

## Some rough water ahead

### Highlights

- A fourth consecutive surplus is recorded for 2008-09.
- In 2008-09 Newfoundland ran a surplus of \$1.3 billion before revenue from the 2005 Atlantic Accord. After Atlantic Accord recognition, the surplus will be \$2.4 billion.
- In 2008-09 Newfoundland ceased to be an equalization recipient province.
- For 2009-10, a deficit of \$750 million is budgeted, of which \$414 million is attributed to a shortfall in anticipated payments under the 1985 Atlantic Accord. This shortfall reflects a one-year change in the equalization calculation by the federal government. A return to a small budget surplus is projected for 2011-12.
- Revenues are budgeted to decline 16.9% to \$5.8 billion in fiscal 2009-10, mostly because of lower offshore royalties.
- Program spending is projected to increase 12.8% from last year's revised budget to \$5.8 billion in fiscal 2009-10.
- The pre-announced \$800-million increase in infrastructure investments is confirmed.
- New tax cuts amounting to \$11.5 million will bring the cumulative tax relief since 2007-08 to approximately \$776 million.
- More than \$87 million is budgeted for business development programs to encourage long-term private sector growth.
- Net debt is budgeted at \$8.954 billion by the end of fiscal 2009-10, compared to \$7.896 billion currently. Newfoundland plans no borrowing in 2009-10.

### Summary

Newfoundland and Labrador recorded a fourth consecutive surplus in fiscal 2008-09, allowing the province to cut its net debt from nearly \$12 billion four years ago to \$7.9 billion at March 31, 2009. This has given the province room to manoeuvre at a time of challenging domestic and global economic conditions. In the circumstances, Finance Minister Jerome Kennedy has opted to stimulate and strengthen the Newfoundland and Labrador economy. Net program spending is budgeted to increase 13% to \$5.8 billion. This includes \$800 million in previously announced increases in infrastructure investment and a 9.6% rise in health and community services spending. The minister also announced tax cuts to support low-income earners and small businesses. Debt servicing is budgeted at \$924 million, pushing total net expenses to \$6.7 billion.

The slide of oil prices from last year's peak will obviously have a significant impact on the province's finances in 2009-10. Assuming reduced production and oil at US\$50, the finance minister projects that offshore royalties will decline by \$914 million in 2009-10. Revenue from mining taxes and royalties is also projected to fall significantly. Tax cuts and rising job losses are expected to reduce personal income tax revenue 23.6%. The net result is that total revenue, including \$189 million in net income from government business enterprises, is budgeted at just under \$6 billion. The shortfall in revenue is projected to result in a \$750-million deficit in fiscal 2009-10. However, without a \$383-million charge for the impact of equity market declines on the value of Newfoundland and Labrador's pension funds and an \$414-million

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shortfall in anticipated payments under the 1985 Atlantic Accord, the province would have projected a small surplus. With economic growth expected to resume in 2010, the finance minister sees a return to budget surpluses by 2011-12.

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***Newfoundland & Labrador***

\$000,000	Revised	Estimate	Projection	Projection
	2008/09	2009/10	2010/11	2011/12
<b>Revenues</b>	<b>6986.7</b>	<b>5804.2</b>	<b>6535.8</b>	<b>6966.7</b>
<i>Provincial tax sources</i>	5107.8	3905.1		
Personal income tax	899.5	786.2		
Sales tax	755.0	680.8		
Corporate income tax	498.2	616.8		
Offshore royalties	2226.1	1312.6		
Mining tax and royalties	353.2	127.6		
Other provincial tax sources	375.9	381.1		
<i>Other provincial sources</i>	674.3	638.2		
<b>Total provincial sources</b>	<b>5782.1</b>	<b>4543.3</b>		
<b>Federal transfers</b>	<b>1204.6</b>	<b>1260.8</b>		
Net program expenses	5159.4	5819.2	6050.7	6325.2
Debt servicing	751.5	923.8	928.2	958.9
<b>Total Net Expenses</b>	<b>5910.9</b>	<b>6743.0</b>	<b>6978.9</b>	<b>348.2</b>
Net income of government business enterprises	204.9	189.3	301.7	348.2
Consolidated surplus (deficit) before Atlantic Accord 2005	1280.7	(749.5)	(141.4)	30.8
Atlantic Accord 2005 Recognition	1152.8	0		
<b>Surplus/(Deficit)</b>	<b>2433.5</b>	<b>(749.5)</b>	<b>(141.4)</b>	<b>30.8</b>
Debt servicing as a % of revenues	10.8%	15.9%	14.2%	13.8%

Source : Budget Speech 2009,  
Estimates of of the program expenditure and revenue  
of the consolidated revenue fund 2009-10