

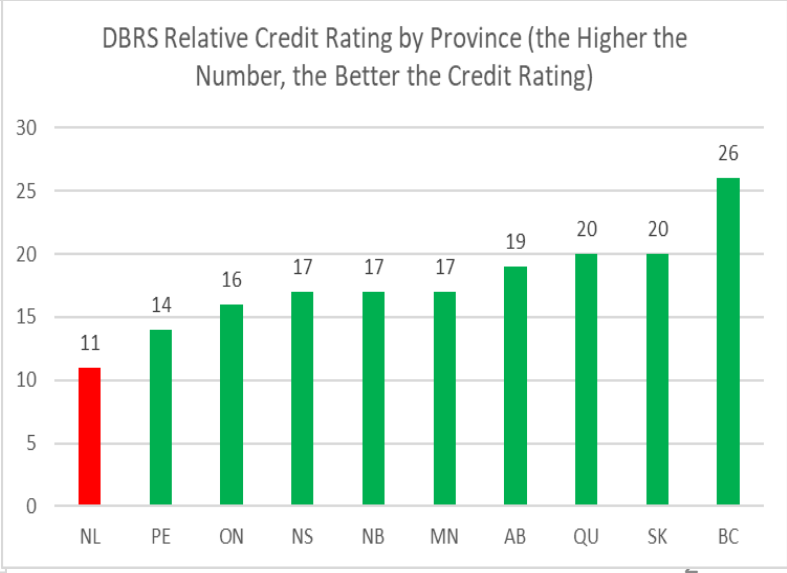
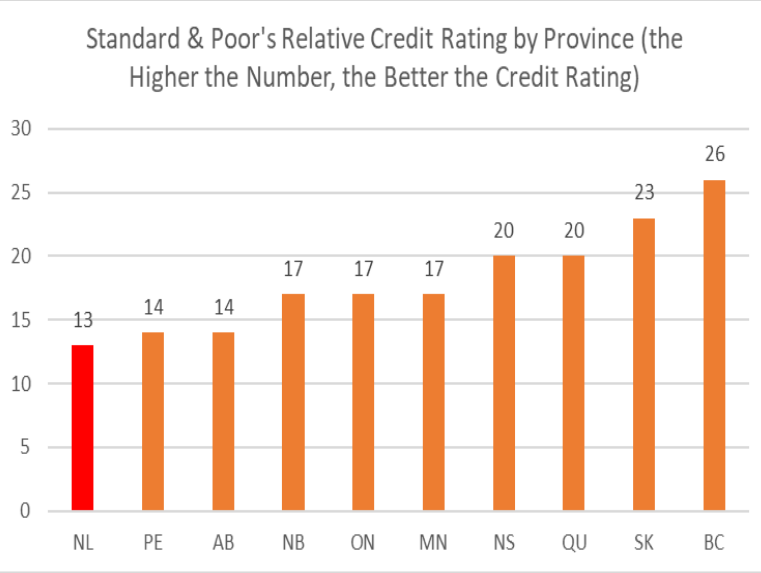
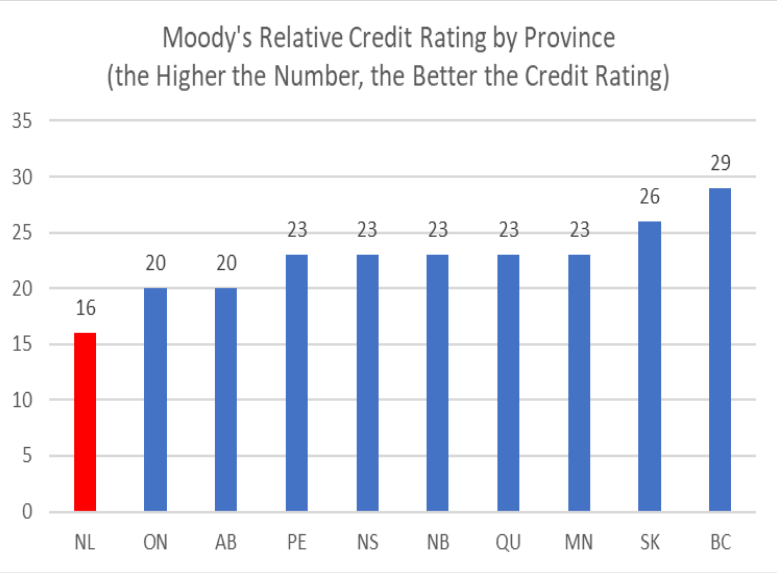
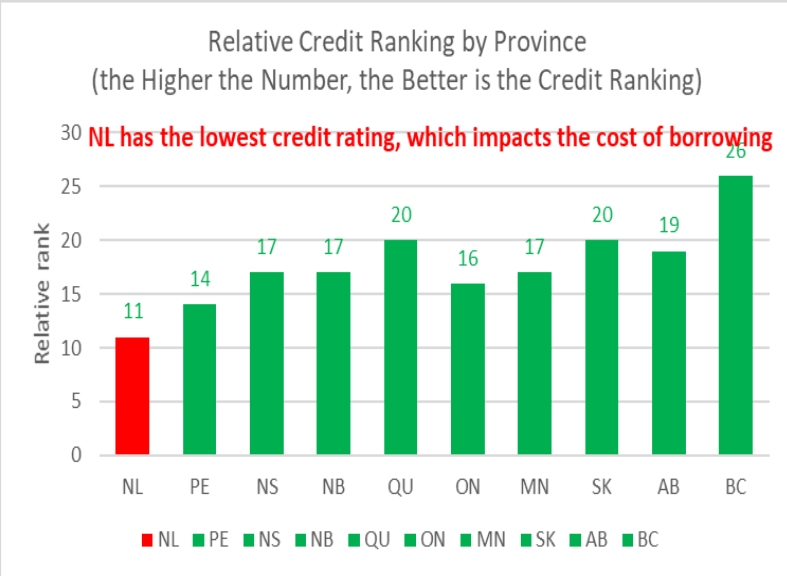
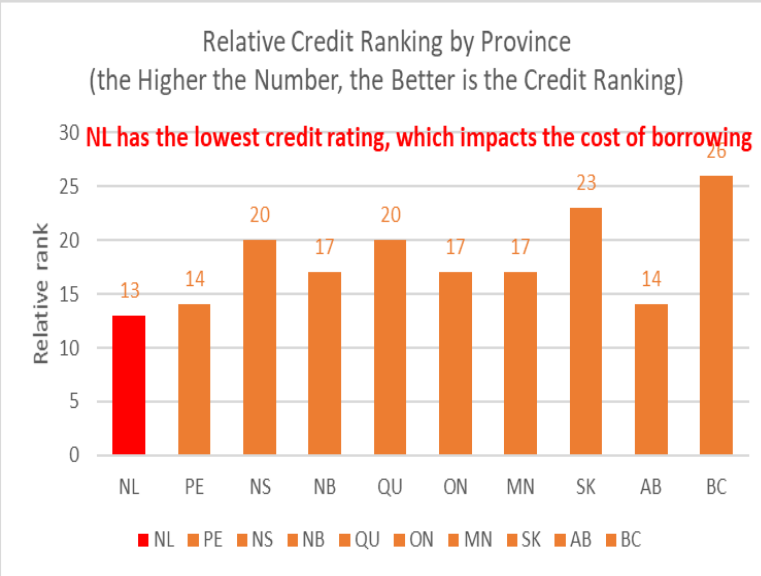
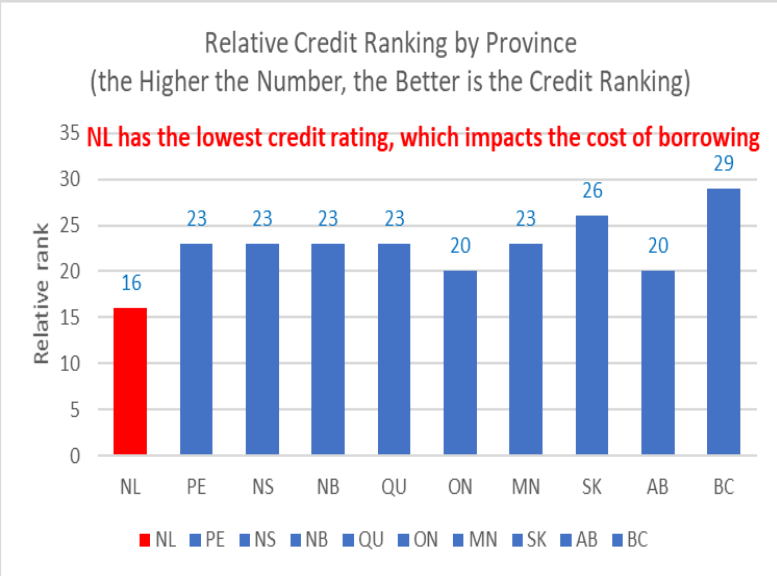
The role of analysis, what have we learned and how should we use it

