

We have a Fiscal Problem

Presented to the Board of Trade's 2018 Business Development Summit - Thriving on the edge!

Presented by

Wade Locke

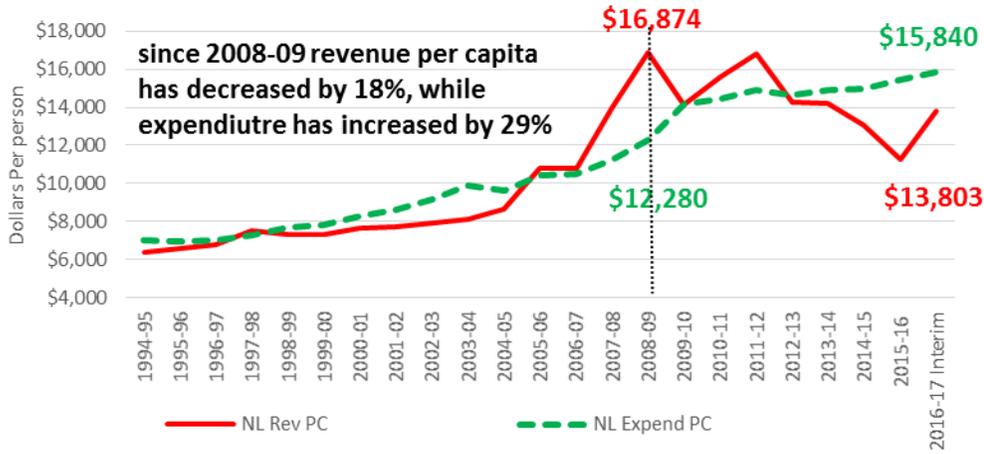
Department of Economics, Memorial University



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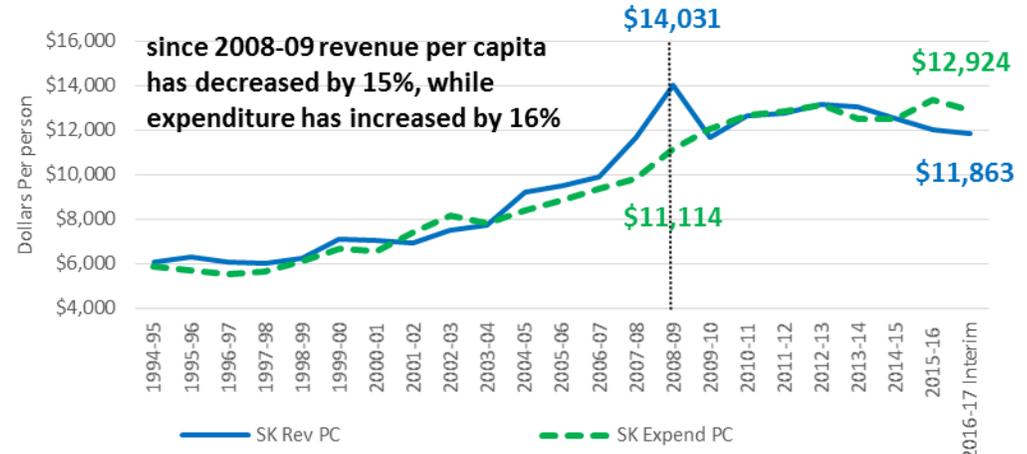
NL and SK – A Comparison

Revenues per capita and Expenditures per capita - Newfoundland and Labrador



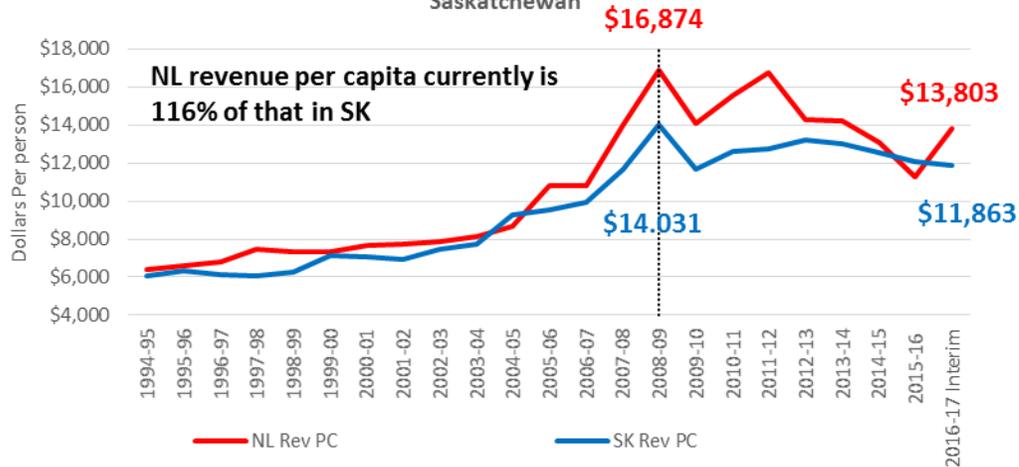
Source: Government of Canada Fiscal Reference Tables - www.finc.gc.ca/frr-trf-17eng.asp and CANSIM Table 510001

Revenues per capita and Expenditures per capita - Saskatchewan



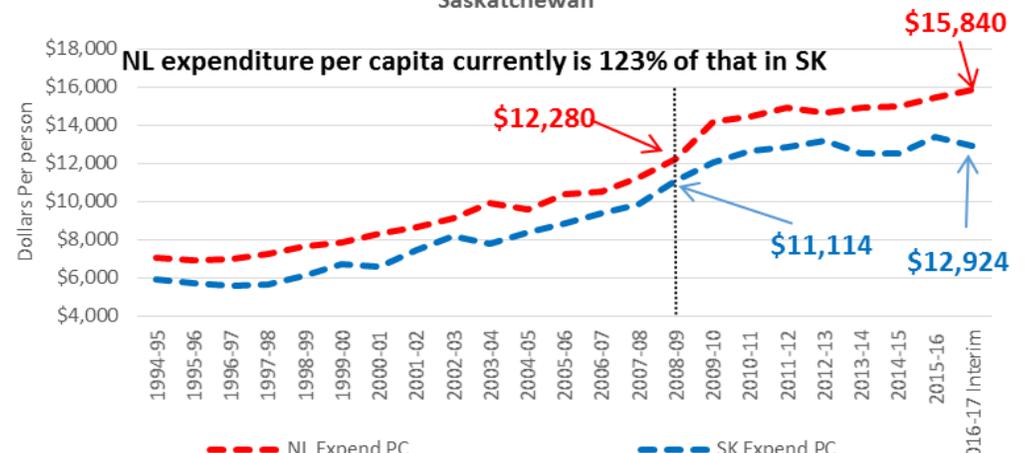
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Revenues per capita - A Comparison of Newfoundland and Labrador to Saskatchewan



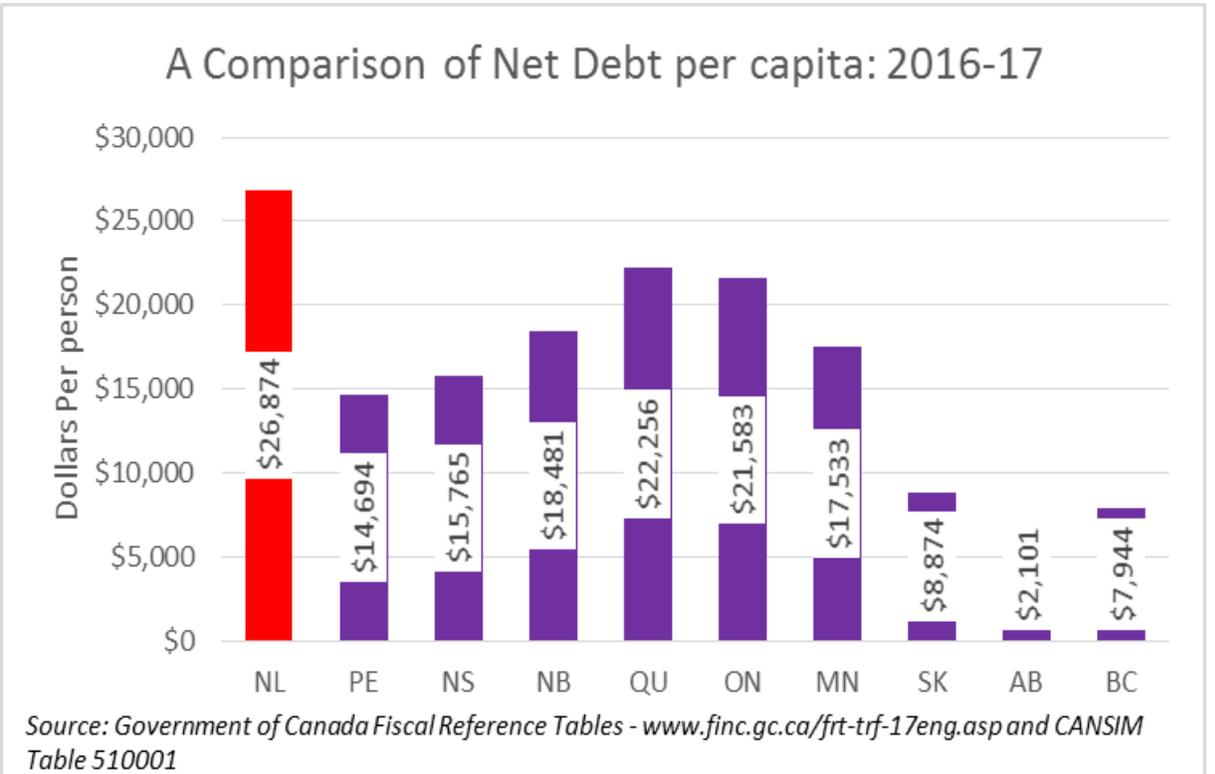
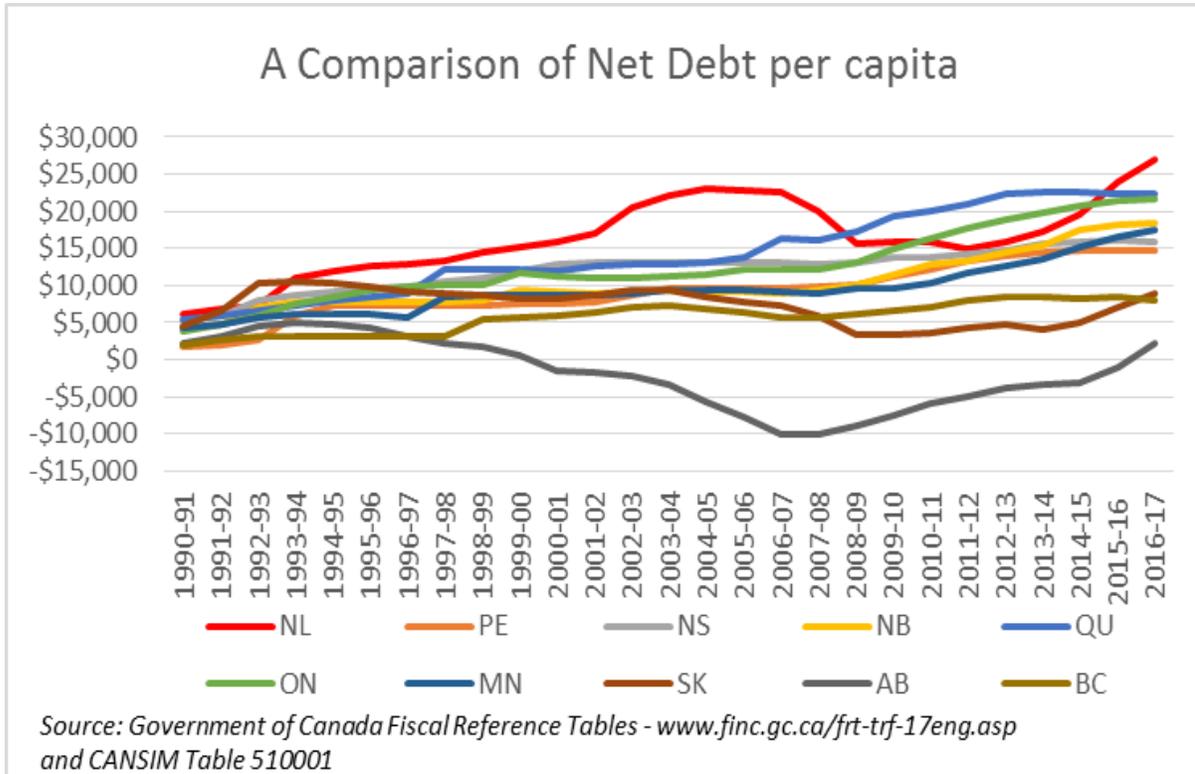
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Expenditures per capita - A Comparison of Newfoundland and Labrador to Saskatchewan



