

BUDGET ANALYSIS

Newfoundland and Labrador: Budget 2026–27

A Rock and a Hard Place

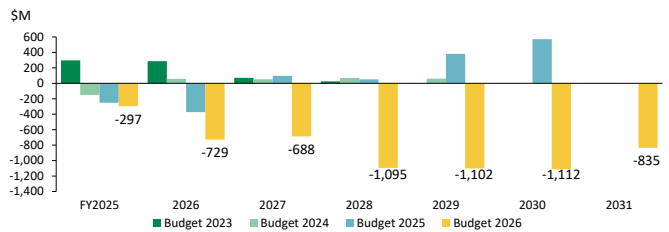
By Laura Gu, Senior Economist, and Kari Norman, Senior Economist

HIGHLIGHTS

- ▶ NL's fiscal year 2026–27 (FY2027) budget abandons the projected FY2027 return to balance, posting a \$688M deficit (1.4% of nominal GDP) that widens to \$1.1B (2.2%) and remains in place through FY2030 (graph 1). Table 1 on page 2 summarizes the province's updated fiscal forecasts.
- ▶ Lifted near-term nominal growth driven by robust exports from higher oil and mineral output helps contain the net debt-to-GDP ratio in the short run. However, the medium-term trajectory remains concerning given sustained deficits, leaving the province with the highest debt burden among Canadian provinces for the foreseeable future.
- ▶ Revenue projections for FY2027 are largely intact, with growth of 1.5% supported by higher offshore royalty revenues. Beyond that, revenue growth has been revised lower to reflect a weaker medium-term economic outlook, contributing to the sizable deficits.
- ▶ The budget raises its Brent crude price assumption to US\$79/barrel in FY2027, roughly US\$10/barrel below our baseline forecast and well below current spot prices. This leaves material upside risk to the fiscal outlook should oil prices remain higher for longer.
- ▶ While the government has reversed previously planned spending cuts, expenditure growth remains subdued and below that of other provinces. New policy measures are largely incremental and focused on affordability.
- ▶ NL's return to red ink rests on relatively conservative assumptions but faces heightened uncertainty. Risks appear tilted to the upside given supportive global oil dynamics and the province's recent ramp-up in offshore production capacity. That said, maintaining spending restraint remains critical to prevent further deterioration in an already elevated debt burden.

Graph 1
Newfoundland and Labrador's Fiscal Course Reversed

Budget balance projections



Newfoundland and Labrador Ministry of Finance and Desjardins Economic Studies

Table 1
Newfoundland and Labrador Fiscal Forecasts

\$M (unless otherwise indicated)	2024-25		2025-26		2026-27		2027-28		2028-29		2029-30		2030-31
	Actual	Bud 2025	Bud 2026	Bud 2025	Bud 2026	Bud 2025	Bud 2026	Bud 2025	Bud 2026	Bud 2025	Bud 2026	Bud 2026	
Total revenues	10,365	10,670	10,677	10,819	10,838	10,726	10,459	11,150	10,578	11,391	10,863	11,233	
Total expenses	10,662	11,042	11,406	10,703	11,526	10,636	11,554	10,714	11,680	10,745	11,975	12,068	
Oil risk adjustment	0	0	0	20	0	40	0	55	0	75	0	0	
Solde budgétaire	-297	-372	-729	96	-688	50	-1,095	381	-1,102	571	-1,112	-835	
% of GDP	-0.7	-0.9	-1.7	0.2	-1.4	0.1	-2.2	0.8	-2.2	1.0	-2.1	-1.6	
Net debt (% of GDP)	43.8	44.7	44.7	---	43.4	---	---	---	---	---	---	---	
Besoins d'emprunt	2,800	4,100	4,100	---	3,900	---	---	---	---	---	---	---	
Real GDP (% change)	2.7	4.4	4.8	1.6	5.5	3.5	3.9	4.7	2.1	6.9	0.7	-1.2	
Nominal GDP (% change)	4.6	4.3	3.3	3.1	10.0	5.7	1.7	7.2	4.6	9.1	2.6	0.9	

Bud: Budget
Newfoundland and Labrador Ministry of Finance and Desjardins Economic Studies

Newfoundland and Labrador’s new Progressive Conservative government tabled its first budget with a sharp break from the province’s previously charted fiscal path. Instead of returning to balance in FY2027 as projected in last year’s budget, Budget 2026 expects a \$688M deficit (1.4% of nominal GDP) in FY2027, which widens to \$1.1B (2.2%) and persists through FY2030.

The deterioration reflects two main policy shifts. First, the budget reverses the spending cuts assumed under the former government, which had pencilled in a 3.1% decline in total expenditure in FY2027. Instead, the new fiscal plan projects moderate growth in spending, averaging 1.1% per year from FY2027 through FY2031. Second, the budget revises down the revenue outlook beginning next year, driving materially larger deficit projections over the medium term.

Despite stronger nominal GDP growth lowering the net debt-to-GDP ratio to 43.4% in FY2027 from 44.7% last year, the ratio remains the highest among Canadian provinces (graph 2). With large deficits planned over the forecast horizon, the province’s debt burden is expected to rise over time, making debt reduction the government’s top priority. NL expects to borrow \$3.9B in FY2027, a slight decrease from the \$4.1B completed in FY2026.