Wade Locke

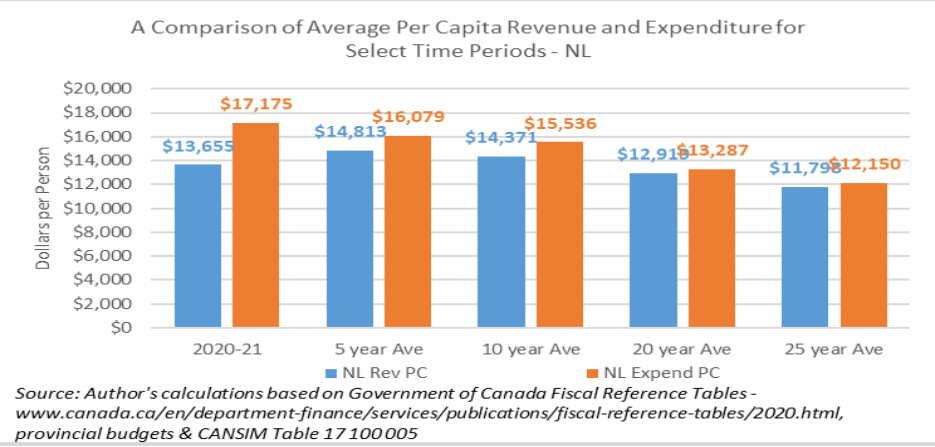
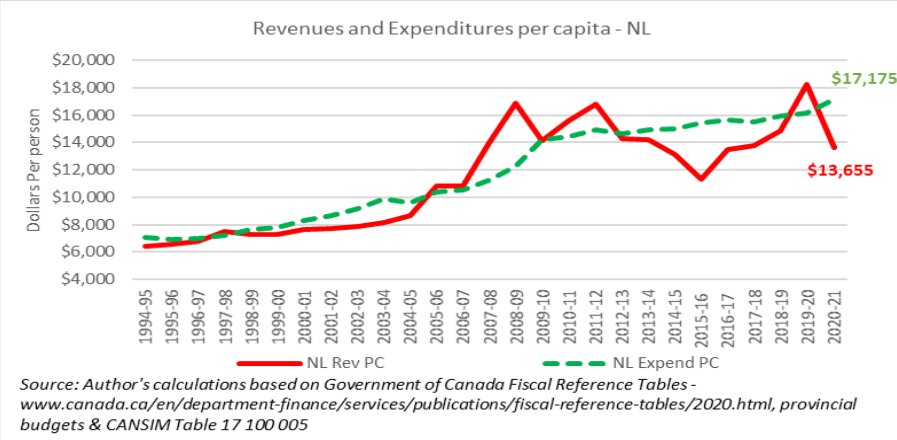
Memorial University

Sept 15, 2021

Relative Credit Rating – Moody's, S&P & DBRS (2)