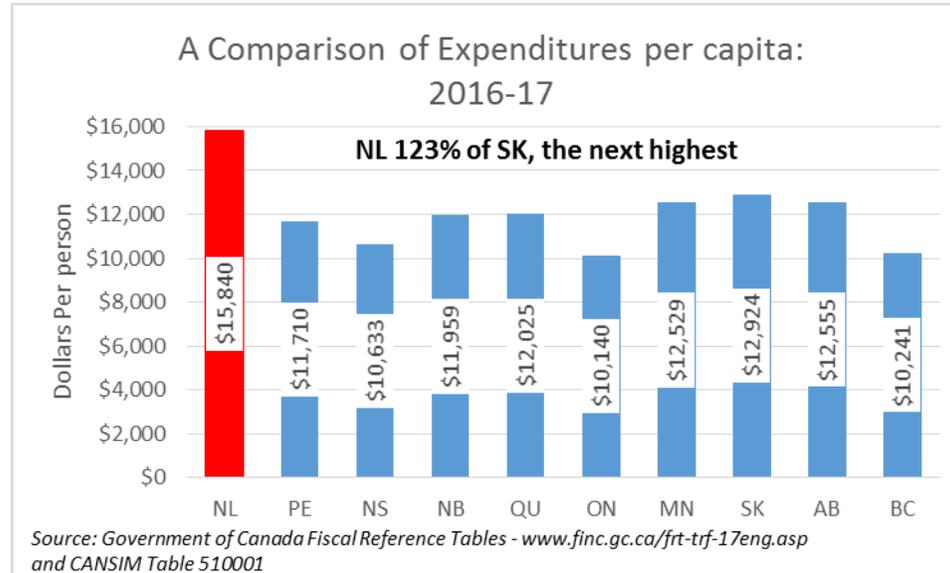
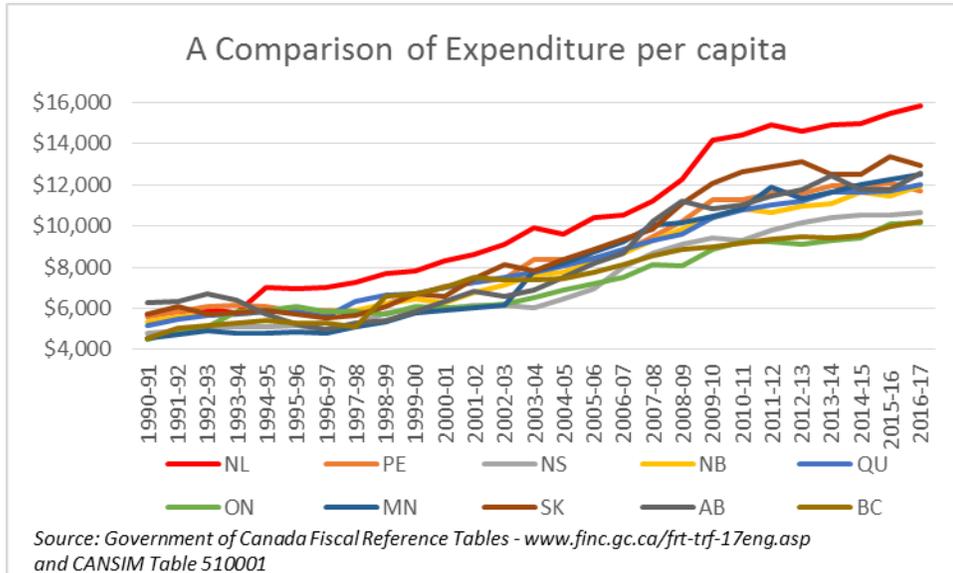
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A Comparison Of Net Debt per capita



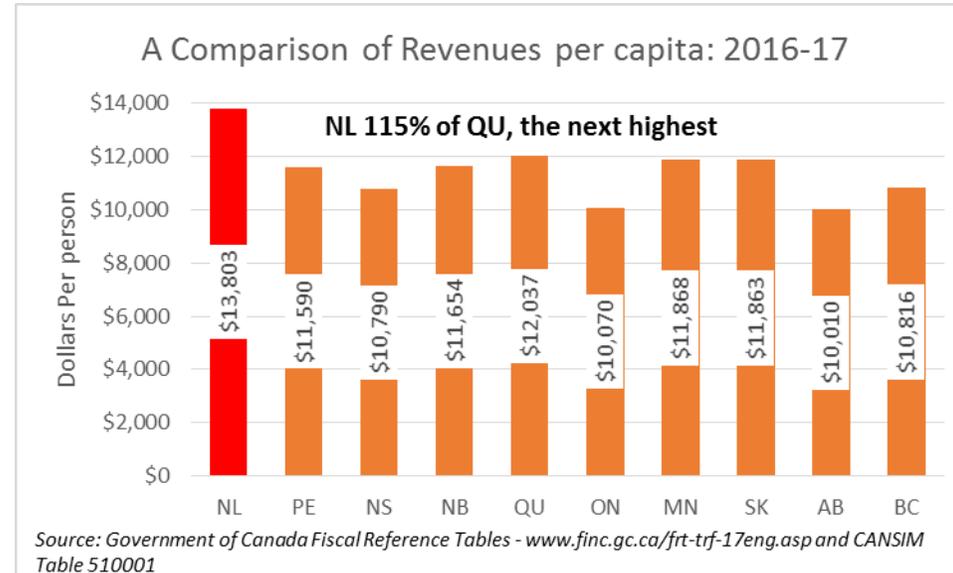
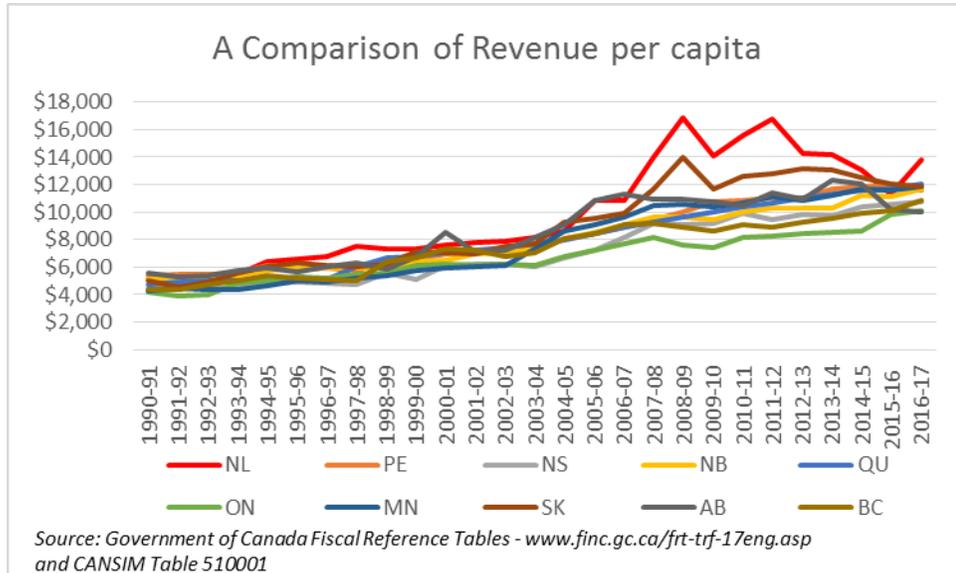
NL per capita per capita debt is increasing faster than any other province

A Comparison Of Expenditure per capita



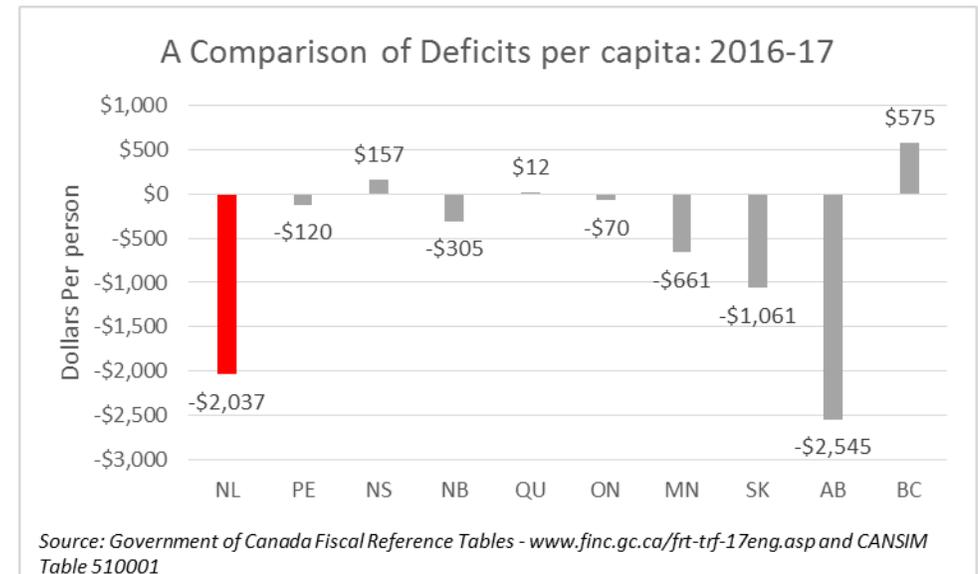
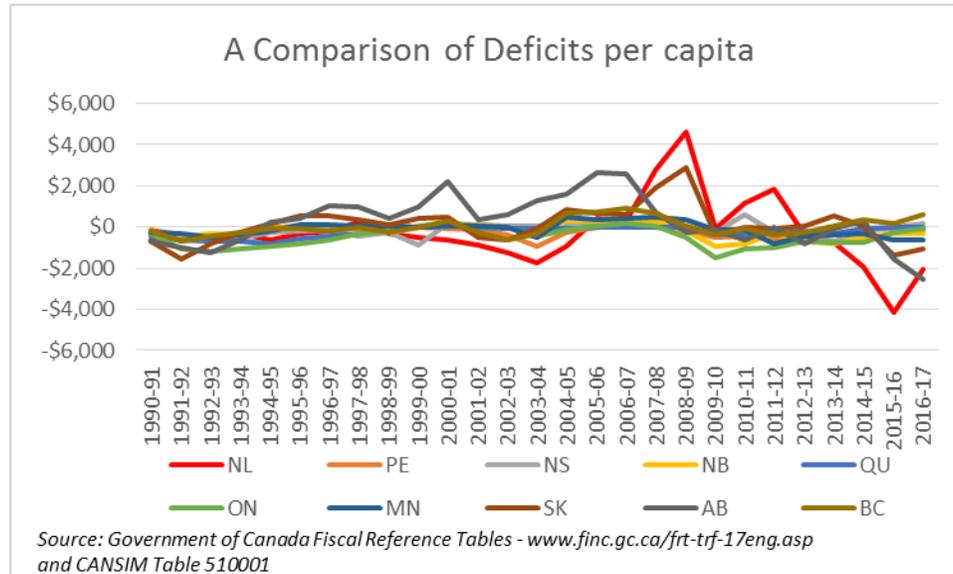
NL has highest per capita expenditures in the country - 23% higher than the next closest

A Comparison Of Revenue per capita



NL has highest per capita revenues in the country - 15% higher than the next closest

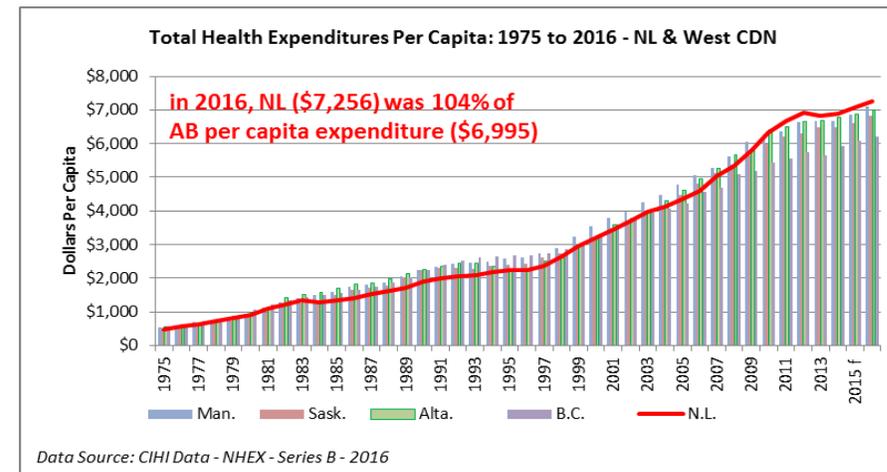
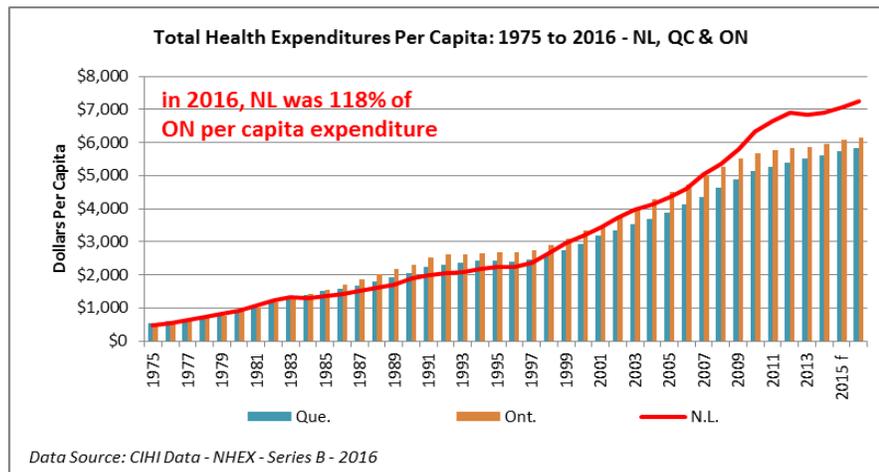
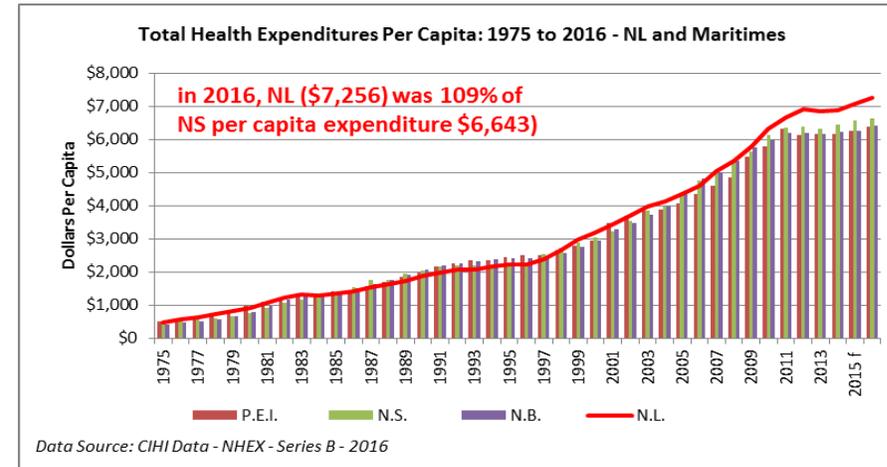
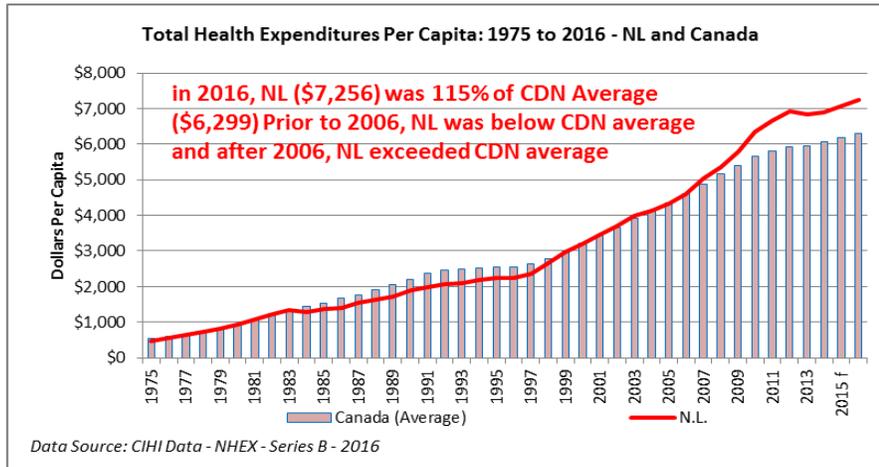
We have a fiscal problem



