



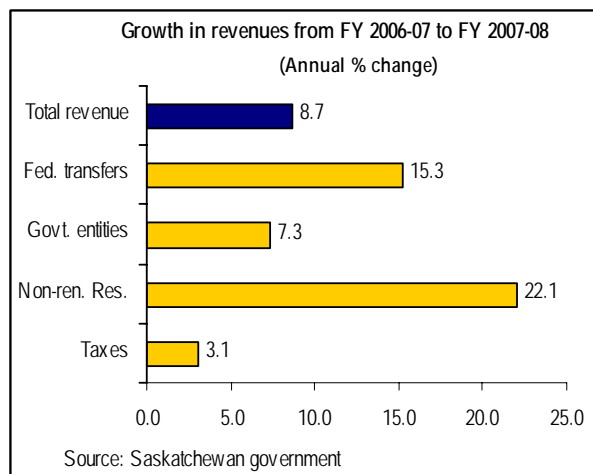
March 24, 2008

The 2008 Saskatchewan Budget

Things have really changed for the better in Saskatchewan in the last few years. With energy, metals and agricultural prices flying high, the economy is on a roll. Canadians move back to the Prairie province. Fiscal revenues flow in the coffers. In this suitable context, the first budget delivered by the new Saskatchewan Party government contains the funding to fulfill on 40 campaign promises made during the election campaign last fall. Fortunately, Finance Minister Rod Gantefero delivers more. To ensure sustainable growth, the province will invest massively in infrastructure in order to avoid falling behind like in Alberta, which has preferred to eliminate the debt.

Broad-based buoyant revenues in FY 2007-08

Blessed with highly-diversified sources of revenues, FY 2007-08 turns out to be a much better year than anticipated. First, the run-up in commodity prices added \$2.1 billion in non-renewable resource revenues, \$0.5 billion above forecast. Also, Saskatchewan was in 2007 number one in Canada for retail sales growth, international exports growth, and housing starts growth. Saskatchewan is currently experiencing the largest population growth in 30 years. More people are coming in than out, which we have not seen for a very long time. This broad-based strength has paid off. Taxes and revenue from crown entities were better-than-expected. Even federal transfers were above forecast. Overall, revenues are estimated at \$9.4 billion in FY 2007-08, a hefty \$1.5 billion (or 19%) higher than budgeted. This is a 8.7% increase from FY 2006-07 (see chart). In contrast, expenditures were only \$350 million higher than budgeted to reach \$8.7 billion. Expenditures were up by 5.5% from the previous year, which is reasonable given the strength in economic and population growth. The pre-transfer surplus is a massive \$0.7 billion, representing 1.4% of GDP. After transferring half in the rainy-day fund, \$347 million is left at the budgetary balance.



Saskatchewan chose infrastructure investment over debt payment

Total revenues in FY 2008-09 are expected to stay unchanged from FY 2007-08, slightly above \$9 billion. An increase in own-source revenues will compensate for declining federal transfers. Among the government's key assumptions, crude oil prices is forecast to average \$85 US a barrel in 2008 while Saskatchewan's real GDP is forecast to expand by 2.9%. In our view, economic growth could come up above 3% easily, therefore creating an upside risk for own-source revenues.

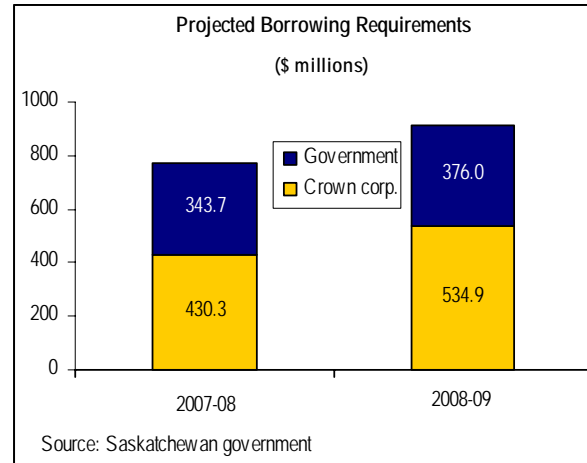
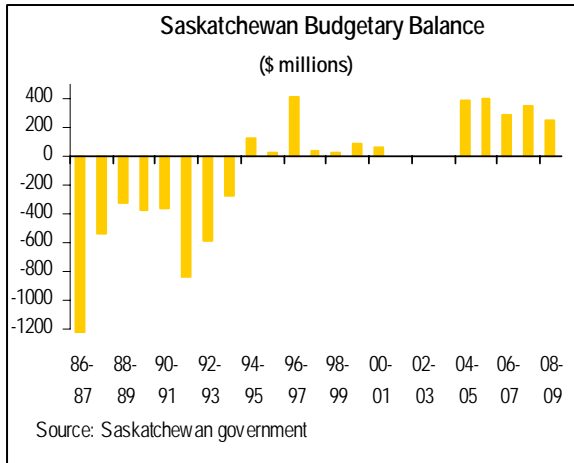
What should we do with all the money? This was basically the question members of the new Saskatchewan Party government ask themselves when they took office last fall. Saskatchewan made a conscious decision not to go the "Alberta way", that is to slash tax rates and pay down the debt massively. Instead, the government opted to inject money in infrastructure. It is no surprise then to find out that the highlight of the 2008 Budget is the introduction of the \$1-billion *Ready for Growth Initiative*. This infrastructure spending program will contribute for construction, improvements, and maintenance of schools, hospitals, and highways. Notably, the total Capital and Infrastructure Budget amounts to \$829 million in FY 2008-09, up \$294 million (or 37%) from the previous year. Besides infrastructure, health and education will, as usual, take the other big chunk out of the 4.6% increase projected for spending in FY 2007-08. Spending growth averaged 7.4% in the previous three years. Therefore, *LBS Economic Research* believes there is an upside risk on the expenditure side. Look for spending growth to stay brisk, well above 5%.

