BUDGET ANALYSIS

# Newfoundland and Labrador: Budget 2025

## New Spending Pushes Black Ink to Next Year

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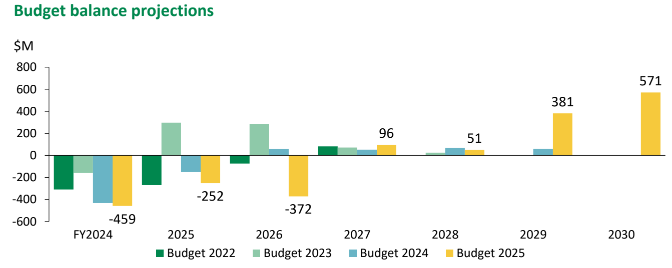
### HIGHLIGHTS

- Newfoundland and Labrador's (NL's) fiscal year 2025–26 (FY2026) budget projects a deeper deficit in FY2026, then a return to surplus next year—one year later than previously planned (graph 1). Surpluses are projected to eventually increase substantially thereafter, driven by strong economic momentum due to capital investment surges, coupled with continued spending restraint. Table 1 on page 2 summarizes the province's updated fiscal forecasts.
- Revenue projections have been raised due to strong outlooks for oil, gas and mining production. Although Brent price forecasts were revised down, they remain optimistic given the substantial downside risks from trade tensions.
- Spending projections were lifted, but the province continues its practice of reducing total expenditures in the outer years beyond FY2026.
- Policy announcements address a wide range of priorities, including health, education and affordability challenges. The plan includes a $200M contingency fund for added flexibility to address the economic impacts of US tariffs and counter tariffs.

**Graph 1**
**Newfoundland and Labrador Foresees a Fiscal Turnaround**

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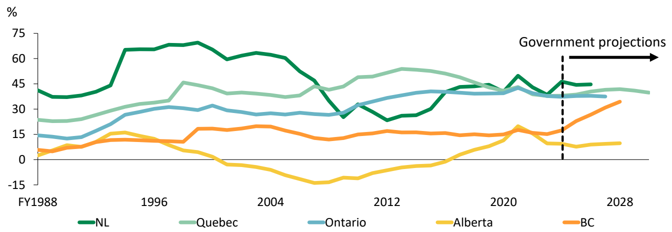
- NL plans for a swift turnaround to exit deficit territory, supported by an optimistic revenue outlook and aggressive spending restraint measures. While the path to fiscal balance is challenging, the province's public finances appear to have stabilized over the years. Meanwhile, the government is making commendable efforts to transform the province's finances by continuing contributions to the Future Fund and attracting major investments in wind-hydrogen projects and Upper Churchill-related construction activities, while advancing the development of the Bay du Nord project.

### Our Takeaways

Facing strong economic headwinds due to heightened trade tensions, Canada's easternmost province tabled a budget with heightened spending partially funded by a projected increase in revenue, leading to a larger deficit of $372M (0.9% of nominal GDP) in FY2026. Despite this, the budget adheres to plans to balance the books, aiming for a budget surplus in FY2027—one year later than previously anticipated.

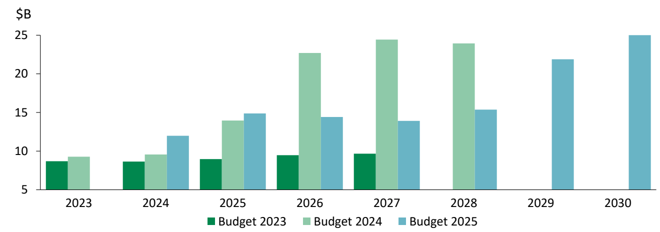
The larger near-term budget shortfalls are adding pressure on net debt, now projected to edge up to 44.7% of GDP in FY2026—still the highest among Canadian provinces (graph 2 on page 2). Achieving consistent surpluses, as planned, should help relieve

**Graph 2**
**NL's Debt Burden Among the Highest but Below Historical Peaks**




* Ontario figures based on mid-year FY2025 projections
Provincial budget documents and Desjardins Economic Studies

**Graph 3**
**Capital Investment Surges Delayed to Outer Years**

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the public debt burden over time. Nonetheless, debt reduction remains the province's top priority.

## Revenue Projection Highlights Exceptional Growth Forecast

Revenue projections have been lifted across the planning horizon, driven by strong outlooks for oil, gas, and mining production, as well as the commencement of mega projects. The government anticipates a 4.1% revenue growth in FY2026, with revenues remaining relatively stable over the following two years before rising again through FY2030. The government anticipates strong medium-term growth in 2028 and 2029, as projected surges in capital investment have been deferred to later years (graph 3). Strong performance in the outer years is expected to result in substantial surpluses by the end of the planning horizon.

The forecast is founded on an optimistic outlook. The government projects real GDP to expand by 4.4% in 2025, significantly exceeding the projections of other provincial governments this budget season. This follows an exceptional growth rate of 6.7% last year. Despite the broad impacts of US tariffs being accounted for in the economic forecast, the province's real exports are still expected to rise by 6.4%, driven by increased production of crude oil, iron ore and gold.

Oil production is projected to jump by around 11.8% annually over the next two years, as the Terra Nova oil project reaches full production capacity and West White Rose is expected to produce first oil next year. The Brent crude price forecast has been revised down to US73$/barrel in FY2026 and US72$/barrel 2027, albeit still above our current projection of US63$/barrel for both years. Our view balances the potential for further price declines due to weakened demand if the trade war escalates with the possibility of price increases if trade tensions are resolved.