Despite having more revenues per capita, NL is currently running the highest per capita deficits in the country because our per capita expenditures are also the highest in the country and much higher than our revenue advantage

It is hard to argue that in these circumstances, we should receive equalization or special federal assistance to bail us out of our fiscal problem

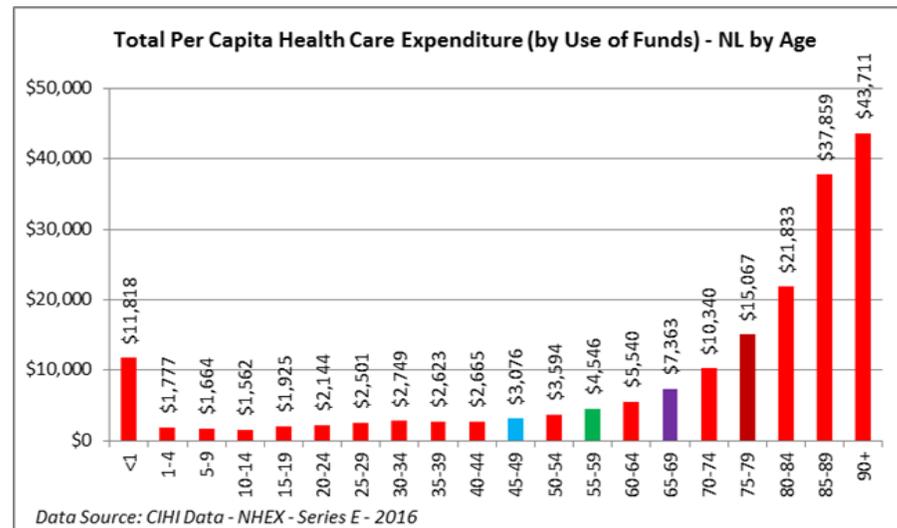
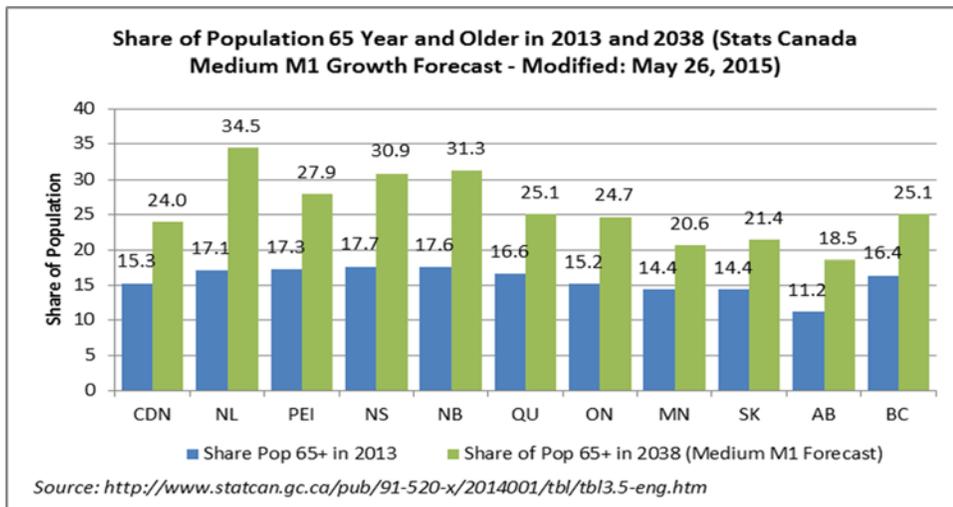
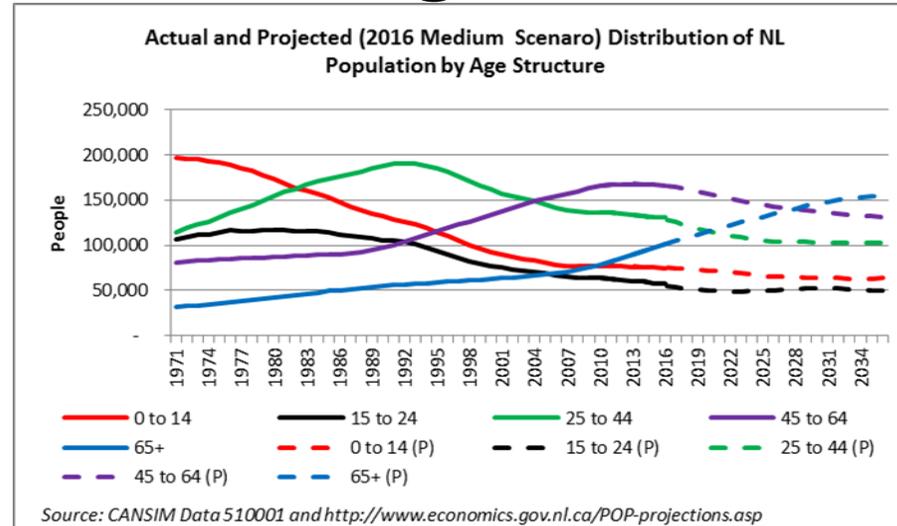
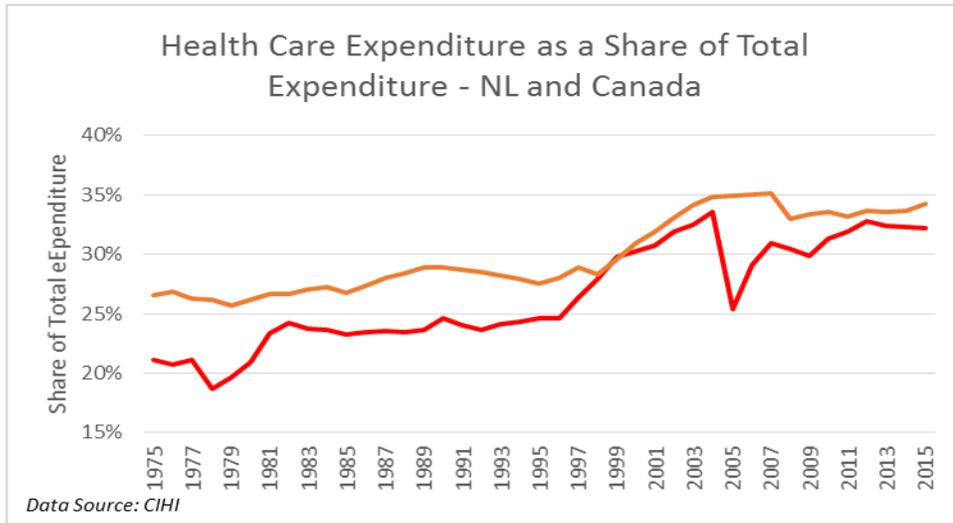
Per Capital Health Care Expenditures



NL per capita expenditures on total health exceeds that in any other provinces

Expenditure per capita on health has been similar to that experienced Canada-wide, but in the most recent decade, NL is far outpacing the rest of Canada.

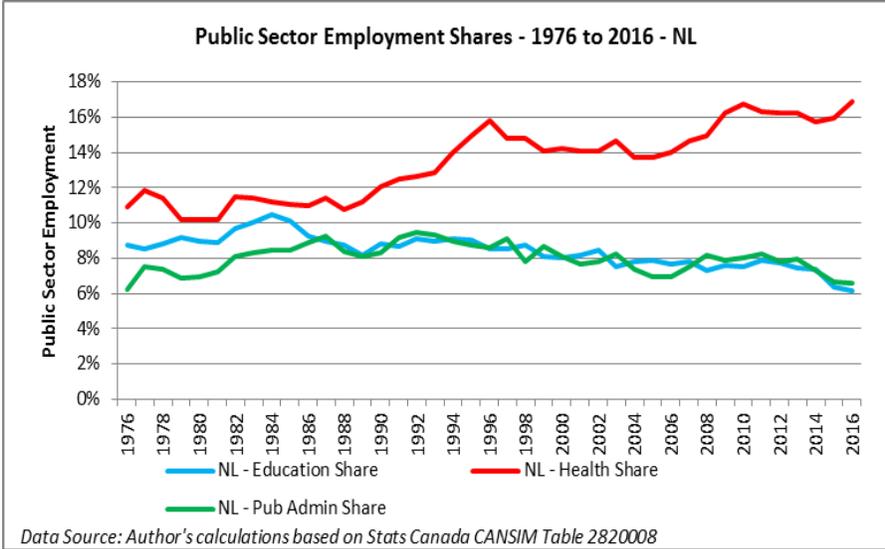
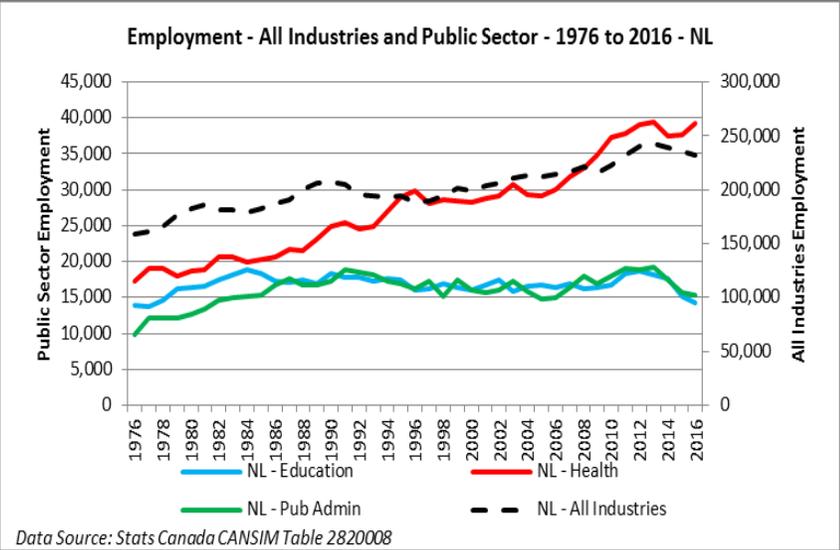
Health Care Costs – Exerting Pressure



An aging population would normally be expected to put more pressure on health care costs, which is one of the most significant cost drivers for the government

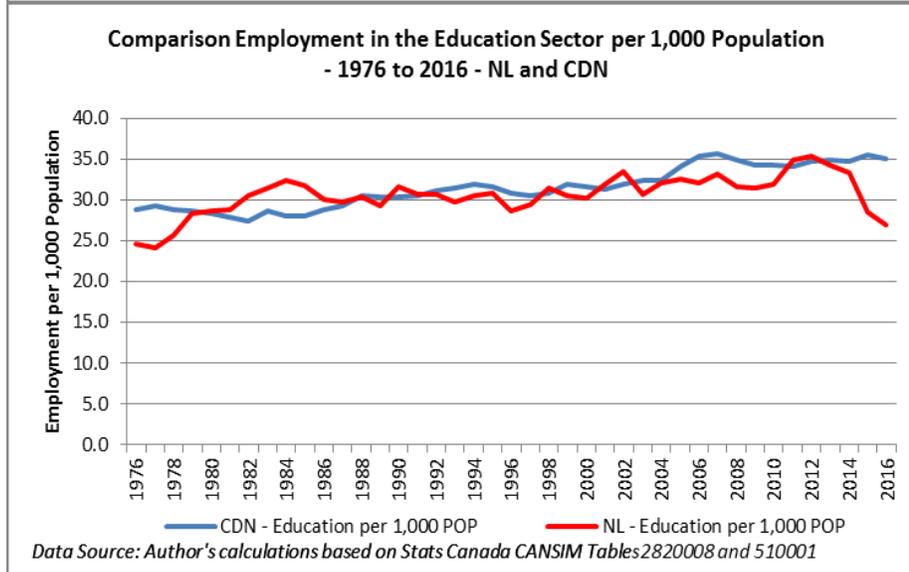
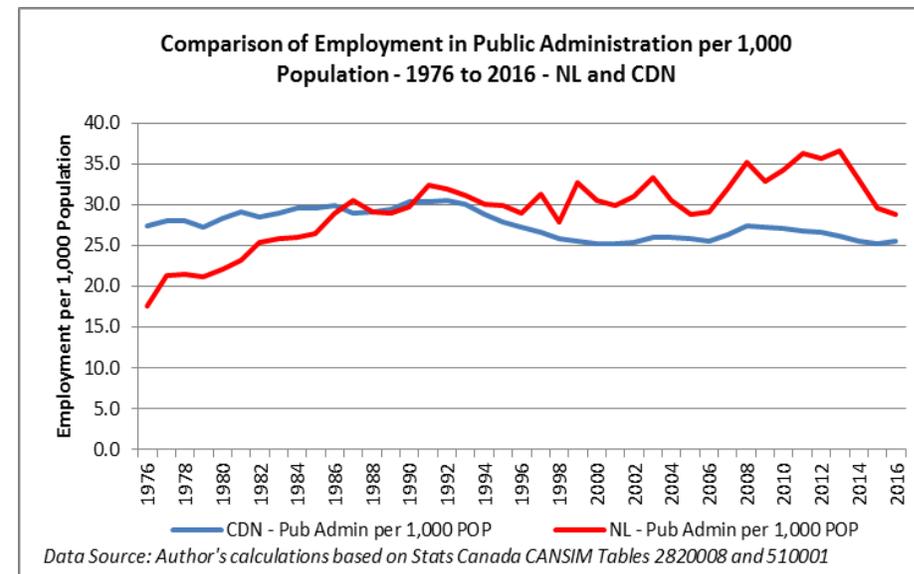
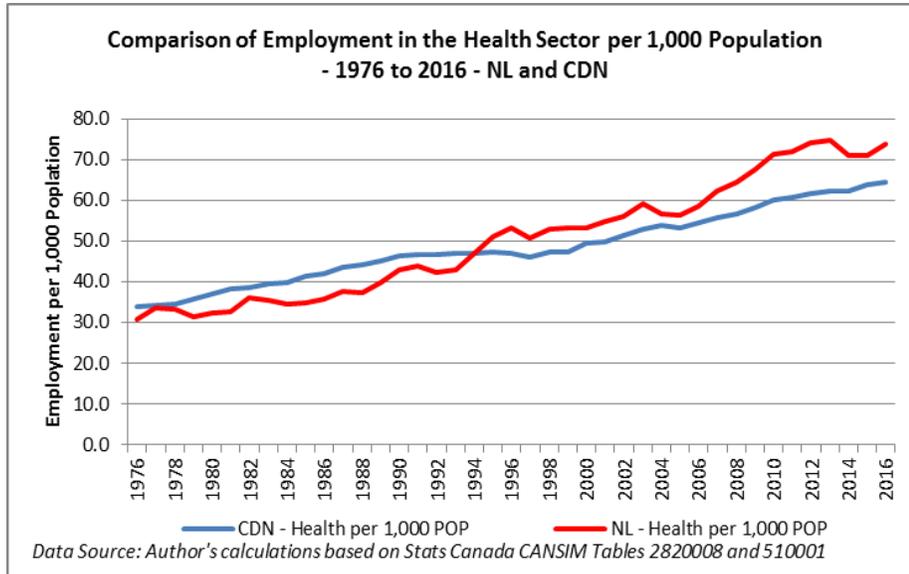
On average, it costs NL \$5,060 per capita for health care costs in 2014, which compares to \$3,975 per capita Canada-wide or we were 27.3% higher in per capita terms in 2014. We exceed all other provinces on average – closest is Alberta where we were 8.5% higher in 2014