Surplus in FY 2008-09: A walk in the park

Under the reigns of the previous NDP government, there were two rainy-day funds: the fiscal stabilization fund (FSF) and the infrastructure fund (SIF). The Saskatchewan Party government converted these two funds in a new one: the Growth and Financial Security Fund (GFSF). The terminologies are different, but there is no fundamental change really: a rainy-day fund still exists. A large untouched \$1.3 billion will sit in the GFSF, the largest amount of the rainy-day fund since the FSF was created in FY 2000-01. For a \$9.1-billion budget, \$1.3 billion is a huge protection. All told, despite a cautious projection in spending growth, the rock-solid revenue outlook and the fat GFSF will make it easy for the Saskatchewan government to reach the projected \$250-million surplus in FY 2008-09 without breaking a sweat.



March 24, 2008



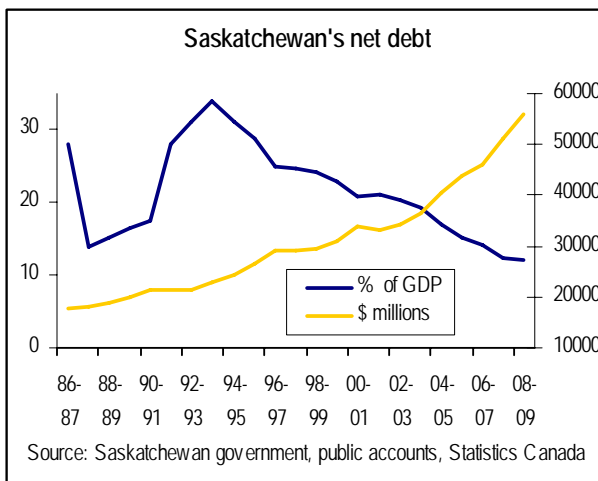
Saskatchewan's debt is manageable

In our view, the government's opted to favours infrastructure investment over debt reduction because the debt is already manageable. Maintaining the debt-to-GDP ratio below 15% is right. But, it would not be optimal to reduce it close to zero like Alberta did; now dealing with massive infrastructure problems. In other words, debt reduction is not a priority of the Saskatchewan Party's fiscal plan. To fund capital and infrastructure investment, the province's borrowing requirements were revised up and estimated to be \$910.9 million in FY 2008-09, up from \$774.0 million in FY 2007-08 (see chart). In details, borrowing requirements for government in 2008-09, estimated to be \$376.0 million (2007-08 forecast: \$343.7 million), are to assist with refinancing maturing debt (\$413.6 million). Borrowing requirements for Crown corporations in 2008-09 are now estimated to be \$534.9 million (2007-08 forecast: \$430.3 million).

Conclusion: Fiscally and economically, Saskatchewan is on a roll

Many Finance Ministers in the country must envy the position of Finance Minister Rod Gantfoer. Blessed with an abundance of natural resources, a mix of revenue sources, and a rolling economy, a 15th consecutive fiscal year in black ink is predicted in 2008-09. Reflecting previous tax reforms, businesses continue to get some tax relief. To remain an economic leader, the province wisely decided to make infrastructure the centerpiece of the 2008 Budget.

Sébastien Lavoie, Economist





March 24, 2008

Saskatchewan's Summary Statement of Surplus

| | 2004-2005 | 2005-2006 | 2006-2007 | 2007-2008* | 2008-2009** |
|-----------------------------|---------------|--------------|--------------|--------------|--------------|
| | (\$ millions) | | | | |
| Own-Source Revenue | 6,126 | 6,952 | 6,989 | 7,766 | 7981 |
| Federal Transfers | 1,666 | 1,265 | 1,389 | 1,629 | 1386 |
| Total Revenue | 7,792 | 8,218 | 8,643 | 9,395 | 9,367 |
| % change | | 5.5 | 5.2 | 8.7 | -0.3 |
| Operating Expenditure | 6,448 | 7,133 | 7,707 | 8,172 | 8572 |
| Debt Servicing | 579 | 545 | 538 | 530 | 535 |
| Total Expenditure | 7,027 | 7,678 | 8,245 | 8,702 | 9,106 |
| % change | | 9.3 | 7.4 | 5.5 | 4.6 |
| Pre-Transfer Surplus | 765 | 540 | 398 | 693 | 260 |
| Fiscal Stabilization Fund | 383 | 139 | | 347 | |
| Structural Investment Fund | | | 105 | | |
| GFSF | | | | | 10 |
| GRF Surplus | 383 | 400 | 293 | 347 | 250 |
| Net Debt | 6,880 | 6,636 | 6,446 | 6,303 | 6,833 |
| As a % of nominal GDP | 17.0% | 15.2% | 14.0% | 12.3% | 12.2% |

* Forecast ** Estimated

Source: The 2008 Saskatchewan Budget