

NEWFOUNDLAND & LABRADOR BUDGET 2010

March 30, 2010

Newfoundland & Labrador Finance Minister Tom Marshall yesterday presented his budget for 2010, which projects a second consecutive deficit of \$194 million in 2010/11. The good news is that he revised his deficit estimate for the fiscal year ending tomorrow substantially lower, down 60% relative to Budget 2009 to \$294.9 million. This entirely reflects much stronger-than-anticipated oil prices in the past year, causing offshore revenues to come in nearly 44% higher than earlier projected.

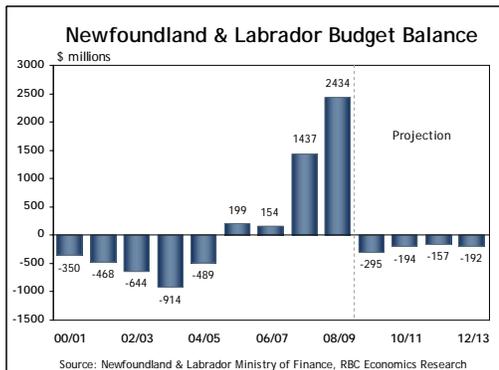
In 2010/11, **own-source revenues** are expected to grow by 1.7% to \$5.3 billion (on a gross revenue basis). Higher assumed crude oil prices (at US\$83 per barrel compared to the average of US\$69 per barrel in 2009/10, both quoting the Brent benchmark) will boost offshore royalties by almost 15% to \$2.1 billion (even though crude oil production is expected to decline by 12%). Offshore royalties will represent close to 41% of the province's own source revenues, up from 36% in 2009/10. Revenues from personal income and sales taxes are projected to rise by 2.5% (to \$836 million) and 9.1% (to \$766 million), respectively; the former coming despite a new round of tax cuts that come into effect on July 1, 2010. These increases will be partially offset by a 46% drop in corporate income tax revenues, reflecting the carry forward of losses and a reduction in the small business rate. Federal transfers are projected to jump by more than 15% to \$1.8 billion thanks to a large \$177 million (or 38%) increase related to offshore oil and gas revenue sharing (1985 Atlantic Accord).

Total expenditures are projected to rise by 3.5% to \$7.6 billion (gross expense basis). Spending on health and community services is budgeted to climb 6.7% to \$2.7 billion, on education by 0.3% to \$1.5 billion, and on child, youth and family services by more than 31% to \$163 million. In terms of **capital spending**, the provincial government has allocated \$1 billion for infrastructure investment, down 23% from \$1.3 billion in 2009/10.

The fiscal outlook does not suggest any improvement in the budgetary balance over the medium term, as deficits of \$157 million and \$192 million are projected for 2011/12 and 2012/13, respectively.

Economic assumptions appear reasonably conservative this year, with real GDP growth forecast at 4.0% for 2010, in line with RBC's 4.1% rate. However, the government's 2011 forecast of 3.1% is stronger than our projection of 2.1%. The budget assumes real GDP growth to fall by 1.8% in 2012. The crude oil price assumption (US\$80.85 per barrel, Brent) in calendar year 2010 is slightly higher than RBC's forecast (US\$78.75 per barrel).

Net debt, which is estimated to have surged from 25.1% of GDP in 2008/09 to 36.9% in 2009/10 (the combination of a 7.6% rise in the debt and 26.7% plummet in nominal GDP), is projected to ease a little to 36.2% of GDP at the end of 2010/11.



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Newfoundland & Labrador fiscal plan

(\$ millions)	Actual	Actual	Estimates	Revised	Estimates
	<u>2007/08</u>	<u>2008/09</u>	<u>2009/10</u>	<u>2009/10</u>	<u>2010/11</u>
Total revenues	6,942	8,547	6,423	6,850	7,183
Total expenditures	5,704	6,319	7,361	7,330	7,584
Net Income of Government Business Enterprises	199	205	189	185	207
Surplus/(Deficit)	1,437	2,434	(750)	(295)	(194)

Source: Newfoundland & Labrador Ministry of Finance, RBC Economics Research

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