Public Sector Employment



In NL public sector employment is growing faster than overall employment, but public sector is really being driven by the health care sector

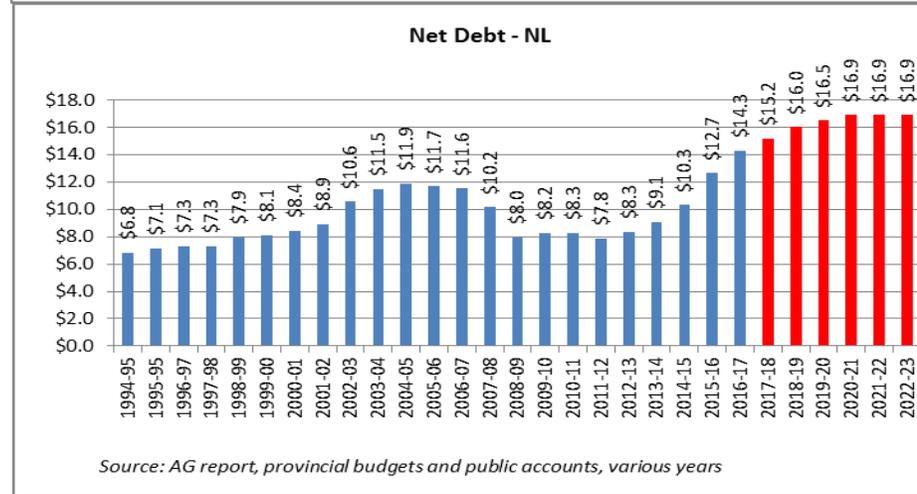
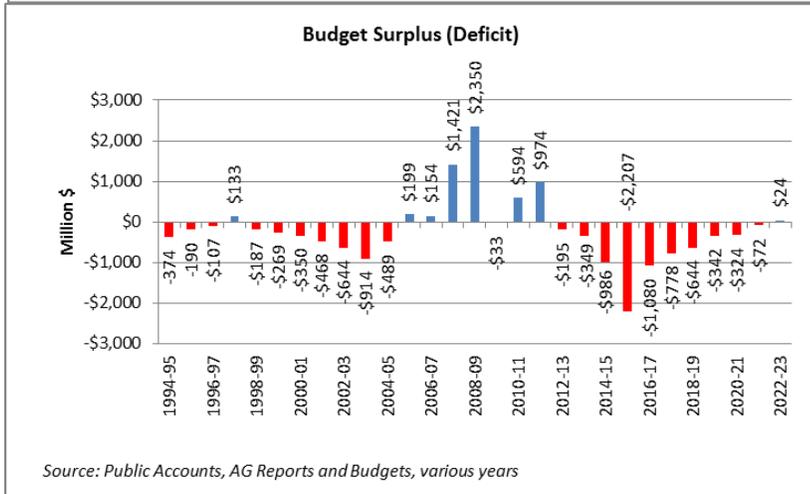
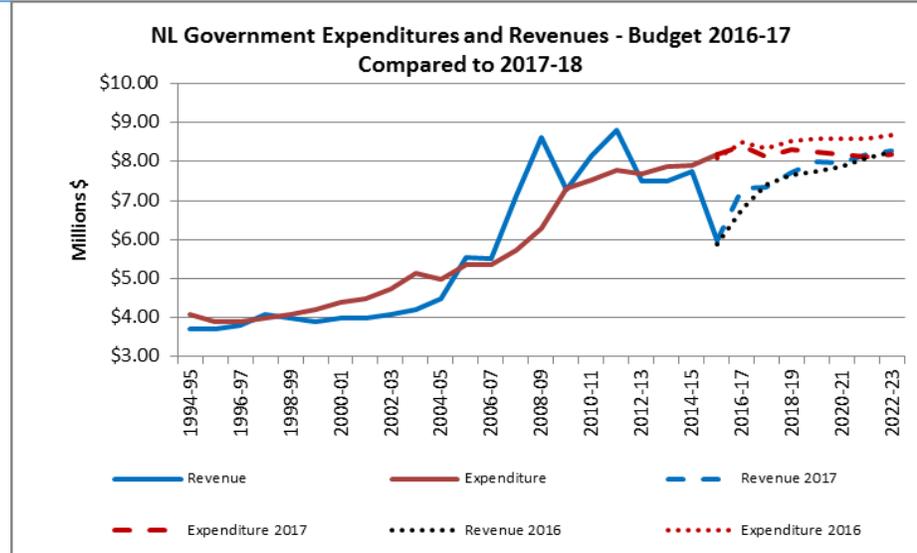
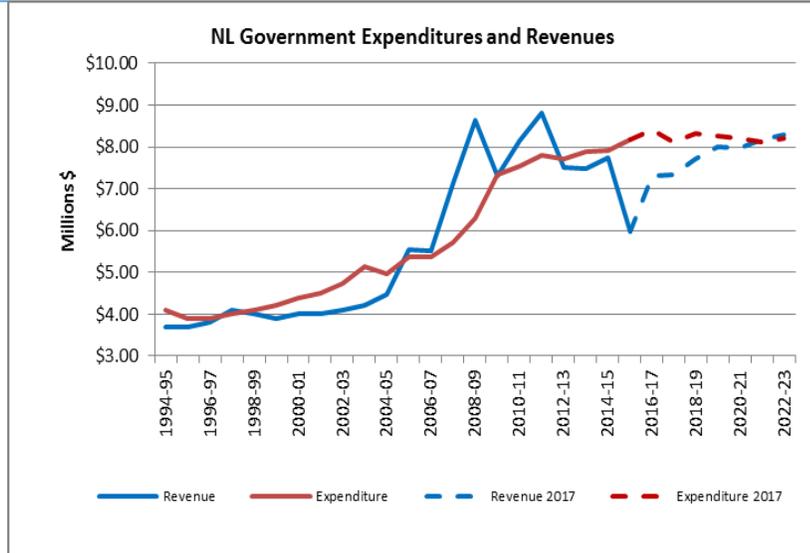
Public Sector Employment per 1,000 Population – NL and CDN



Public sector employment does not deviate from the rest of the country as some people might think

If you are lowering expenditures, you have to reduce employees and this will have implications for reduced government services and will have adjustment costs throughout the rest of the economy

Expected Fiscal Position – Based on Budget 2017-18

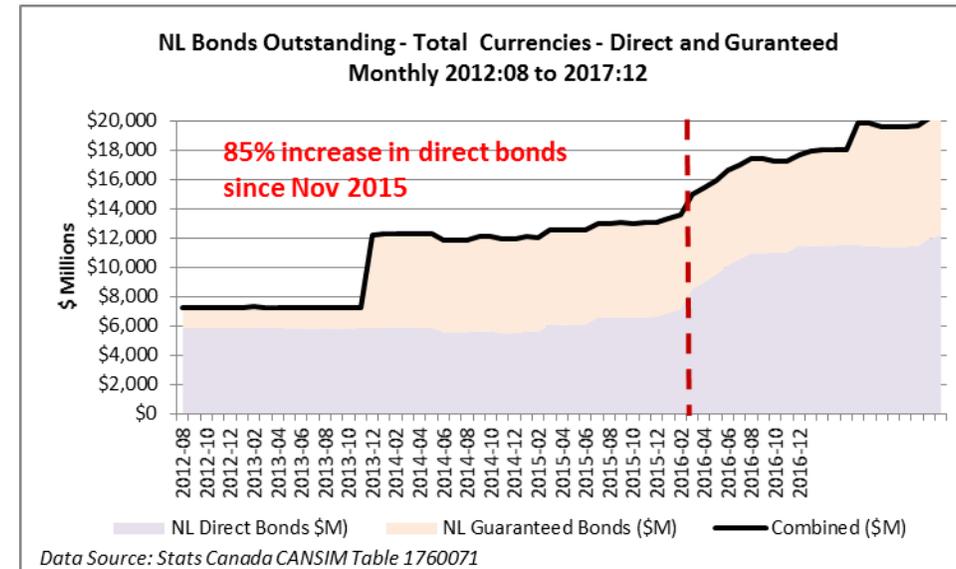
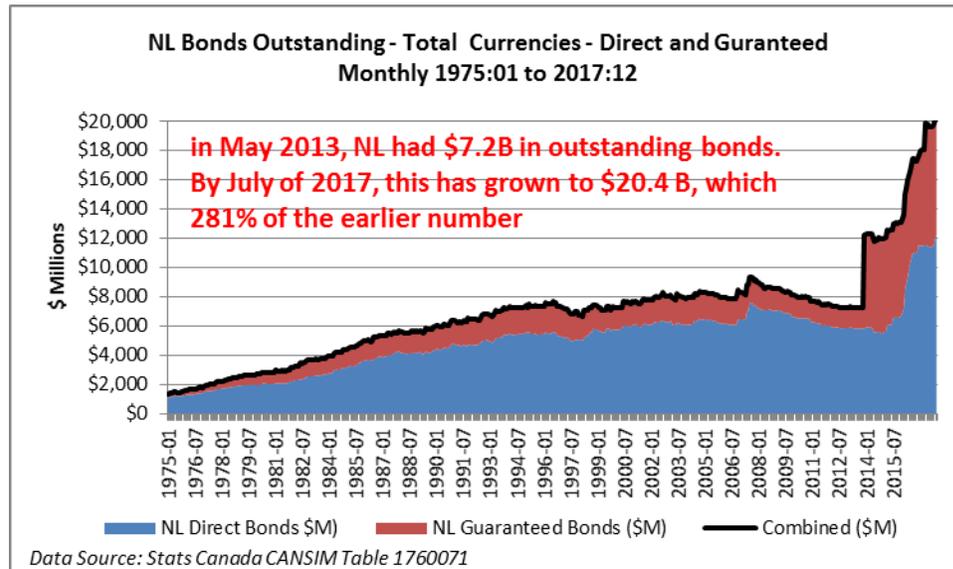


Source: Public Accounts, AG Reports and Budgets, various years

Source: AG report, provincial budgets and public accounts, various years

If everything goes to plan, the government predicts we will be back to balance in 2022-23. Still will have a debt of nearly \$17 B and it will require a hefty increase in revenues

Outstanding Bonds - NL



NL has engaged in a substantial borrowing program, primarily driven by investment requirements for Muskrat Falls and the running of larger fiscal deficits by the provincial government

NL currently has the lowest bond rating of all provinces

Do we really appreciate the significance of the problem?

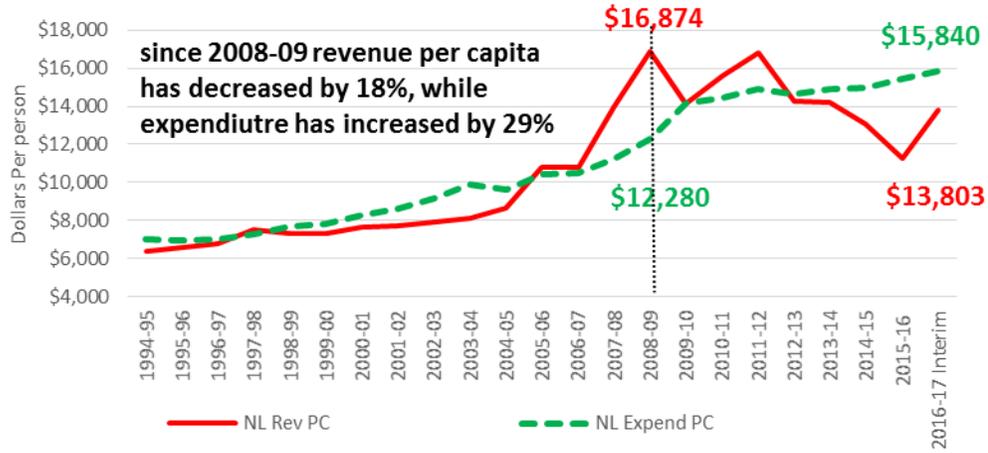
- Probably not, there is no mention of it in a recent email interview with the Premier in the Atlantic Business Magazine (<http://www.atlanticbusinessmagazine.net/article/the-way-forward/>)
- **Question 1: What are the top five priorities for the Government of Newfoundland and Labrador (can be challenges or opportunities)?**
- “Premier Ball: Newfoundland and Labrador is a province that abounds with opportunity and potential. It is a place that is recognized globally for its welcoming nature, big personalities, immense natural resources, and its unforgettable tourism, culinary, and cultural experiences.”
- “**Our top priority** as a government is to **remind people of these defining qualities** of our province, and show how they will be harnessed to see us through immediate challenges, and onwards toward greater prosperity.”
- “The **next four priorities** follow naturally from the first, and are the foundation of The Way Forward, our vision for sustainability and growth in Newfoundland and Labrador. They are: **strengthening the province’s economic foundation, achieving greater efficiency, enhancing services, and improving outcomes.**”

