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Newfoundland & Labrador: Affordability in focus, as deficits linger

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Highlights

In the wake of a fall provincial election that brought the PCs to power, Newfoundland and Labrador's fiscal framework has taken a material turn. The outlook is one defined by strong near-term economic growth but a weaker budgetary trajectory. Though the outgoing fiscal year's shortfall is larger than originally guided ($729 million vs $372 million in Budget 2025), a near-term boost from higher crude prices means that 2025-26 ends in a relatively more fiscally favourable light compared to the province's fall update. But in contrast to last year's guidance, Budget 2026 fails to signal a return to balance and instead projects deficits in excess of $1 billion (~2.2% of GDP) per year from 2027-28 through 2029-30. Only mild consolidation is expected in the final year (2030-31) of the framework. Consistent with widening deficits and expansive policies aimed at tackling affordability pressures, the province will tack on an additional $1.3 billion of net debt in 2026-27, though the relative debt burden (43.5% when scaled to GDP) will step down as nominal growth is expected to be robust. The 'interest bite' will creep up in the coming fiscal year, to just shy of 11%. After borrowing $4.1 billion last year, gross issuance for 2026-27 is slated at $3.9 billion—net of scheduled maturities, supply will step up from $2.6 billion to $2.9 billion. Like other oil-levered provinces that have already tabled their budgets, N&L presents an arguably conservative planning assumption for the price of crude—which could prove to be an effective fiscal tailwind.

- **Economic Outlook** — After being the only province with a decrease in real GDP in 2023, Newfoundland and Labrador's economy rebounded strongly above the national average in 2024 and is set to boast the highest real growth rate among the provinces in 2025 at 4.8% (estimated / not-yet-final). Economic activity was driven largely by higher crude oil and nickel production, combined with increased export volumes and a strong consumer. Strong real growth is expected to continue into 2026, set at 5.5% by the average forecaster—once again leading the provinces and bolstered by activity in oil and mineral production. Nominal GDP for its part is set to grow by 10% in 2026, before moderating and averaging ~2.5% in the four years ending 2030. The province expects capital investment to step down by 2.6% this year, and sees minimal payroll growth, both primarily due to reduced construction activity (2025 saw the conclusion of work on certain major natural resource projects). Over the medium term, both employment and investment are seen picking up again as construction activity begins on wind-energy projects and the Bay du Nord oil development. Real GDP and employment are projected to grow by an average of 1.4% and 1.1%, respectively through the 2027-2030 horizon. Meantime, the jobless rate is seen recording a modest improvement in 2026 (10.1% to 9.9%) before coming down further, bottoming at 7.2% in 2029. On a related note, Newfoundland and Labrador's population is set to stagnate this year, largely due to reductions in federal immigration levels. Bookending the presented economic projections, the province acknowledges overarching budgetary volatility against a backdrop of continued geopolitical uncertainty—namely as it pertains to the Mideast conflict, tariff policies, and the upcoming review of the CUSMA agreement.
- **Energy Price Assumptions & Official Sensitivities** — Budget 2026 planning is based on an average Brent crude oil price of US$79/bbl in 2026-27. On the surface, this appears to be a very conservative estimate relative to where the prompt contract is trading at the time of writing (~US$120/bbl). Using the futures strip as an indicative guide, Brent is seen averaging ~US$90/bbl over the balance of this fiscal year. Further out the projection horizon, oil is seen moderating to US$71/bbl in 2027-28, before gradually stepping up each fiscal year, averaging US$76/bbl in 2030-31. The Canadian dollar, another important input in the fiscal framework, is assumed to average US$0.741 this fiscal year, appreciating slightly in 2027-28 before pulling back, and stabilizing at US$0.739 at the tail end of the plan. As for official sensitivity analysis—the province estimates that a US$1 move in the average price of Brent has a fiscal impact worth $33 million (up from $29 million in last year's budget). Meantime, each US$0.01 change in the CAD/USD rate would be expected to carry an impact of $35 million (also up from $31 million in Budget 2025).
- **Fiscal Outlook** — Newfoundland and Labrador now estimates the 2025-26 budget shortfall at $729 million (1.7% of GDP). A larger deficit was signaled in the recent fall update, though this still marks a significant deterioration in the fiscal position from Budget 2025 which had projected $372 million of red ink. Almost the entire budgetary miss can be attributed to the expense side, which came over 3% above plan. 2026-27 is set to be Newfoundland and Labrador's fourth consecutive year in deficit, as Budget 2026 signals a $688 million shortfall, equivalent to 1.4% of GDP. That's in stark contrast to the modest surplus (0.2% of GDP) that was budgeted last year. In fact, while Budget 2025 showed the balance sustained in black ink starting in 2026-27, most recent guidance does not show a return to surplus at all. Deficits will pick back up again after 2026-27, averaging ~$1,100 million (or 2.2% of GDP) for the three following fiscal years. Modest consolidation is shown only at the end year (2030-31) of the plan, where an $835 million deficit (1.6% of GDP) is projected. In all, a near $5.5 billion budgetary swing (for the worse) over the five overlapping fiscal years of each plan (2025-26 to 2029-30) captures the vastly different outlooks set forth by Budget 2025 and 2026. In that period, Budget 2026 sees cumulative revenues coming in $1.3 billion lower than previously anticipated, while expenses are slated to be over $4 billion higher. In the 4 years beyond 2026-27, revenue is expected to advance at a CAGR of 0.9%, while spending is seen rising at an annualized rate of 1.2%. As mentioned above, significant upside potential remains on the revenue front near-term, should Brent prices remain lofty (offshore royalties are currently slated at 19% of anticipated revenues for the province). Newfoundland and Labrador is not the first province to pencil in relatively conservative energy price assumptions, and the feds also undershot futures curves in its latest Spring Economic Update, increasing the likelihood of delivering fiscal improvements at the time of future guidance.