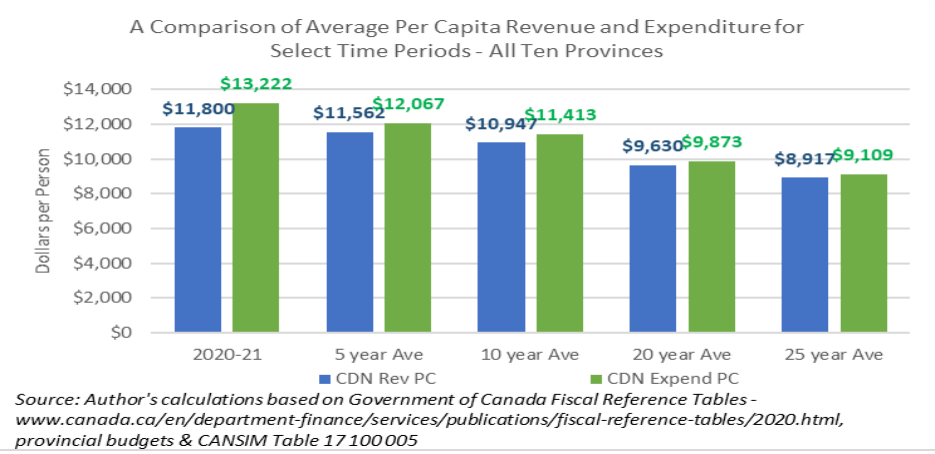
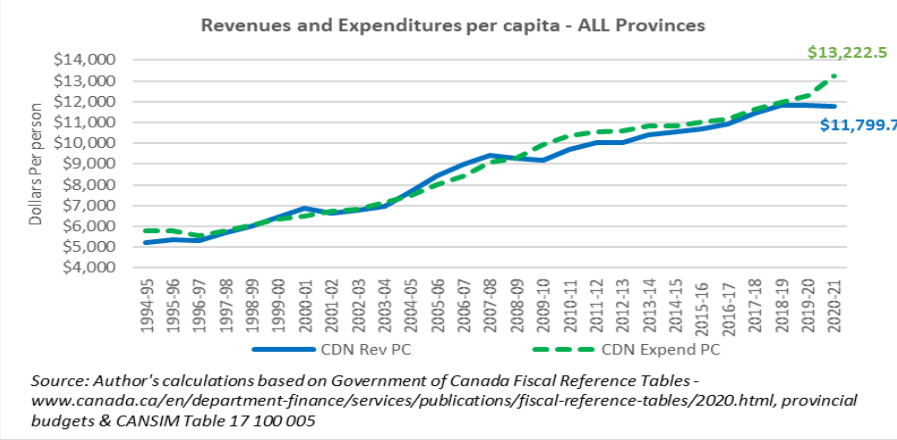


Per Capita Revenues and Expenditures – NL and All Ten Provinces



Note: 2008-09 peak corresponded to the 2005 Accord when \$1.2 B of \$2.0 B advanced payments from 2005 Accord had to be recorded by NL because it no longer qualified for equalization

2011-12 peak offshore oil royalties



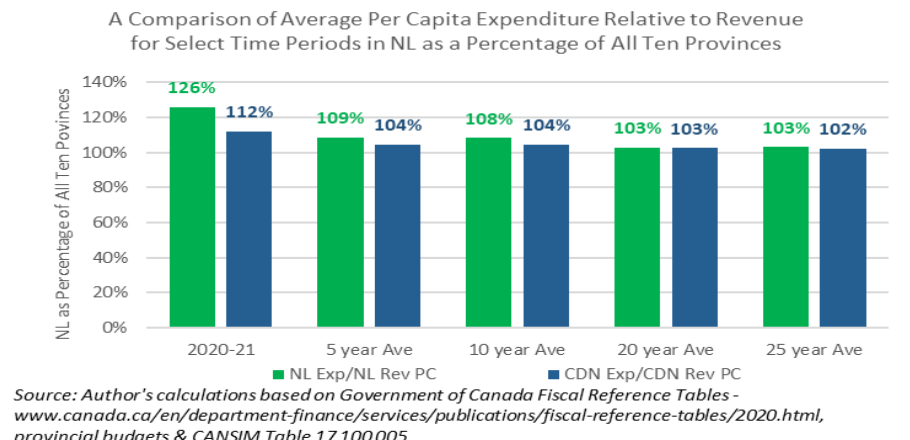
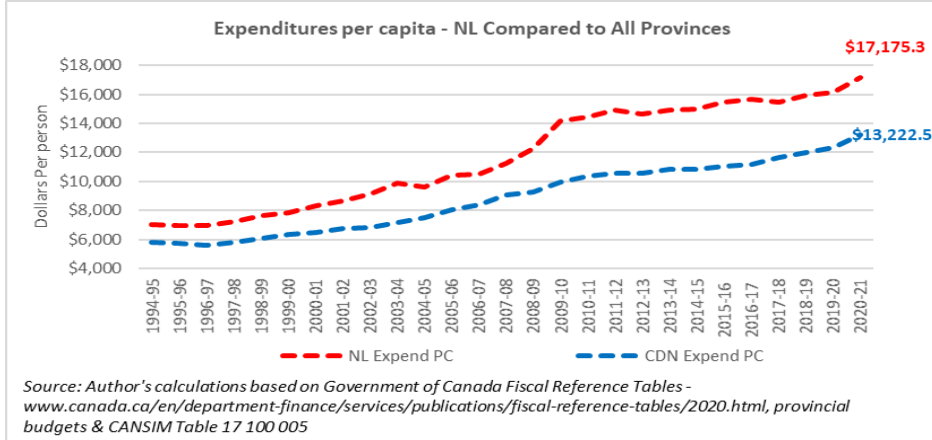
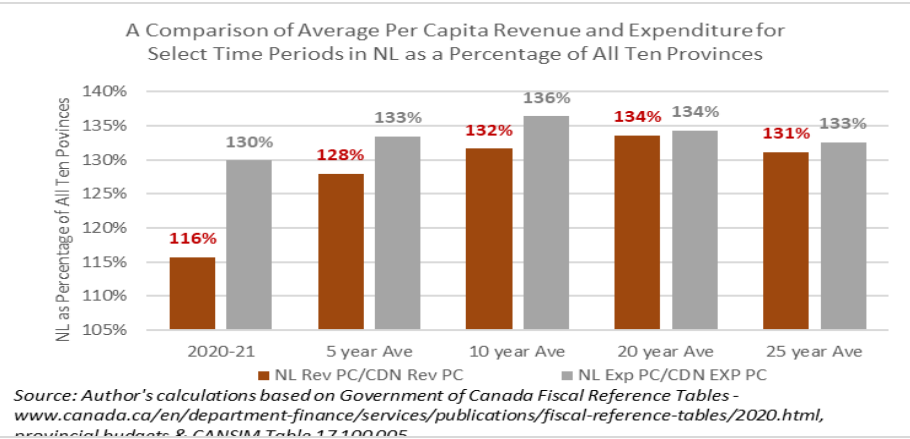
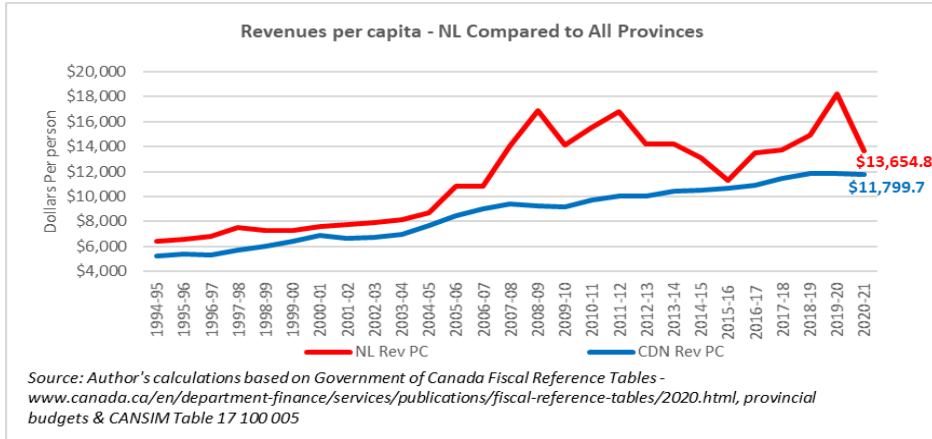
2011-12 to 2015-16 corresponded to a collapse in oil prices and dramatic decrease in oil royalties

