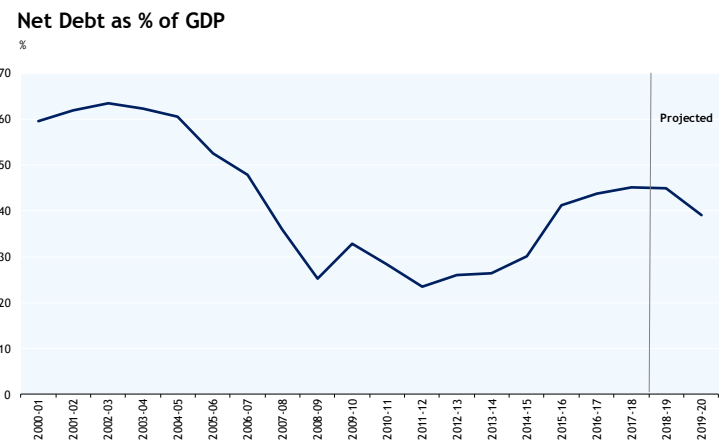
The net debt is set to reduce in FY 19/20 to \$13.8 billion from \$15.4 billion in FY 18/19, primarily due to the \$2.5 billion windfall from the Atlantic Accord. As a result, the net debt to GDP is set to drop to under 39% and is expected to remain stable through the fiscal horizon. This would relieve Newfoundland and Labrador of its position as the province with the highest debt-to-GDP, pushing Ontario slightly forward. But gross debt will continue to rise by 6.2% and debt service charges are projected to increase by 2.5% to \$1 billion in FY 19/20. In fact, debt charges represent 12% of overall expenditures in FY 19/20.

Borrowing requirement

Gross borrowing will decline to \$1.2 billion in FY 19/20 from \$1.425 billion in FY 18/19, primarily due to the \$135 million cash flow from the Atlantic Accord.

Election looming ahead

With the provincial election imminent, this budget will serve as a campaign platform for the Liberals in Newfoundland and Labrador. The fate of this budget, hence, will soon be decided by Newfoundlanders and Labradoreans.



Source: Newfoundland and Labrador Department of Finance, RBC Economics Research

**Table 1: Budget Summary (millions of dollars)**

	Revised		Projection		
	2018-19	2019-20	2020-21	2021-22	2022-23
Budgetary Revenues	7,751	10,350	7,462	7,838	7,901
Program Expenses	7,155	7,030			
Public Debt Charges	1,118	1,395			
Total Expenses	8,273	8,425	8,238	8,088	7,808
Adjustment for Risk	0	0	-20	-50	-70
Budgetary Balance	-522	1,925	-796	-300	23

Source: Newfoundland and Labrador Department of Finance

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