The recent memorandum of understanding (MOU) between Newfoundland and Labrador and Quebec on Churchill Falls is expected to bring additional annual revenue of $1B over the next 17 years. This agreement will also drive economic development through new hydroelectric projects, creating thousands of jobs and stimulating regional growth.

## Spending and New Policy Measures

Total expenditure plans for FY2026 have been increased by about $800M compared to Budget 2024. Expenditure is projected to grow by 4.1% in FY2026, reversing the spending cuts planned in the previous budget. Despite a lifted spending profile, the province is still on track for the lowest post-pandemic spending growth of any province (graph 4 on page 3).

**TABLE 1**
**Summary of Fiscal Forecasts**

| | 2023–2024 | 2024–2025 | | 2025–2026 | | 2026–2027 | | 2027–2028 | | 2028–2029 | | 2029–2030 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| IN $M (EXCEPT IF INDICATED) | **Final** | **Bud. 2024** | **Bud. 2025** | **Bud. 2024** | **Bud. 2025** | **Bud. 2024** | **Bud. 2025** | **Bud. 2024** | **Bud. 2025** | **Bud. 2024** | **Bud. 2025** | **Bud. 2025** |
| Total revenues | 9,630 | 10,296 | 10,254 | 10,311 | 10,670 | 10,365 | 10,819 | 10,366 | 10,726 | 10,349 | 11,150 | 11,391 |
| Total expense | 10,089 | 10,448 | 10,506 | 10,233 | 11,042 | 10,268 | 10,703 | 10,238 | 10,636 | 10,219 | 10,714 | 10,745 |
| Oil Risk Adjustment | — | — | — | 20 | — | 45 | 20 | 60 | 40 | 70 | 55 | 75 |
| **Budget balance** | **-459** | **-152** | **-252** | **58** | **-372** | **52** | **96** | **68** | **51** | **60** | **381** | **571** |
| *% of GDP* | *-1.2* | *-0.4* | *-0.6* | *0.1* | *-0.9* | *0.1* | *0.2* | *0.1* | *0.1* | *0.1* | *0.8* | *1.0* |
| *Net Debt, % of GDP* | *46.3* | *44.1* | *44.4* | — | *44.7* | — | — | — | — | — | — | — |
| Borrowing Requirement | 19,341 | 2,800 | 2,800 | — | 4,100 | — | — | — | — | — | — | — |
| *Real GDP, % change* | *-2.5* | *5.1* | *6.7* | *6.9* | *4.4* | *7.3* | *1.6* | *4.9* | *3.5* | *4.2* | *4.7* | *6.9* |
| *Nominal GDP, % change* | *-3.6* | *5.8* | *6.9* | *3.7* | *4.3* | *6.2* | *3.1* | *5.9* | *5.7* | *4.5* | *7.2* | *9.1* |

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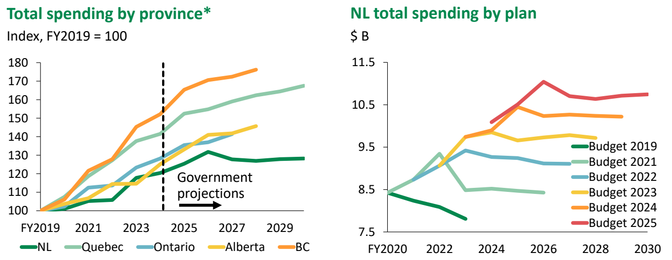
**Graph 4**
**NL's Lifted Spending Plan Still Builds In Outer-Year Cuts**




* Ontario figures based on mid-year FY2025 projections
Statistics Canada, provincial budget documents and Desjardins Economic Studies

New policy measures prioritize health, education, and support for businesses and residents facing affordability challenges and uncertainties due to US tariffs. The government continues to invest in Health Accord NL, allocating $140M to modernize the Health Information System. The budget also supports education and university operating grants, enhances the Senior's Benefit, and reduces provincial fuel tax and other costs. To address the economic impacts of US tariffs and counter tariffs, the plan includes a $200M contingency fund for added flexibility.

The updated fiscal plan maintains ambitious expenditure reductions in outer years, achieving hefty surpluses by the end of the planning period. Despite the additional spending announced in the budget, the government plans to cut spending by an average of 0.7% per year beyond FY2026. While controlling spending is crucial to prevent the already high debt burden from rising, it poses a significant challenge for any government, especially if it aims to maintain current levels of public services. This challenge is further compounded by heightened uncertainty from the US administration's trade policy.

The province is making substantial investments in capital projects to support growth, with infrastructure spending expected to total $1.1B in FY2026. These investments are projected to generate $690M in economic activity, focusing on key areas such as health, transportation, education and municipal capital projects.

## Borrowing Program

NL expects to borrow $4.1B in FY2026, an increase of approximately $1.3B compared to FY2025. This includes pre-borrowing for debt maturities due the following year to ensure the province maintains sufficient liquidity. Additionally, the province has initiated a European borrowing program to diversify its investor base and lowing costs.

The province plans to deposit an additional $108M into the Future Fund, increasing its balance to $467M. By 2030, cumulative contributions to the Future Fund are forecast to reach $1.3B. This investment will be utilized for debt repayment and to seize future investment opportunities.