2019-20 – \$2.5 B of 2019 Accord payment booked in 2019 though payments will be received well into the future

| | | | NL Rev PC | NL Expend PC | CDN Rev PC | CDN Expend PC |
|---------|---------|-------------|------------|--------------|------------|---------------|
| | | 2020-21 | \$13,654.8 | \$17,175.3 | \$11,799.7 | \$13,222.5 |
| 2016-17 | 2020-21 | 5 year Ave | \$14,813.4 | \$16,079.3 | \$11,561.9 | \$12,066.7 |
| 2011-12 | 2020-21 | 10 year Ave | \$14,370.6 | \$15,536.2 | \$10,947.3 | \$11,412.8 |
| 2001-02 | 2020-21 | 20 year Ave | \$12,919.0 | \$13,286.6 | \$9,629.9 | \$9,872.8 |
| 1996-97 | 2020-21 | 25 year Ave | \$11,797.6 | \$12,150.2 | \$8,916.9 | \$9,109.3 |

There was a closer correspondence of revenues and expenditures in the rest of CDN than in NL, resulting in huge swings from surplus to deficits in NL

Per Capita Revenues and Expenditures – NL and All Ten Provinces



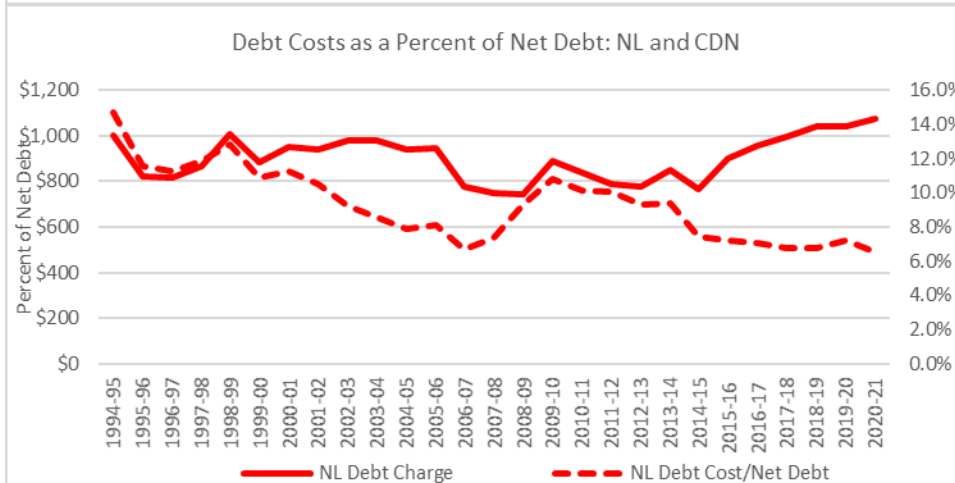
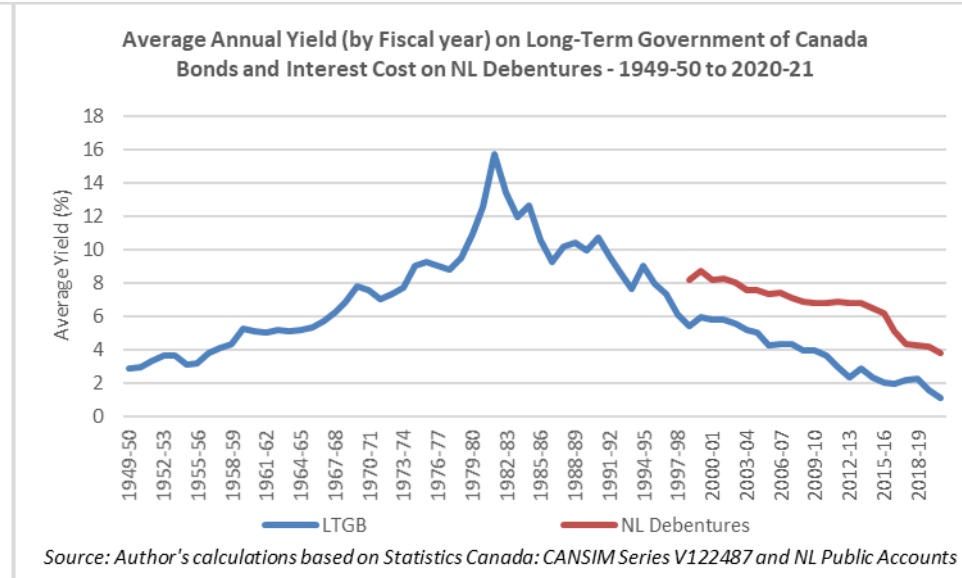
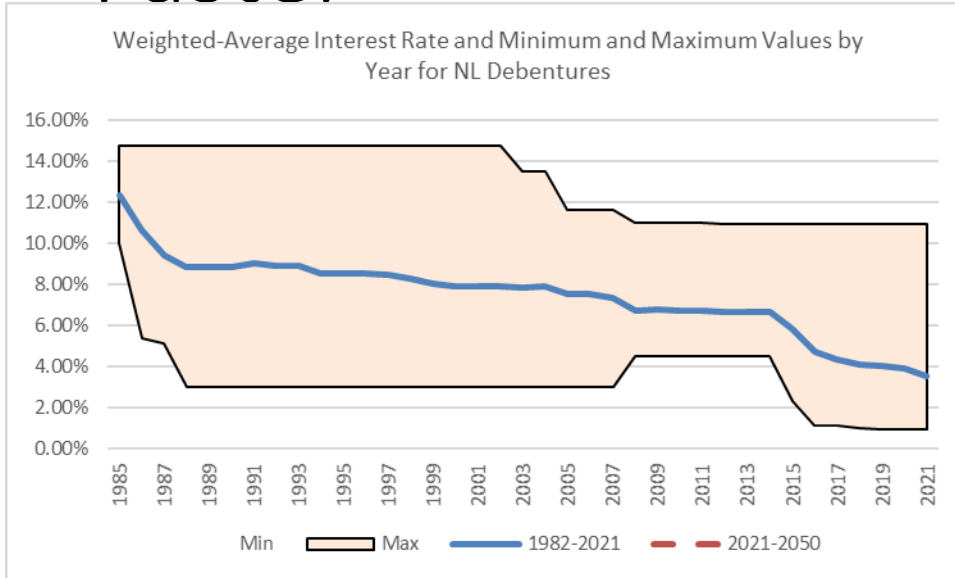
NL had higher per capita revenue (16% currently) and higher per capita expenditures (30% currently) than the average throughout CDN.