Thank you

Additional Information Appendix

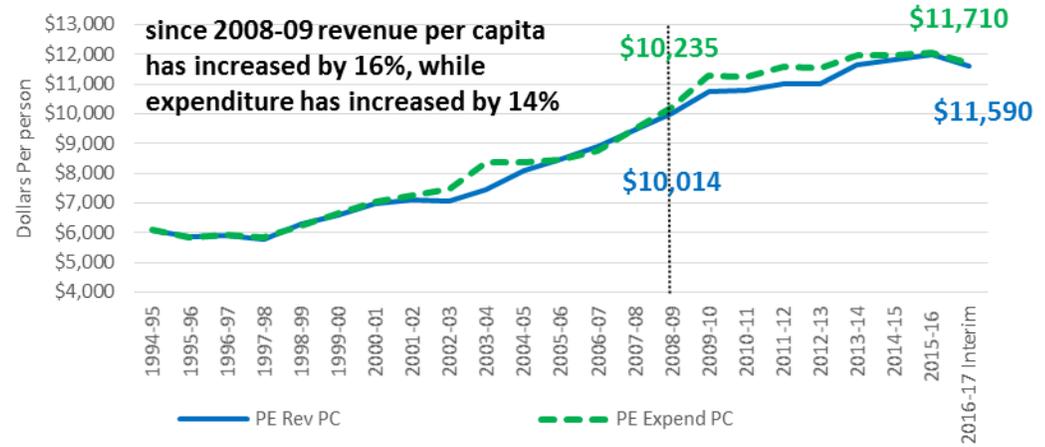
NL and PEI – A Comparison

Revenues per capita and Expenditures per capita - Newfoundland and Labrador



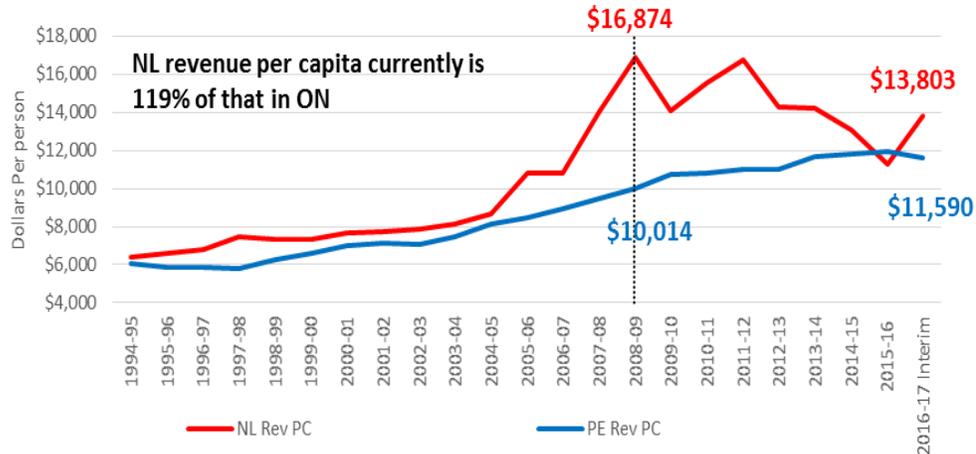
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Revenues per capita and Expenditures per capita - Prince Edward Island



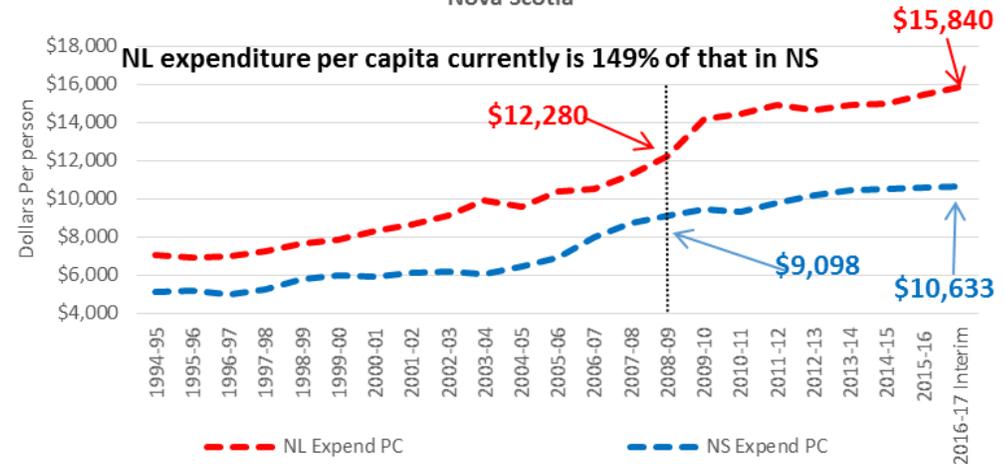
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Revenues per capita - A Comparison of Newfoundland and Labrador to Prince Edward Island



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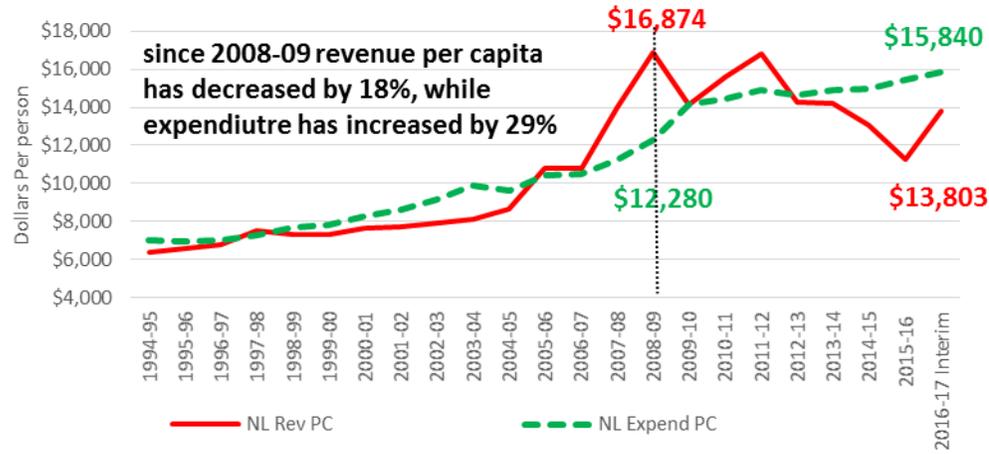
Expenditures per capita - A Comparison of Newfoundland and Labrador to Nova Scotia



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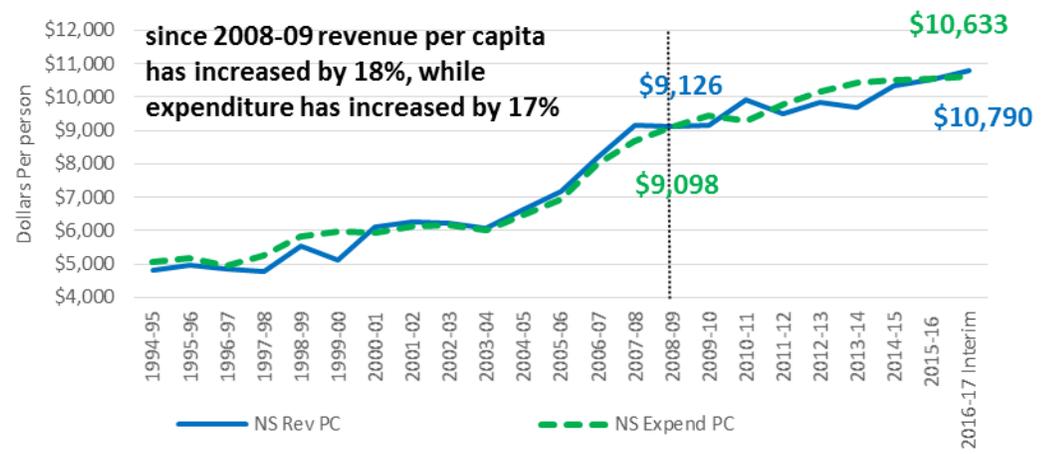
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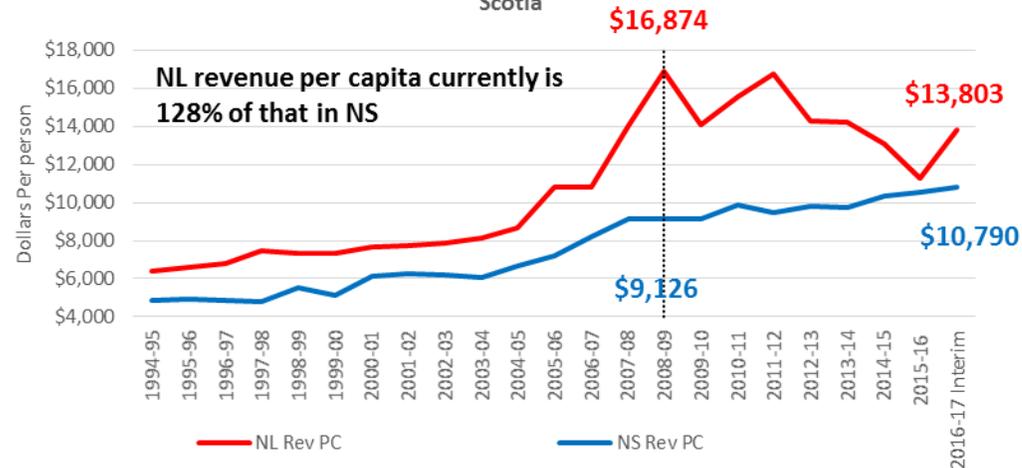
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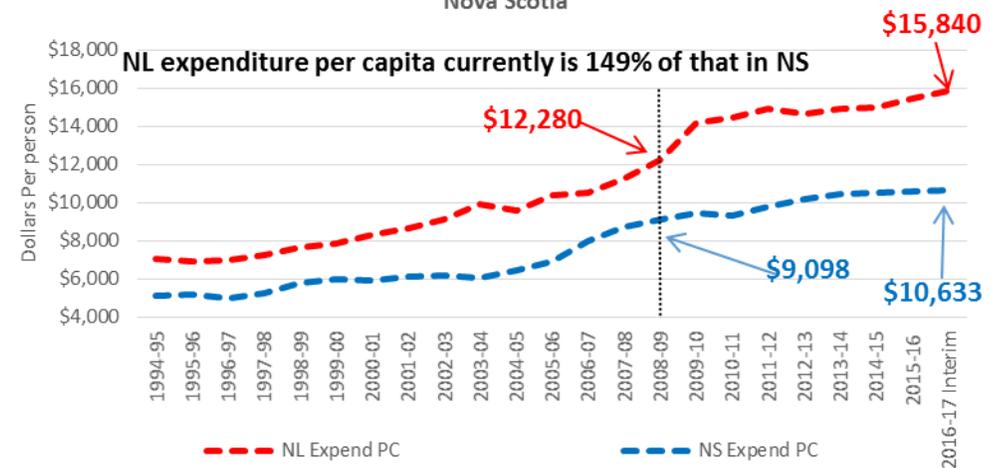
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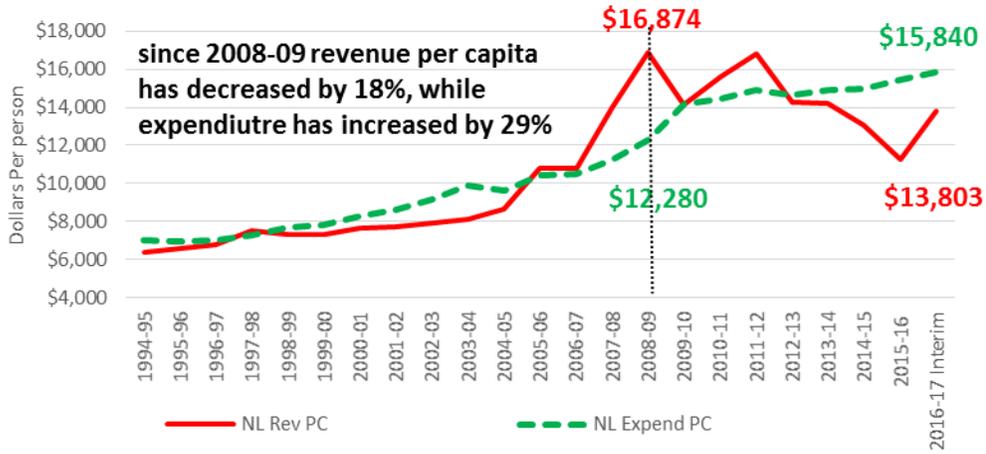
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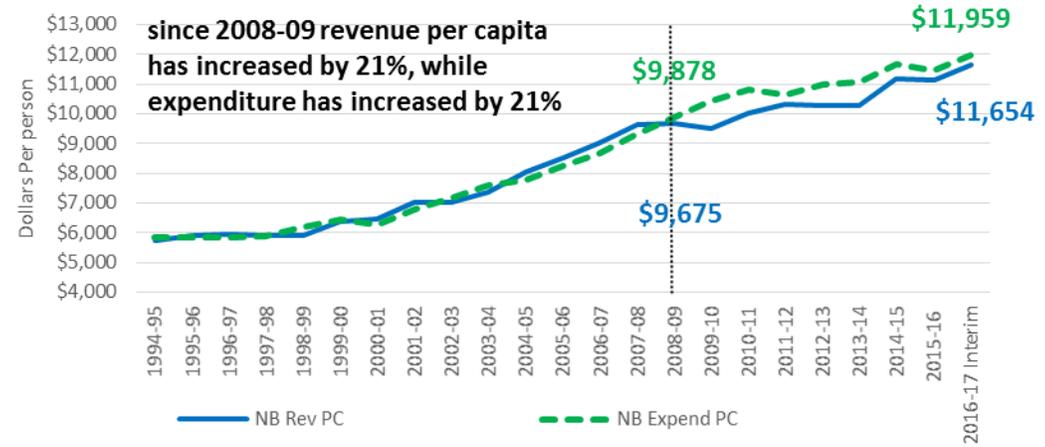
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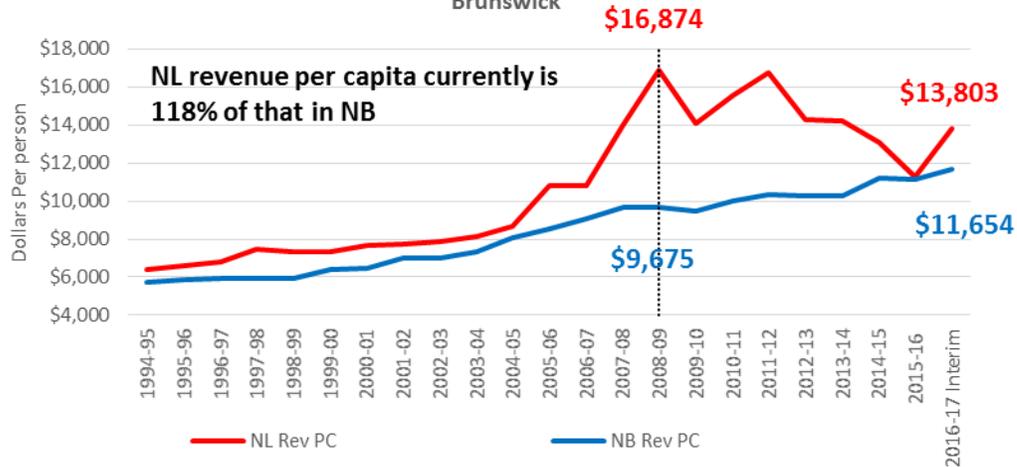
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Revenues per capita and Expenditures per capita - New Brunswick



