

Larger than expected deficit due to lower oil royalties

- Budget 2017 deficit of \$777.6 million has been adjusted to \$852.4 million primarily as a result of lower revenues (see table next page).
- Oil royalties are now forecast \$147 million lower than Budget, due to lower than expected oil price, a higher US/Canada exchange rate and prior period adjustments. This is partially offset by higher than anticipated production.
- Other revenues are revised up \$68.2 million, of which \$49.7 million comes from net income of Government business enterprises, the remaining \$18.5 million coming from improved Corporate income tax, Mining tax and other revenues offsetting lower personal income tax revenue.
- The total revenue shortfall of \$78.8 million represents 1% of total revenue expected at Budget.
- Expenses are expected to be \$4.0 million lower than projected at budget. Total expenses are expected to be \$4.0 million lower than projected at budget. Expenses for government departments are projected to be \$22.3 million lower than forecast at budget. This is partially offset by a projected increase in expenses by agencies, boards and commissions of \$18.3 million.
- At Budget, real GDP was forecast to decline 3.8% in 2017, due to declines in capital investment as construction of the Hebron oil project and the Long harbour nickel processing facility are nearly complete. The decline in real GDP is now estimated at 3.2%, the improvement stemming primarily from an increase in expected oil production more than offsetting a deterioration in capital investment. Real final domestic demand is forecast to fall by 4.6%, while real exports are expected to increase slightly due primarily to an increase in exports of iron ore and refined petroleum.
- The fall in employment is now pegged at 4.1%, worse than the 1.9% drop projected at Budget. However, household income and retail sales, that were expected to drop at Budget, are now projected to increase (1.8% for household income and 1.0% for retail sales).
- In 2018 and 2019, real GDP growth is forecast to be slightly positive, as oil production from Hebron boosts total oil output. However, employment is expected to continue to decline as jobs on major project development (mainly Hebron and Muskrat Falls) decrease. Among positive developments, Husky Energy announced that is moving forward with development of the West White Rose project, with construction beginning this year. The construction industry is also benefiting from the provincial government's infrastructure program.
- Net debt as of March 31, 2018 is now projected to be \$14.7 billion versus \$15.2 billion at Budget.
- FY 2017-18 borrowing requirements have increased by \$300 million from \$00 million to \$700 million. This is due primarily to a decrease in cash revenue of \$92 million for the reasons noted above and an increase in Nalcor Energy investment of \$137 million, due to the June 2017 cost increase.
- The Government recognizes that it faces an unsustainable deficit level and remains committed to returning to fiscal balance (in FY 2022-23 as per Budget). The government will continue to focus on delivering programs and services in a smarter and more efficient way. It will make changes as necessary to address the ever-evolving economic and fiscal realities faced by the Province.

Newfoundland and Labrador 2017 Fiscal Update

Newfoundland & Labrador

(\$ million)

	Budget	Fall	
	2017/18	2017/18	Var.
Revenue			
Provincial and federal revenue	6,897.9	6,769.4	-128.5
<i>As of Oil royalties</i>	881.7	734.7	-147.0
Net income of Government Business	441.0	490.7	49.7
Total revenue	7,338.9	7,260.1	-78.8
Expenses			
Core Government	3,808.9	3,786.6	-22.3
Agencies, Boards and Commissions	4,307.6	4,325.9	18.3
Total expenses	8,116.5	8,112.5	-4.0
Deficit	-777.6	-852.4	14.3

Source: Newfoundland Labrador Fiscal and Economic Update 2017.

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