This allowed for several surpluses from 2006 to 2011 but the fall in revenue after 2011, which was not matched by corresponding adjustments in expenditures, resulted in significant deficits and an increase in deficit.

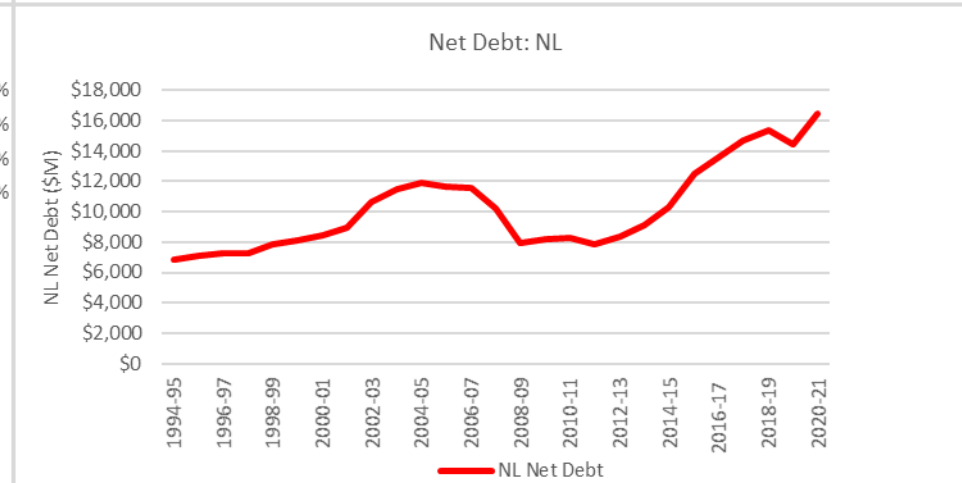
After 2009-10, per capita expenditure in NL and CDN grew more-or-less at the same rate.

| | | | NL Exp/NL Rev PC | CDN Exp/CDN Rev PC | NL Rev PC/CDN Rev PC | NL Exp PC/CDN EXP PC |
|---------|---------|-------------|------------------|--------------------|----------------------|----------------------|
| | | 2020-21 | 125.8% | 112.1% | 115.7% | 129.9% |
| 2016-17 | 2020-21 | 5 year Ave | 108.5% | 104.4% | 128.0% | 133.4% |
| 2011-12 | 2020-21 | 10 year Ave | 108.1% | 104.3% | 131.6% | 136.4% |
| 2001-02 | 2020-21 | 20 year Ave | 102.8% | 102.5% | 133.6% | 134.3% |
| 1996-97 | 2020-21 | 25 year Ave | 103.0% | 102.2% | 131.1% | 132.5% |