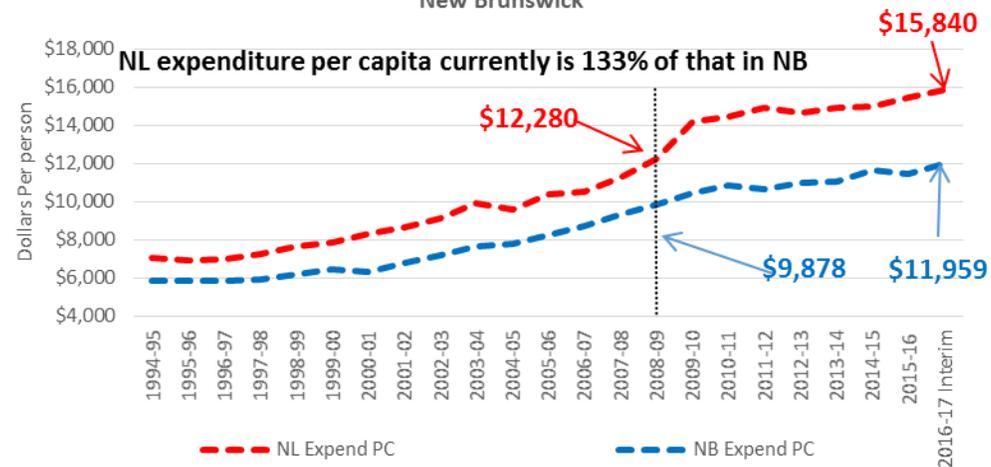
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Revenues per capita - A Comparison of Newfoundland and Labrador to New Brunswick



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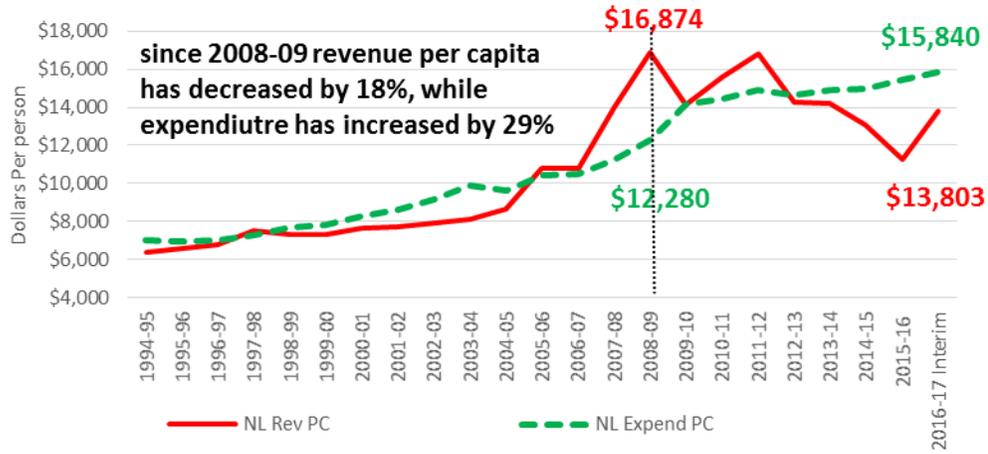
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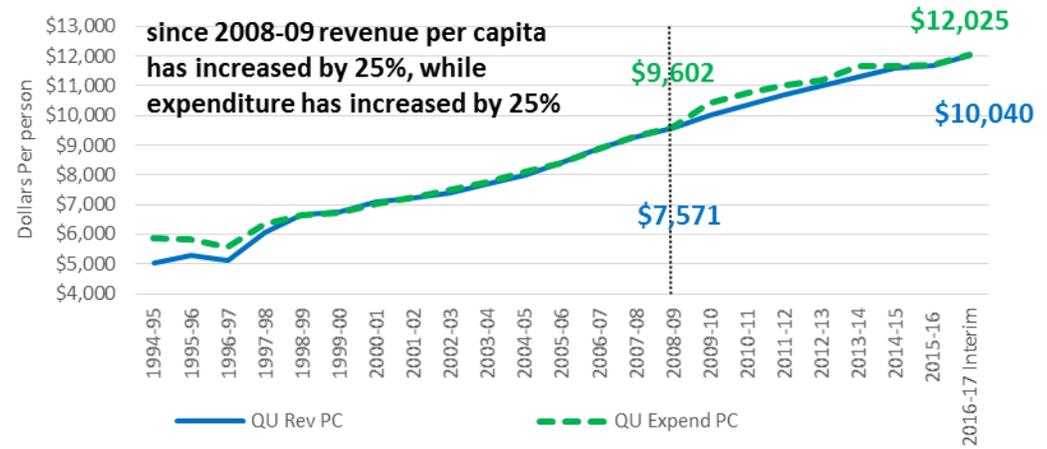
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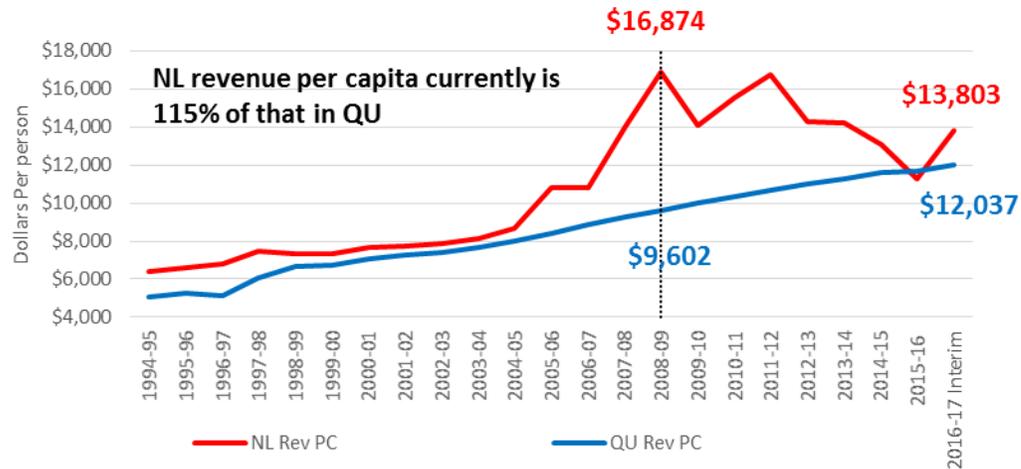
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Revenues per capita and Expenditures per capita - Quebec



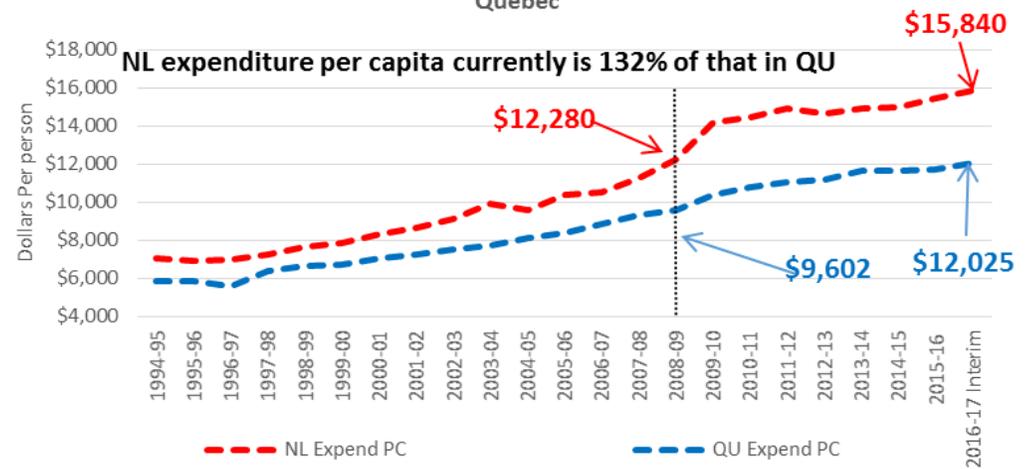
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Revenues per capita - A Comparison of Newfoundland and Labrador to Quebec



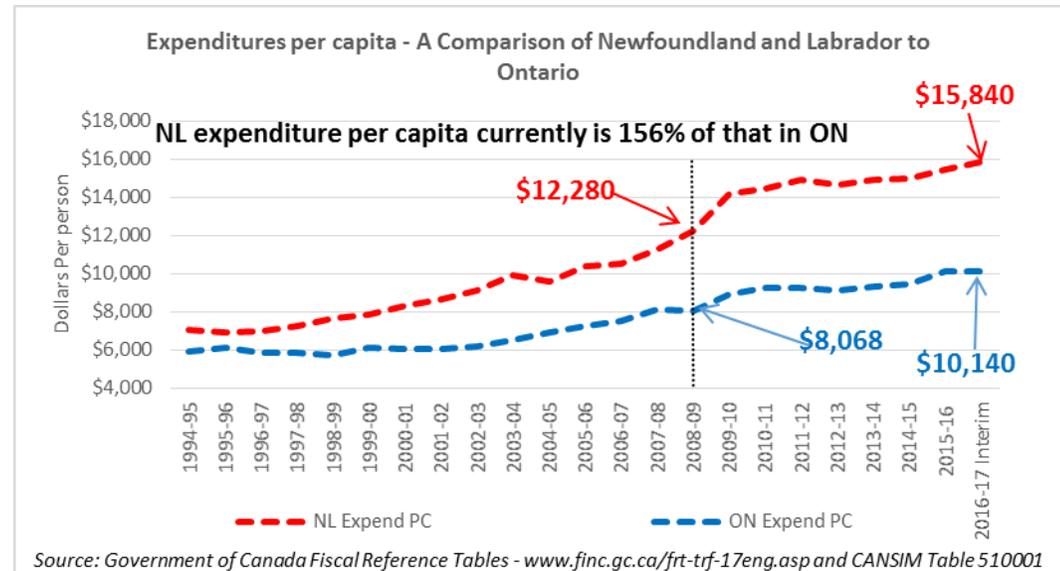
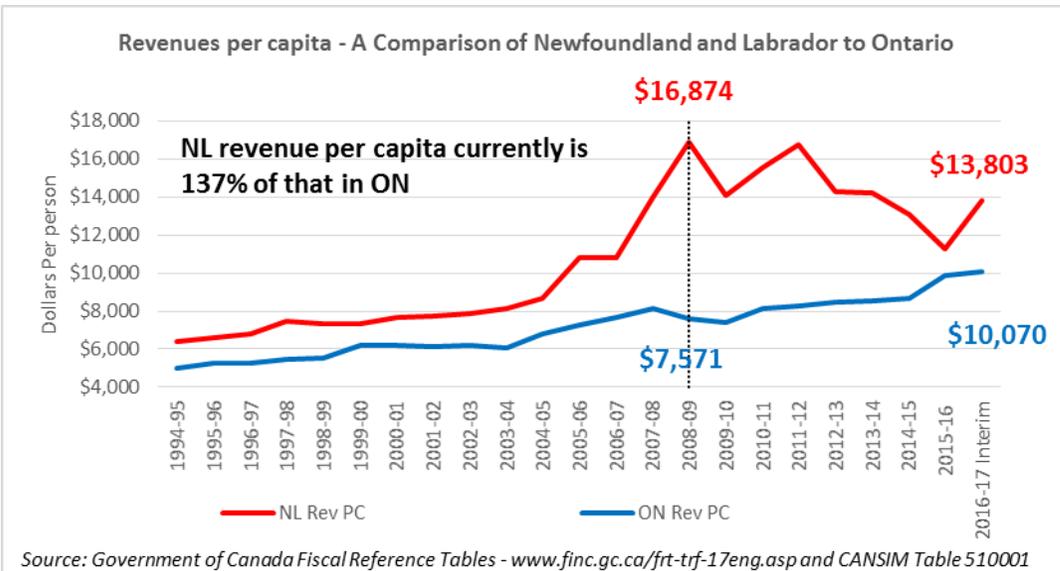
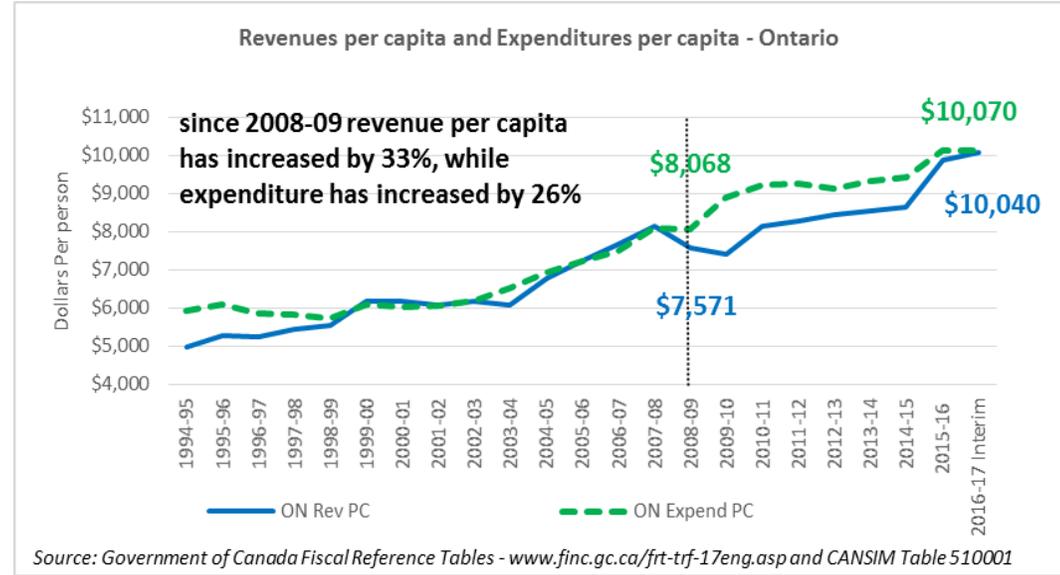
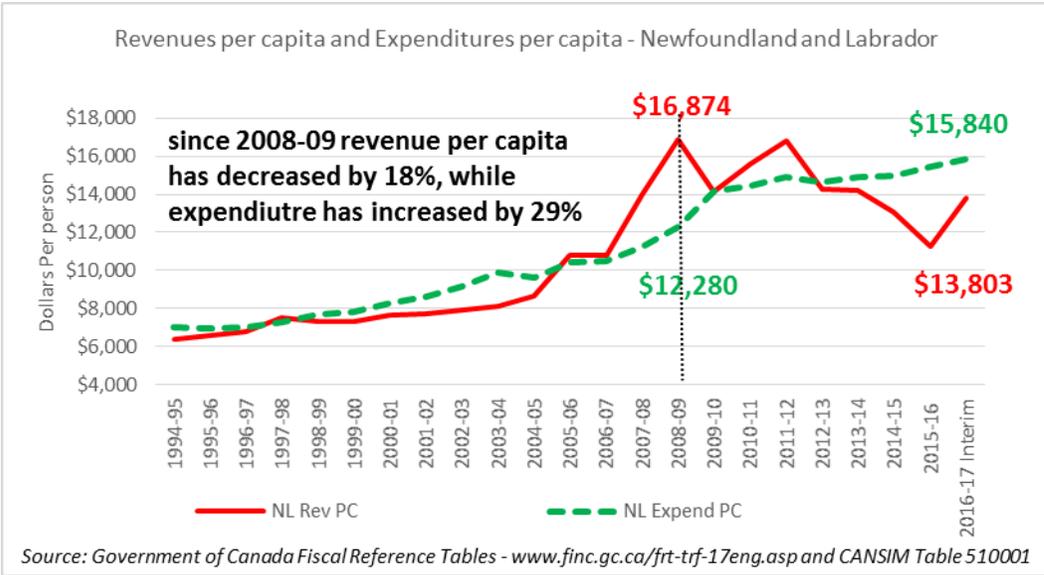
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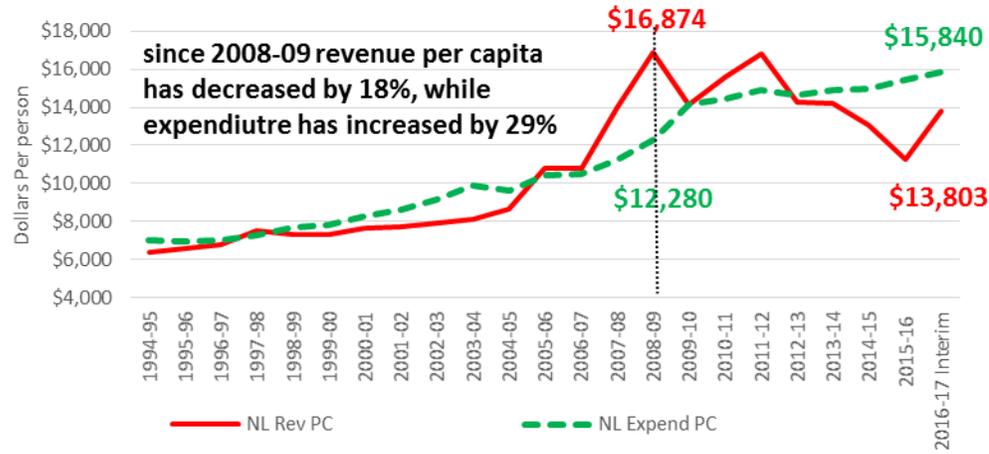
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Newfoundland and Labrador and Ontario – A Comparison



