Newfoundland and Labrador: 2017–18 Final Results

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WIDER DEFICIT, TIMELINE TO BALANCE UNCHANGED

SUMMARY

- The Province of Newfoundland and Labrador published its *Public Accounts* for the 2017–18 fiscal year (FY18) Thursday, reporting a deficit of CAD 910.8 mn. Although this sixth consecutive annual budgetary shortfall is CAD 98.8 mn wider than the CAD 811.9 mn deficit estimated in its April 2018 budget (*Budget*), the government is still targeting FY23 for a return to balance.
- Total revenue was reported at CAD 7.28 bn, about CAD 60 mn lower than projected in April. Total expenditure was CAD 38.8 mn higher than the *Budget* forecast.
- Revenue details:
    - ◊ Federal transfers were CAD 58 mn lower than forecast in *Budget*, underlying the weaker revenue results.
    - ◊ Taxation revenue totaled CAD 3.77 bn, just CAD 42.2 mn less than estimated in *Budget*. Gas tax receipts (CAD -15.6 mn) and other miscellaneous tax revenues (CAD -28.8 mn) were key contributors to revisions since April. The Province attributes a CAD 152.9 mn fall in personal income tax receipts over FY17–18 to tax planning.
    - ◊ Offshore royalties were revised upward by CAD 14.4 mn, reflecting higher-than-anticipated oil production and oil prices.
    - ◊ Net government business enterprise (GBE) income was in line with *Budget*. A decrease in profits for Nalcor—the provincial energy corporation building the Muskrat Falls hydroelectricity generation station—led to CAD 77.8 mn lower net GBE income than in FY17.
- Expenditure details:
    - ◊ Salaries and employee benefits, the largest component accounting for over 40% of spending in FY18, were in line with *Budget* figures.
    - ◊ Operating costs, at CAD 1.2 bn, were CAD 84 mn lower than April projections.
    - ◊ Debt servicing costs edged CAD 28.5 mn higher than the previous forecast.
- Net borrowings were CAD 11.5 bn in FY18, a 9.8% increase over the previous fiscal year but slightly lower than the CAD 11.7 bn *Budget* estimates.
- The Province's net debt reached $14.7 billion, having increased by CAD 1.1 billion over FY17. The figure is CAD 36 mn higher than in *Budget*.

IMPLICATIONS

- The wider-than-expected deficit adds to Newfoundland and Labrador's already challenging path to balance. However, modest reductions versus *Budget* estimates with respect to operating costs and steady spending on public sector compensation put the Province, for now, largely in line with the aggressive expenditure restraint targets that anchor its deficit elimination strategy.
- Some factors could expedite Newfoundland and Labrador's deficit reduction timeline. Higher oil prices and an accelerated production ramp up at the Hebron oil field could further push offshore royalties higher than anticipated in *Budget*. Labour markets have also improved since the Province's last economic forecast was conducted in March 2018. We expect 0.1% job creation in 2018, albeit concentrated in part-time positions, whereas current revenue projections are underpinned by a forecast 1% decline in total employment this calendar year.
- Downside risks include lower than assumed oil prices that could reduce revenues, further cost overruns on the Muskrat Falls project and acceleration of the province's rapid population aging that puts additional strain on healthcare costs. Debt risks associated with foreign currency denomination, liquidity, interest rates and credit also apply.