Cost of Borrowing Coming down, Net Debt Rising Faster

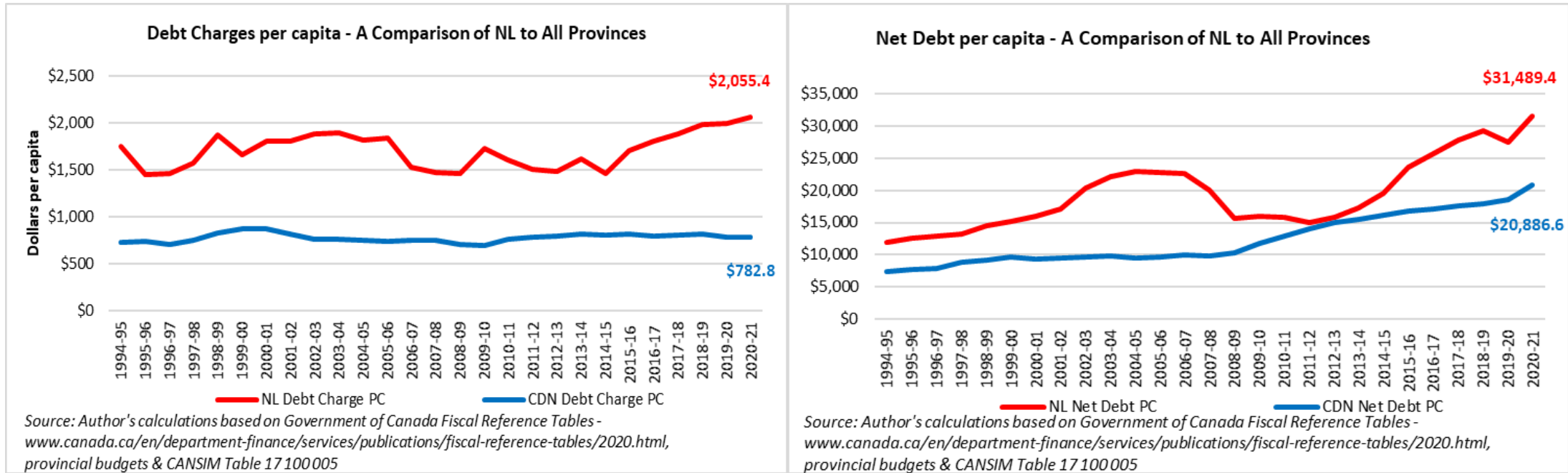


Source: Author's calculations based on Government of Canada Fiscal Reference Tables - www.canada.ca/en/department-finance/services/publications/fiscal-reference-tables/2020.html, TD June 18, 2021 Economic Forecast & CANSIM Table 36 100 222



Source: Author's calculations based on Government of Canada Fiscal Reference Tables - www.canada.ca/en/department-finance/services/publications/fiscal-reference-tables/2020.html, TD June 18, 2021 Economic Forecast

Per Capita Net Debt & Debt Charges – NL and All Ten Provinces

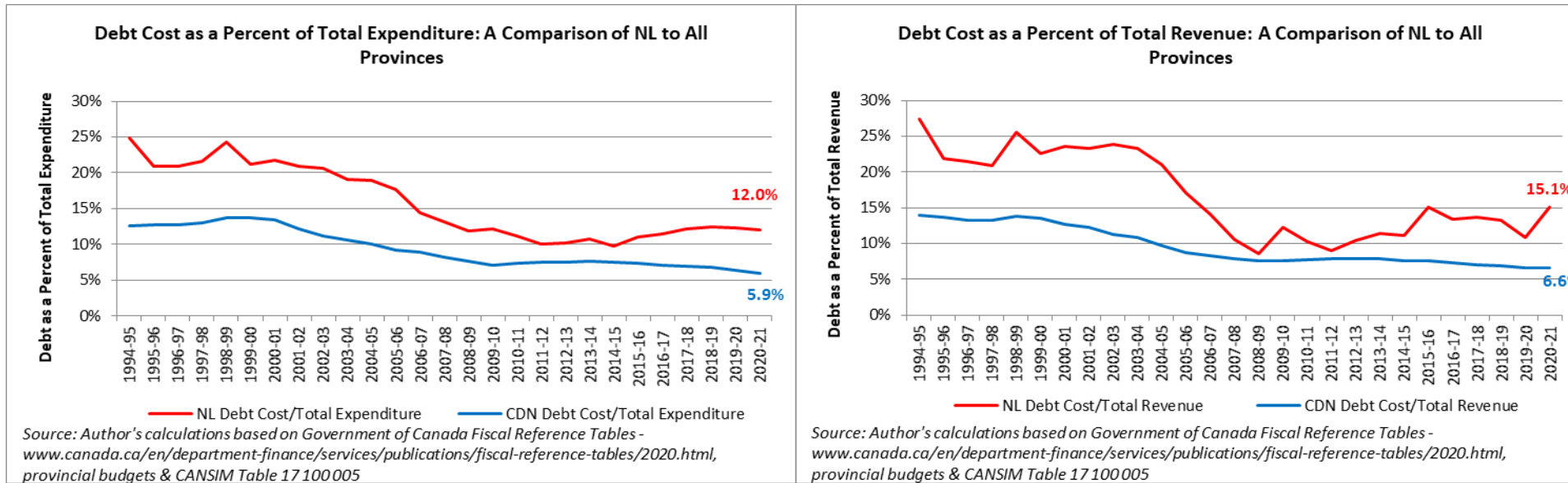


| | | | NL Debt Charge PC | CDN Debt Charge PC | NL Net Debt PC | CDN Net Debt PC |
|---------|---------|-------------|-------------------|--------------------|----------------|-----------------|
| | | 2020-21 | \$2,055.4 | \$782.8 | \$31,489.4 | \$20,886.6 |
| 2016-17 | 2020-21 | 5 year Ave | \$1,943.0 | \$796.1 | \$28,328.2 | \$18,425.2 |
| 2011-12 | 2020-21 | 10 year Ave | \$1,747.4 | \$800.0 | \$23,284.4 | \$16,964.4 |
| 2001-02 | 2020-21 | 20 year Ave | \$1,724.8 | \$774.1 | \$21,409.6 | \$13,624.0 |
| 1996-97 | 2020-21 | 25 year Ave | \$1,714.1 | \$780.6 | \$20,003.7 | \$12,697.1 |

2019-20 was an anomalous year because \$2.5 B payments under the 2019 Accord were credited as (accrual-based) revenue in that year. This made the deficit, and net debt improve for that year only. Note: a one-year improvement was insufficient time to affect debt costs immediately.

Net debt and debt charges have increased 2011-12

Per Capita Debt Costs as a Percentage of Total Expenditure and Revenue – NL and All Ten Provinces



| | | | NL Debt Cost/Total Expenditure | CDN Debt Cost/Total Expenditure | NL Debt Cost/Total Revenue | CDN Debt Cost/Total Revenue |
|---------|---------|-------------|--------------------------------|---------------------------------|----------------------------|-----------------------------|
| | | 2020-21 | 12.0% | 5.9% | 15.1% | 6.6% |
| 2016-17 | 2020-21 | 5 year Ave | 12.1% | 6.6% | 13.3% | 6.9% |
| 2011-12 | 2020-21 | 10 year Ave | 11.2% | 7.0% | 12.3% | 7.3% |
| 2001-02 | 2020-21 | 20 year Ave | 13.6% | 8.1% | 14.4% | 8.3% |
| 1996-97 | 2020-21 | 25 year Ave | 15.3% | 9.2% | 16.1% | 9.3% |

NL debt costs as a percent of expenditure is more than twice as large the CDN average (12% vs 5.9%)

Between 1 and 6 and 1 and 7 dollars of revenues are needed to service NL's net debt.