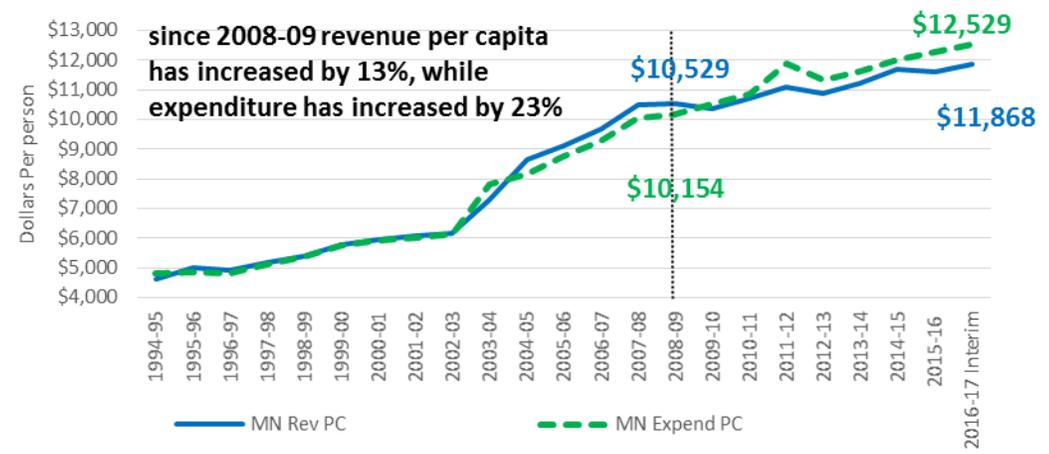
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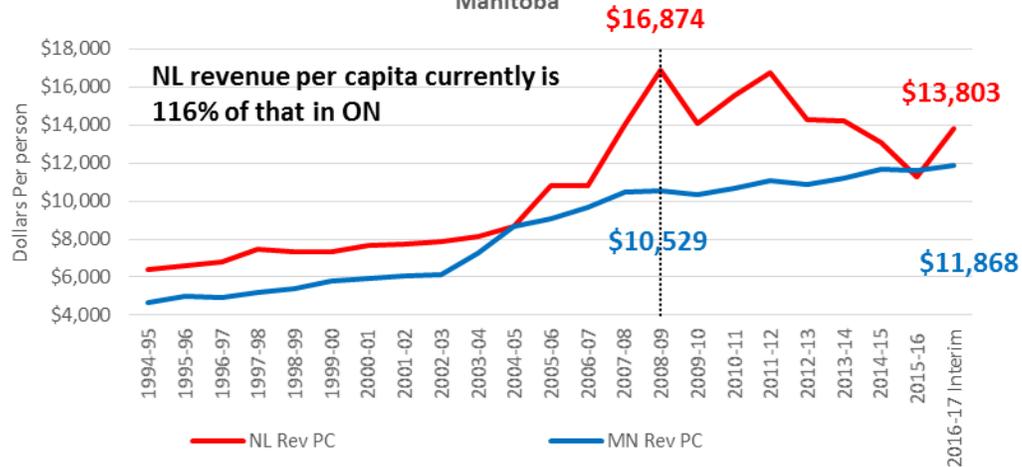
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Revenues per capita and Expenditures per capita - Manitoba



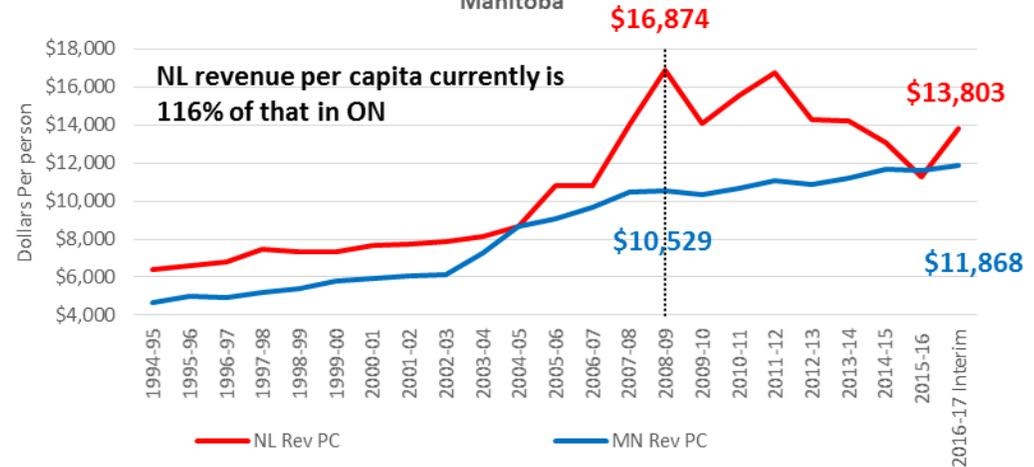
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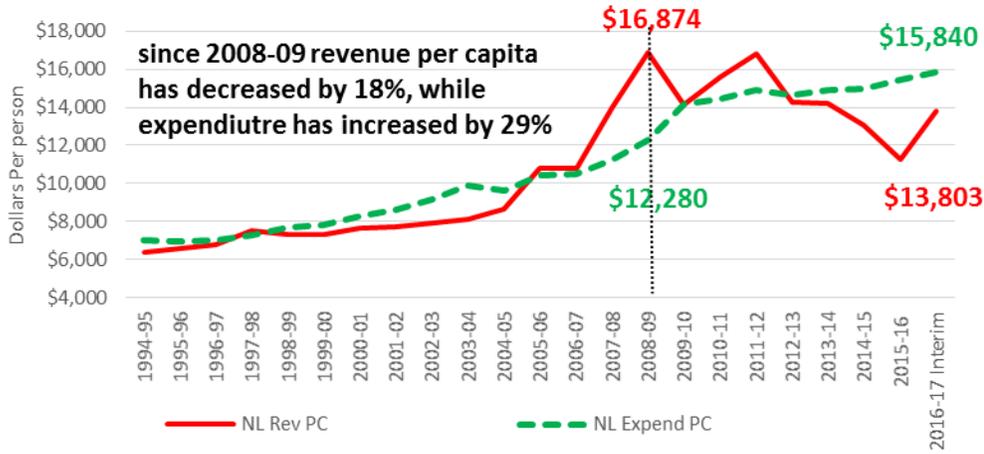
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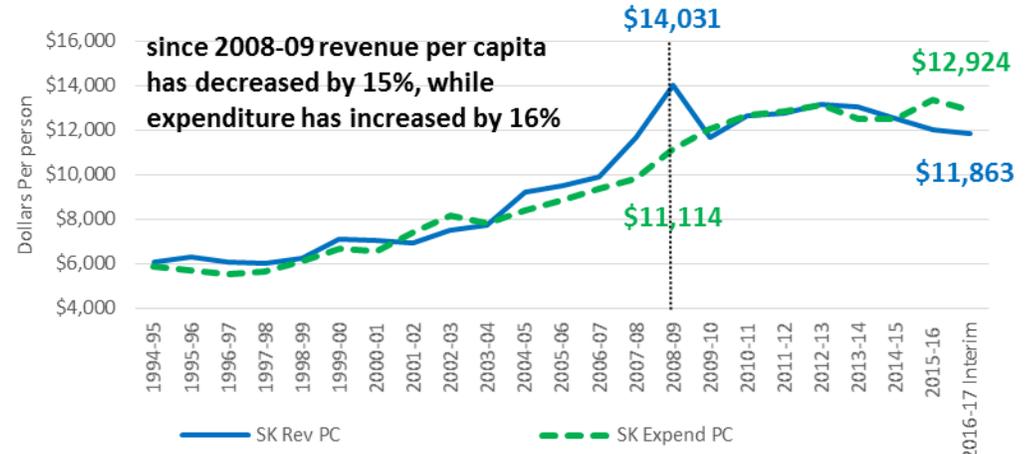
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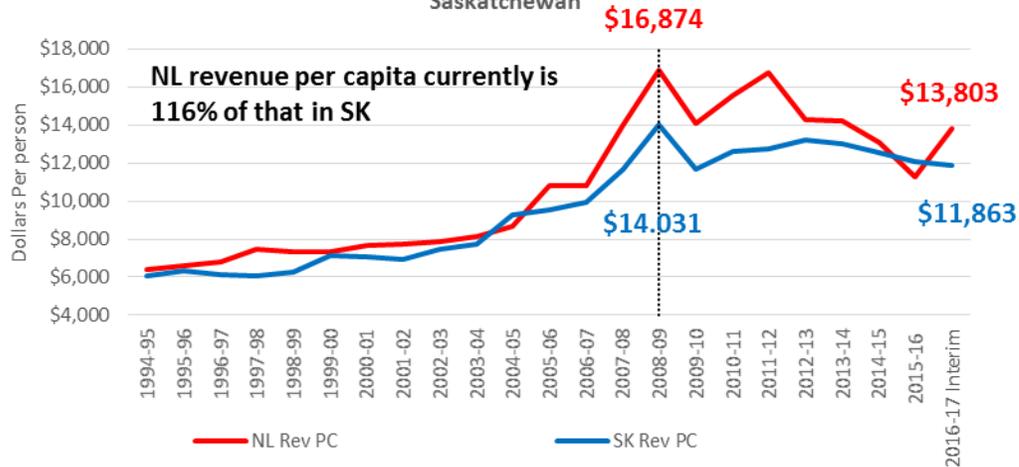
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Revenues per capita and Expenditures per capita - Saskatchewan