- **New Initiatives** — Dubbed "Opportunity for All of Us", Budget 2026 delivers on more recent electoral promises and places affordability at the forefront of announced measures. New proposals in this plan are in addition to the recently announced $45 million that will be provided to minimize the impact of Newfoundland Power's rate increase planned for this summer. To address affordability pressures, Newfoundland and Labrador is increasing the basic personal amount to $15,000 and delivering a slew of other measures—including increasing the Seniors' Benefit by 20%, permanently reducing the gas tax, extending the Home Heating Supplement Program, expanding the reach of the N&L Child Benefit, and more. A total of $5.4 billion will be invested in delivering better health care—a sector that comprises over 40% of current spending. Several infrastructure projects are being continued / introduced, while additional funds will be allocated to providing more long-term care beds and healthcare staff. In addition to initiatives focused on community enhancements and public safety, the province will continue to emphasize investment in the education system, and looks to support small businesses through the reduction in the Small Business Tax Rate (by 0.5% each year for the next three years).
- **Debt Outlook & Borrowing Requirement** — At ~$19.5 billion, net debt was equivalent to 44.8% of nominal GDP in the outgoing (2025-26) fiscal year. That's largely unchanged, in both outright and relative terms, from Budget 2025's guidance. Given the planned deficit and other requirements, the province expects to add $1.3 billion in net new debt in the coming fiscal year. Factoring in assumed nominal growth of 10.0% in 2026 (covered above), the corresponding net debt-to-GDP ratio is officially slated to fall 1.3%-pts to 43.5% for the fiscal year ending March 2027. Still, that projected net debt burden would be the highest of Canada's provinces. Scaled to total revenue, the net debt burden is set to end 2026-27 at 192% (vs. 183% in the outgoing fiscal year), once again residing at the higher end of the provincial spectrum. With the baseline fiscal framework telegraphing a string of deficits, relative leverage metrics would be expected to deteriorate further over the medium term. Gross debt servicing costs are slated to rise slightly to $1.18 billion in 2026-27, consuming a somewhat larger share of the forecasted revenue dollar. Specifically, the interest bite is set to rise from 10.4% to 10.9% in 2026-27 (the weighted provincial average closer to 6% of revenue). Newfoundland and Labrador borrowed $4.1 billion (CAD equivalent) in 2025-26. That represents a material increase from the prior fiscal year ($2.8 billion), but matches original guidance outlined in Budget 2025. Beyond the traditional focus on domestic, CAD-denominated benchmark deals, the province tapped European markets (EUR and CHF for a combined ~$0.3 billion in CAD equivalent). This follows suit with the inaugural issuance of both currencies (and international borrowing broadly speaking) in 2024-25. Gross borrowing needs are projected to step down to $3.9 billion this fiscal year. Stripping out scheduled maturities, projected *net* bond supply of $2.9 billion in 2026-27 compares to $2.6 billion in 2025-26.

Current long-term credit ratings — S&P: A, Stable | Moody's: A1, Stable | DBRS: A, Stable

[Refer to our ***Provincial Ratings Snapshot*** *for additional colour on specific credit rating drivers/considerations]*

	2026-27	2027-28	2028-29	2029-30	2030-31
Revenue	10,838	10,459	10,578	10,863	11,233
Expenses	11,526	11,554	11,680	11,975	12,068
Deficit	**(688)**	**(1,095)**	**(1,102)**	**(1,112)**	**(835)**

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