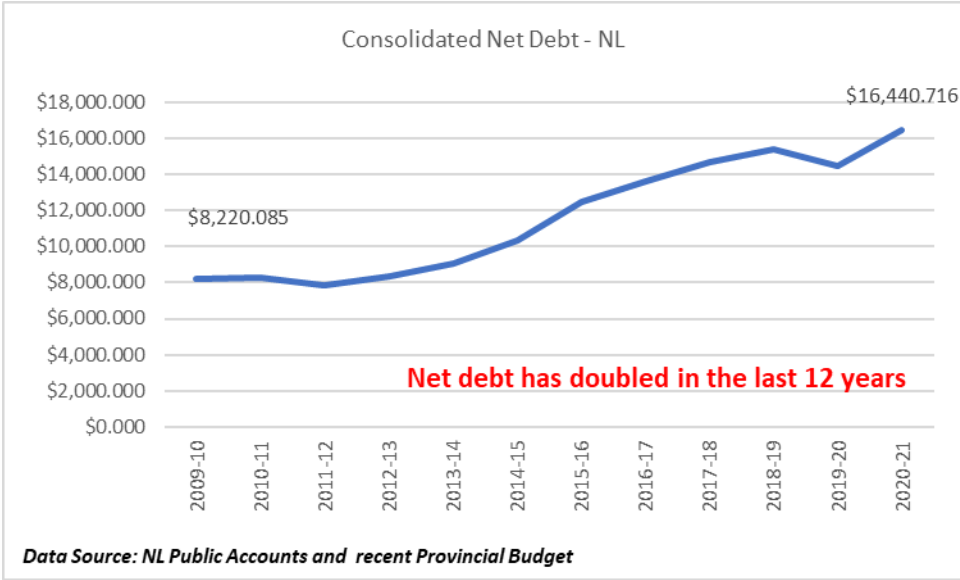
The corresponding estimate CDN wide is 1 in 16 dollars of revenue are needed to service the debt

Net Debt – Then and Now

Then – 1933 Amulree noted that

“Government and people alike were the victims of an over-confidence... was to blind them to realities, to induce a fatal disregard of the elementary canons of public finance and finally to involve them ever more deeply in financial embarrassment. **Within 12 years the public debt was more than doubled...**”

Now – data shows that within the 12 most years NL Net has doubled

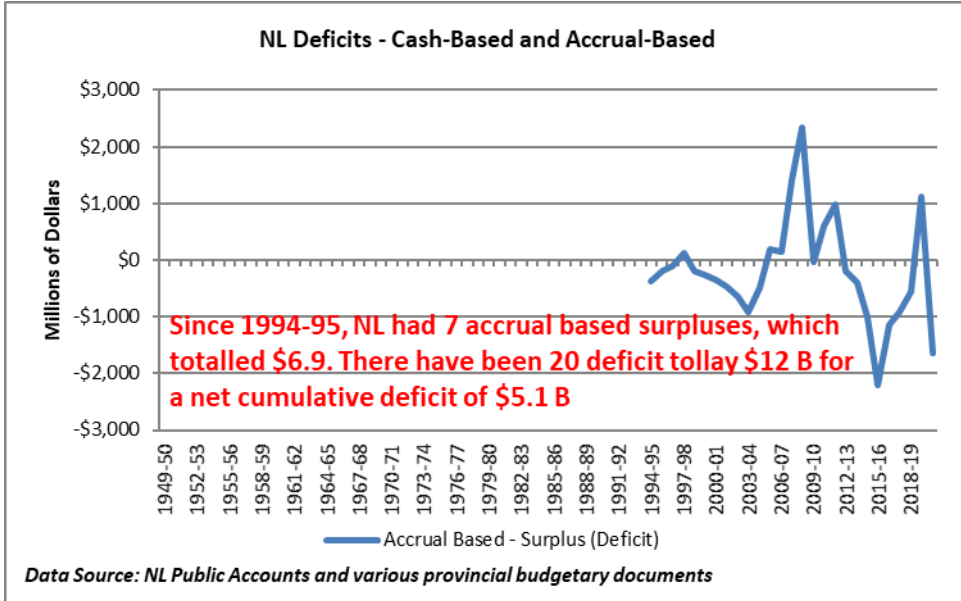
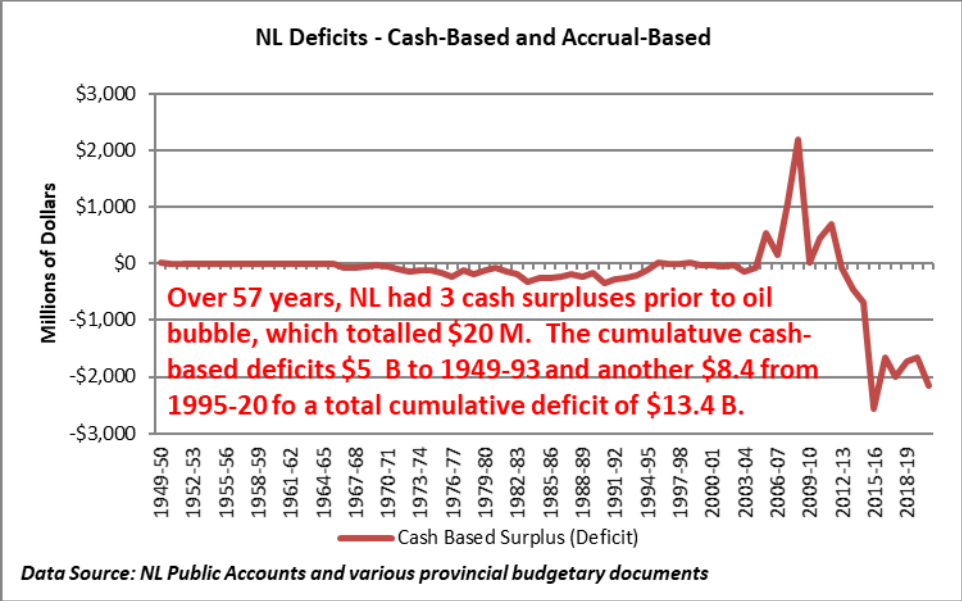


Deficits – Then and Now

Then – 1933 Amulree noted that

“The main features of this period were...a recurring budgetary deficit and an annual recourse to fresh borrowing...

