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2010 Newfoundland & Labrador Budget

TD Economics

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HIGHLIGHTS

- Fiscal 2009/10 to close with much smaller deficit than anticipated in Budget 2009 (\$295 million, or 1.3% of GDP rather than \$750 million, or 3.3% of GDP). Most of the improvement came from higher crude oil prices.
- Led by a population inflow, a growing domestic sector, and capital investments, real GDP is set to rebound by 4% in 2010. It was estimated to have shrunk a whopping 8.9% last year on naturally declining offshore oil output and recession-related drops in mineral, newsprint, and fish production.
- Government to run second consecutive deficit (of \$194 million) in fiscal 2010/11. Projected deficits are \$157 million and \$192 million, respectively, in the following two years.
- While stated objective is to return to budget balance, no time frame or plan is offered.
- Net debt set to increase from \$8.5 billion to \$9.2 billion (36% of GDP) as infrastructure capital spending ramps up to \$1 billion this year.
- Continued personal and corporate income tax relief, worth an additional \$48 million this year. On the flipside, tobacco tax increases slightly, increasing intake by \$6 million.

Pascal Gauthier
Economist, Regional & Fiscal
Canada
416-944-5730
mailto:pascal.gauthier@td.com

CONTINUED TAX RELIEF

As fiscal 2009/10 comes to a close, the government was able to deliver a significant improvement with a much smaller deficit (\$295 million, or 1.3% of GDP) than initially budgeted last year (\$750 million, or 3.3% of GDP). This is despite the fact that the provincial economy's real output (GDP) is estimated to have plunged by 8.9% last year – mainly on naturally declining offshore oil output, along with recession-related drops in mineral, newsprint, and fish production. The natural decline in offshore output was largely predictable, however, with its impact already built-in to last year's budget. In the end, the bulk of the improvement came from higher actual crude oil prices (average of USD 69 / barrel) than assumed at the time (average USD 50 / barrel), translating into a near \$600 million improvement in revenues. When compared to last years' budget, lower debt servicing costs (-\$20 million) also helped, while higher program expenses (+\$150 million) partially offset the better revenue intake.

As it embarks on fiscal 2010/11, the government forecasts the price of crude oil will average USD 83 / barrel, which is near the current level, and marginally higher than our own forecast (USD 80 / barrel for calendar 2010) when adjusted to fit the fiscal year. Led by a continued population inflow, a growing domestic sector, and capital investments, real GDP is set to rebound by 4% this year. The government is forecasting the deficit to be roughly \$100 million smaller at \$194 million, with a continuation of similarly sized (\$157 million and \$192 million, respectively) shortfalls in the following two fiscal years.

The lack of closure towards balance in the outer years reflects two things. The first is a projected decline of 1.8% in real GDP in 2012 followed by essentially no growth in 2013, as capital investments unwind without enough pickup in initial output to fully compensate. This year and next are expected to see a large ramp-up in capital investment (e.g. nickel processing facility, Hibernia South, White Rose satellite fields, Hebron), by a cumulative 46% over two years, that will abate post-2011.

The second factor relates to the continuation of an aggressive tax relief program started when the government took office. A stated priority of this government

NEWFOUNDLAND AND LABRADOR FISCAL POSITION

[C\$ millions, unless otherwise indicated]

	Actual	Est.	Budget
<i>Fiscal Year</i>	08-09	09-10	10-11
Revenues	6,987	6,393	6,585
% change	5.8	-8.5	3.0
% of GDP	22.3	27.9	25.9
Expenditures	5,911	6,873	6,986
% change	9.0	16.3	1.6
% of GDP	18.9	30.0	27.5
Debt-Service Costs	751	903	809
% of revenues	10.7	14.1	12.3
Discretionary Exp.	5,160	5,970	6,177
Net income of GBES	205	185	207
Surplus/Deficit (-)	2,434	-295	-194
% of GDP	7.8	-1.3	-0.8
Net Debt	7,896	8,457	9,156
% of GDP	25.2	36.9	36.0

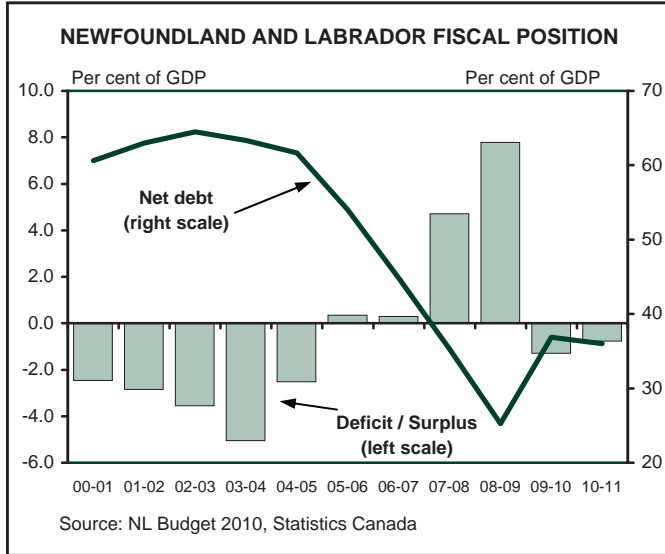
Source: Newfoundland & Labrador Finance, Statistics Canada.

has been to make the province’s tax system competitive in comparison to peer Atlantic region jurisdictions. Specific tax measures, worth a total of \$48.5 million in fiscal 2010/11, announced in this budget include:

- Increase in the Age Amount (for seniors) from \$3,681 to \$5,000.
- Low-income seniors’ annual benefit to increase from \$803 to \$900.
- Personal income tax rates applicable to the 2nd (roughly \$31K to \$63K) and 3rd (roughly \$63K and higher) income brackets will be reduced by 0.3 and 2.2 percentage points, respectively, to 12.5% and 13.3%.
- Effective April 1st, the small business tax rate will be reduced from 5% to 4%.
- Dividend tax credit received from large corporations will increase from 9.75% to 11%.
- On the flipside, the tobacco tax will increase by 1cent per cigarette, increasing government revenues by \$6 million.

Bottom Line

All said, while no explicit plan and timeline is offered to completely expunge deficits in outer years, they are reasonably forecast to be a manageable share of the overall economy (below 1% of GDP), although a higher share (roughly 4%) of the government’s own-source revenues. So far this year, some governments have held the course on previously announced tax relief, while others have chosen to defer their tax relief intentions. While this does not fully account for continued deficits post-2011, this is the first government so far this year that chose to announce new tax relief measures for its residents.



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