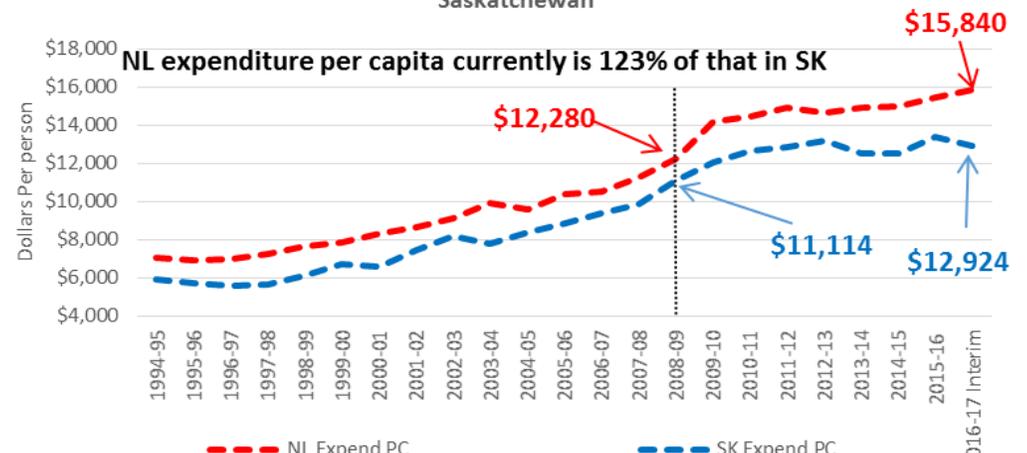
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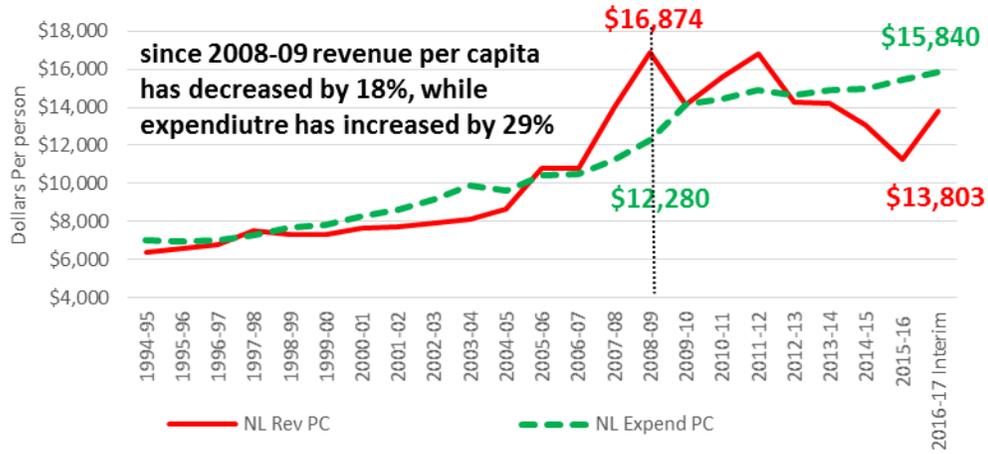
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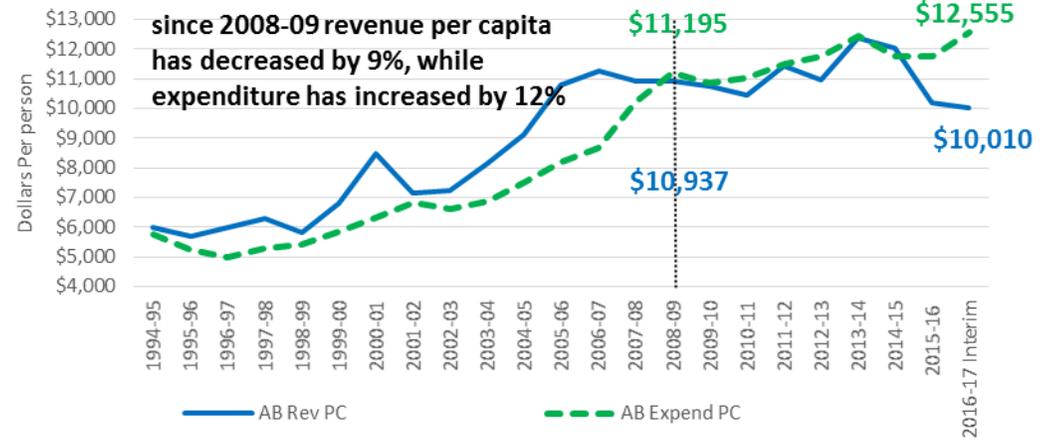
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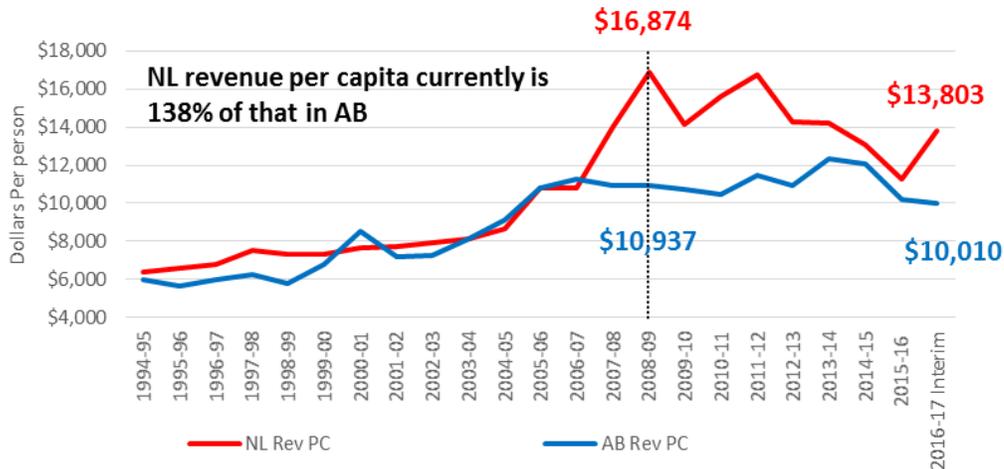
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Revenues per capita and Expenditures per capita - Alberta



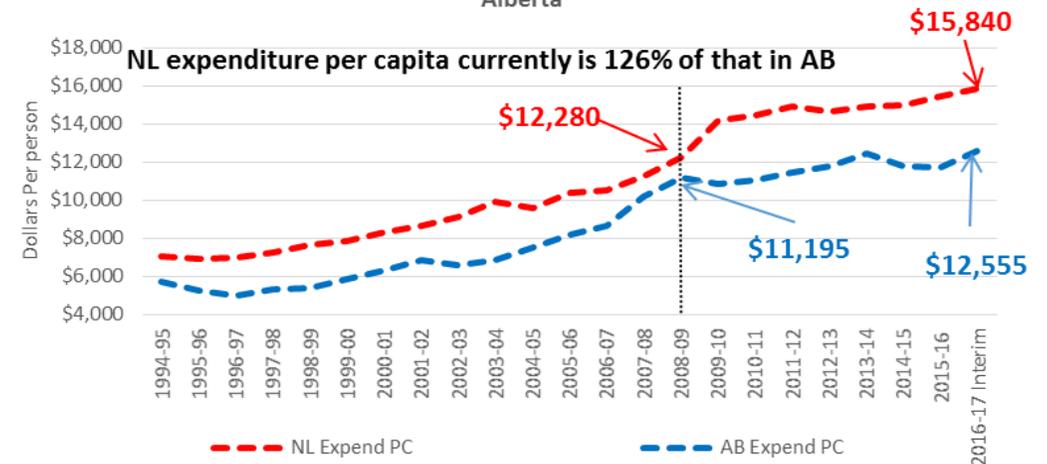
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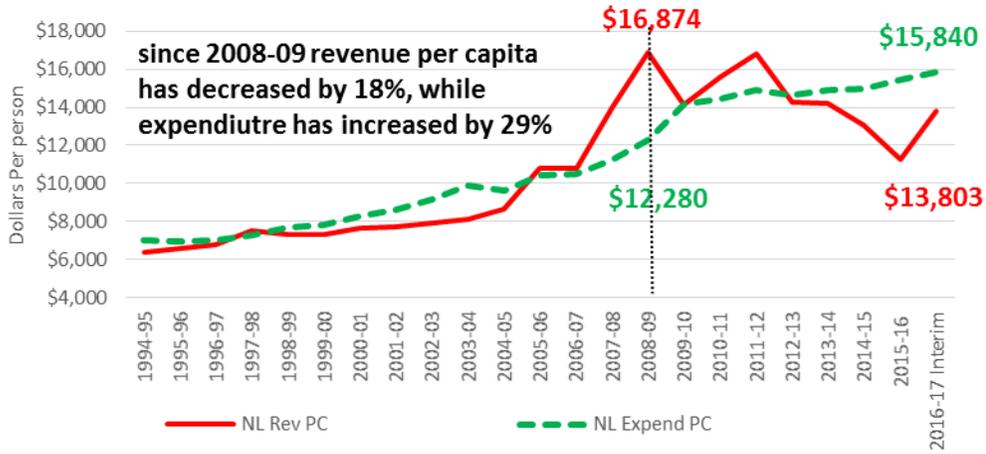
Expenditures per capita - A Comparison of Newfoundland and Labrador to Alberta



Source: Government of Canada Fiscal Reference Tables - www.finc.gc.ca/ftr-trf-17eng.asp and CANSIM Table 510001

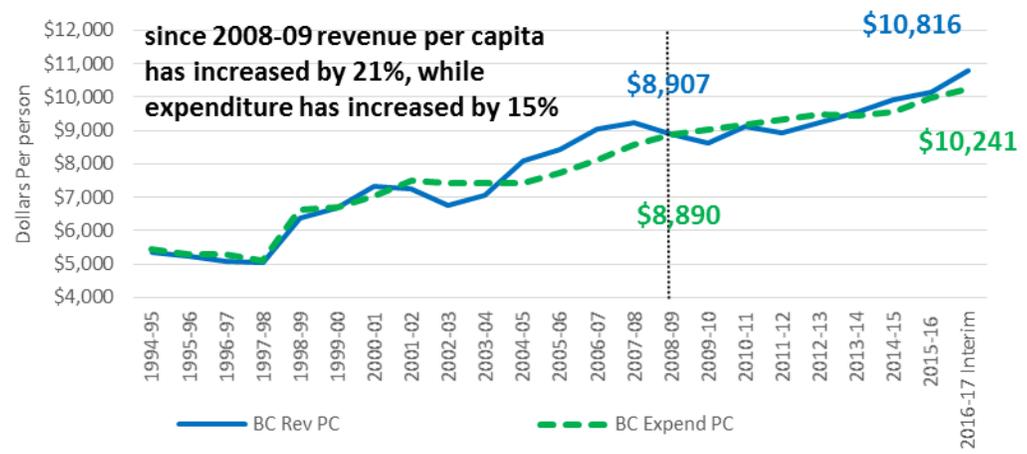
NL and BC – A Comparison

Revenues per capita and Expenditures per capita - Newfoundland and Labrador



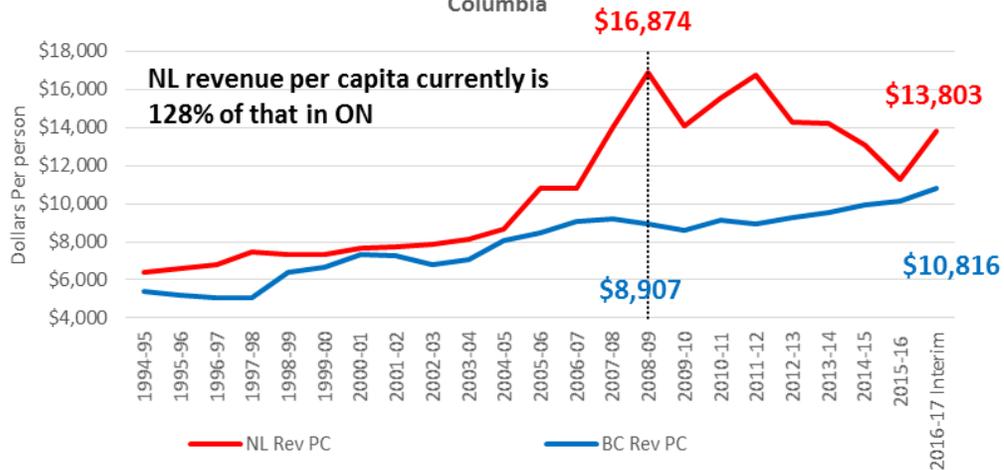
Source: Government of Canada Fiscal Reference Tables - www.finc.gc.ca/ftr-trf-17eng.asp and CANSIM Table 510001

Revenues per capita and Expenditures per capita - British Columbia



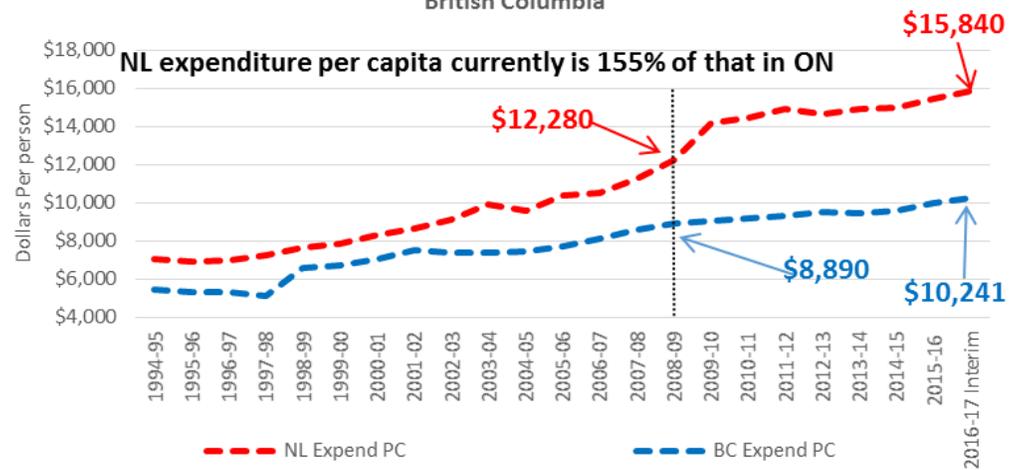
Source: Government of Canada Fiscal Reference Tables - www.finc.gc.ca/ftr-trf-17eng.asp and CANSIM Table 510001

Revenues per capita - A Comparison of Newfoundland and Labrador to British Columbia



Source: Government of Canada Fiscal Reference Tables - www.finc.gc.ca/ftr-trf-17eng.asp and CANSIM Table 510001

Expenditures per capita - A Comparison of Newfoundland and Labrador to British Columbia



Source: Government of Canada Fiscal Reference Tables - www.finc.gc.ca/ftr-trf-17eng.asp and CANSIM Table 510001