Now – data shows that the majority of years since confederation NL has run a deficit

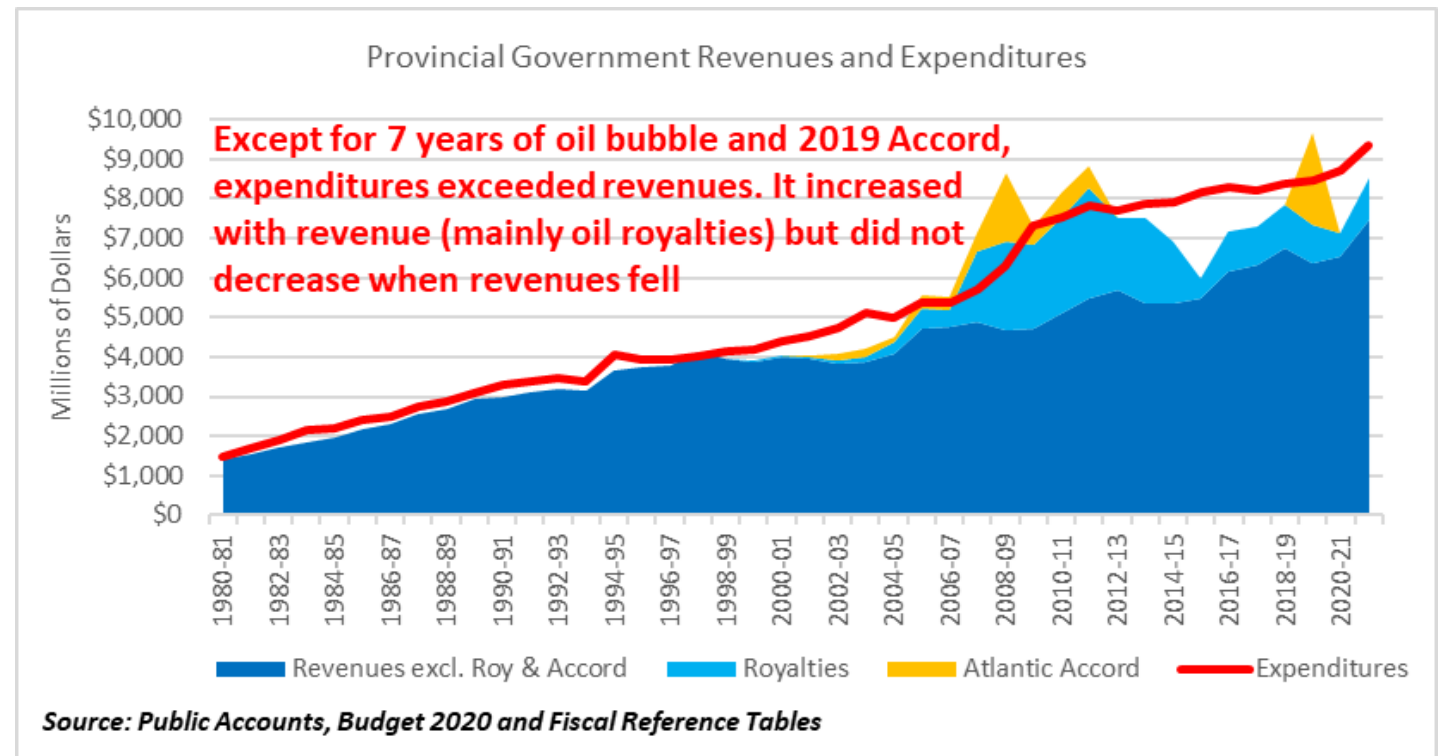


Expenditure – Then and Now

Then – 1933 Amulree noted that

“Without a long-range programme of reconstruction, which it cannot undertake unaided, the country will have little power of recuperation even when times improve.”

Now – it looks like an expenditure problem



Predictions – Then and Now

Then – 1933 Amulree noted that

“Newfoundland is in extreme financial difficulties; the present burden of the public debt is wholly beyond the country's capacity and it is essential that it should be lightened if the Island is to be saved from the imminent peril of financial collapse.”

“...we cannot avoid the conclusion that, given this scale of indebtedness, there is no prospect of the Island being able to pay its way, even under normal trade conditions.”

Now – who knows. However, it is up to us to act

While working toward a balanced budget is the first step in reducing the size of the hole. It does nothing to get us out of the whole. Given the forecast laid out in the most recent provincial budget, this will add approximately \$2 B to our net debt.

From that point onward, over the next 50 years we would need to run surpluses of \$300 M (3% interest rate) and \$400 M (5% interest rate) in order to get down to the average in the other provinces.

Conclusion

- While there is a significant amount of subjectivity in interpreting indicators of a fiscal crisis or even indicators of a fiscal problem, the majority of indicators point to the fact that Newfoundland and Labrador has a fiscal problem that needs to be addressed
- The fiscal problem is compounded by a demographic problem that has been exacerbated by inter-provincial out-migration and intra-provincial out-migration away from rural communities in Newfoundland and Labrador toward the more urban parts of the province.
- Initiative to deal with climate change will reduce the ability of offshore oil and gas sector to enable the province to address its fiscal problems
- We are going to need to know the precise trade-offs that we are facing, while recognizing that all of the problems are connected (demographics are tied to the economy (people leave without meaningful career opportunities), economic activity is tied to labour force availability which is tied to demographics), revenue available to government and expenditure needs are tied to demographic and the economy)
- We need a vision where we want to go, and real a plan of how we can get there with reasonable, measureable targets
- We need openness and transparency, people need to understand precisely what you are doing and why
- We need to understanding that any feasible adjustment path will involve reducing our standard of living, but in a controlled way
- There is no silver bullet,
- You can live here and work anywhere and the converse is true so you need to think about why here and not elsewhere

- In the end, we need a vibrant economy with meaning jobs and public services that we can afford