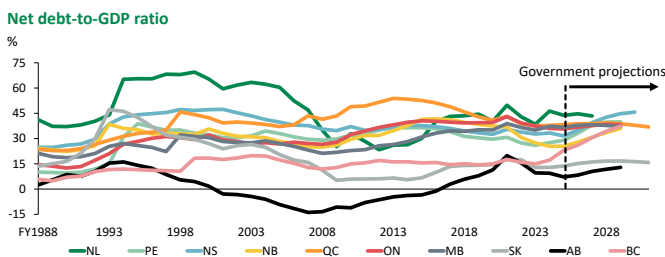
Near-Term Growth Lifted by Oil and Mining

The budget expects Newfoundland and Labrador to lead provincial growth again in 2026, driven by exports on the back of rising oil and mineral output as well as growing renewable fuel exports. As a result, the province has upgraded its real GDP growth forecast to 5.5% in 2026, from 1.6% projected last year, while nominal GDP growth has been raised to 10.0% from 3.1%. Beyond 2026, nominal growth has been revised down, reflecting a more modest pickup in capital investment than previously anticipated.

Oil production is projected to jump by around 8.6% annually over the next two years, as the White Rose oil project continues ramping up following its return to operation last year and the West White Rose expansion is expected to begin production this year. The conflict in the Middle East has pushed up oil prices, with Brent crude recently topping US\$110–US\$120/barrel, boosting the value of the province’s exports. The budget raises its Brent crude price assumption to US\$79/barrel in FY2027, though this remains below our baseline forecast of around US\$89/barrel. [Our baseline scenario](#) calls for oil prices to remain higher for longer, implying some upside risk to the government’s fiscal outlook. A \$1 increase in Brent price is linked to \$29M of additional revenue in royalties, according to the last budget’s estimates.

A weaker and delayed pickup in capital investment is weighing on the province’s growth outlook (graph 3 on page 3). Capital spending is forecast to decline by 2.6% in nominal terms in 2026, following a 14.2% contraction in 2025, largely reflecting reduced construction activity as the Valentine Gold Mine and the West White Rose oil project reach completion. Over the medium term, capital investment is expected to recover as construction ramps up on wind energy projects and the Bay du Nord oil development following the government’s recent milestone agreement with Equinor and BP.

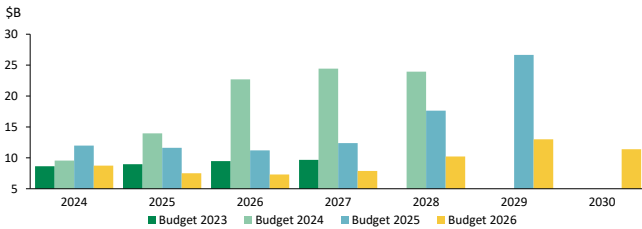
Graph 2
NL’s Debt Burden Among the Highest but Below Historical Peaks



Provincial budget documents and Desjardins Economic Studies

Graph 3
Weaker and Delayed Capital Investment Surges

Newfoundland and Labrador capital investment projections



Newfoundland and Labrador Ministry of Finance and Desjardins Economic Studies

The mining sector is expected to post another solid year following a strong 2025, which was supported by elevated gold prices and robust iron ore production. Mineral shipment volumes are projected to increase in 2026, driven primarily by higher iron ore, gold and nickel output. At the same time, mineral exploration activity is forecast to rise by 13.9% in 2026, signalling continued investment in the sector.

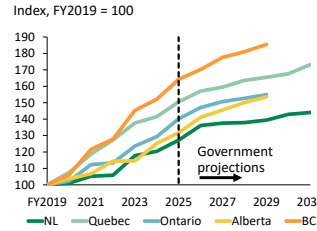
The memorandum of understanding (MOU) between Newfoundland and Labrador and Quebec concerning Churchill Falls remains a key uncertainty. The updated fiscal plan does not include any potential benefits from the future hydroelectric agreement. An independent review of the MOU is still underway, with the review panel expected to release its findings this month. Quebec’s provincial election in October could also delay or alter implementation of the agreement. The new Power Purchase Agreement could have significant implications for NL’s public finances, potentially bringing in additional annual revenue close to \$1B over the next 17 years. Beyond direct fiscal gains, the agreement is also expected to support long-term economic growth through the development of new hydroelectric projects, strengthening the province’s energy sector.

Spending and New Policy Measures

Total expenditure plans for FY2027 have been increased by \$823M compared to Budget 2025. Expenditure is projected to grow by 1.1% in FY2027, reversing the 3.1% spending cuts planned in the previous budget. Despite the lifted near-term spending profile, outer-year expenditure growth remains tightly constrained, leaving the province on track to post one of the lowest post-pandemic spending growth rates among Canadian provinces (graph 4). While controlling spending is crucial to prevent the already high debt burden from rising, it poses a significant challenge for any government, especially if it aims to maintain current levels of public services.

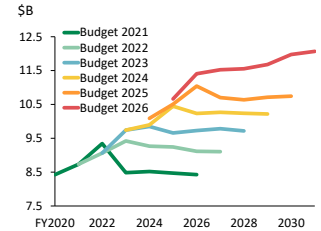
Graph 4
NL’s Spending Plan Lifted, but Growth Remains Subdued

Total spending by province



Statistics Canada, provincial budget documents and Desjardins Economic Studies

NL total spending by plan



New policy measures are largely incremental and targeted, with a focus on affordability. The government recently announced \$45M to offset the impact of Newfoundland Power’s rate increase scheduled for July 1. Additional cost of living measures include an increase in the basic personal income tax exemption, enhancements and expansions to the Seniors’ Benefit and Child Benefit programs, and three phased reductions in the small business tax rate between 2026 and 2028.

The province continues to make sizable investments in infrastructure to support economic growth, with infrastructure spending projected at \$1.1B in FY2027. Meanwhile, federal defence spending is expected to drive an expansion of the defence industry in NL, with \$8B already earmarked for the 5 Wing Goose Bay in Labrador. Together, these investments are expected to provide an additional tailwind to medium-term growth.