

ECONOMIC RESEARCH AND STRATEGY



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Saskatchewan Budget 2022: Declining deficits amidst a highly volatile economic environment

Finance Minister Donna Harpauer delivered yesterday her 5th budget for the province of Saskatchewan. The overall fiscal situation of the province improved relative to last December's Mid-Year Update. Benefiting from additional revenue, notably from non-renewable resources, the province aims to improve access to health and long-term care, while keeping in mind fiscal discipline.

Non-renewable resource revenue boom expected to continue

First, the government revises down its FY 2021-22 deficit estimate from \$2.7B in the mid-year update to \$2.2B (2.5% of GDP) in Budget 2022. The largest source of revision comes from non-renewable resource revenues at \$2.5B, almost twice the original projection in Budget 2021 released last April. Higher-than-expected potash prices and record production in 2021 is one key driver. Meanwhile, oil revenue continues to climb with WTI prices averaging US\$75/bbl in FY 2021-22, versus US\$69/bbl and US\$54/bbl in the Mid-Year Update and Budget 2021, respectively.

Second, Saskatchewan produces a lot of the same commodities Russia and Ukraine do: oil, potash, uranium, wheat, canola, etc. The strong momentum in commodity prices is projected to continue in FY 2022-23 considering the highly volatile economic backdrop. Global fertilizer prices have now reached record-high levels [according to British commodity consultancy CRU](#). Saskatchewan-based Nutrien recently [announced](#) its intention to boost potash production by 1 million tonnes in the second half of 2022 (or +7% approximately) relative to previous targets. Regarding wheat, they've recently also reached record-high prices. Meanwhile, we forecast WTI oil prices to average US\$83/bbl in FY 2022-23, almost US\$10 above the Budget 2022 assumption. Consequently, we already anticipate upward revisions to the \$2.9B non-renewable resource revenue forecast presented in Budget 2022

Smaller tax revenue despite strong economic momentum

We anticipate the strong economic momentum to continue in 2022, in line with the Ministry of Finance's forecast. For instance, Saskatchewan could see the highest growth rate in capital spending this year according to a [Statistics Canada survey](#). Regarding public health, in March 2022, restrictions in Saskatchewan remained among the lowest in the country as measured by the Bank of Canada stringency index. Moving beyond COVID-19 fosters the recovery in 2022 and 2023 and solidifies the government's GDP growth projection of 3.7% and 2.5%, respectively. Nonetheless, a reassessment of the 2020 tax returns resulting in a large upward revision to corporate and personal income taxes in FY 2021-22 is unlikely to occur again according to the government. As a result, the budget assumes a small decline in the tax take this fiscal year. Total revenues are expected to decline 1.9% in FY 2022-23 to \$17.2B. Investors will also notice that, as a layer of prudence, the Ministry of Finance projects 2022 real GDP growth 0.4 ppt below the 4.1% private sector average, including our 3.6% forecast.

Adverse weather events: an upside risk to expenditures

On the expenditure side, the largest improvement will hopefully come from lower agricultural expenses. Those were temporarily boosted to a record-high \$3.2B in FY 2021-22 as farmers suffered from severe

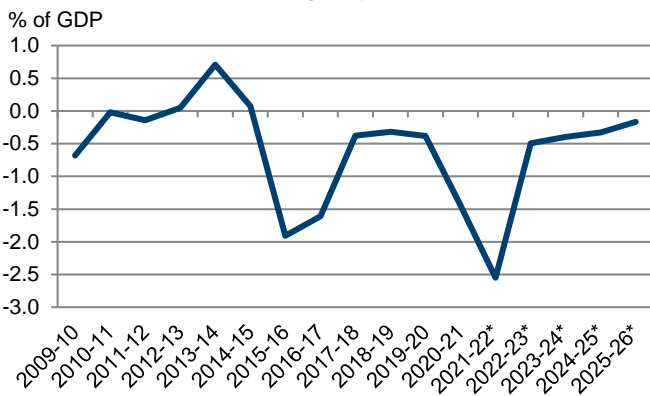


wildfires and dry conditions, leading to more insurance claims and recovery support expenses. As the province expects agriculture production to rebound and typical weather conditions to resume in 2022, the budget only includes \$1.0B in agricultural expenses. While still higher by around \$160M relative to Budget 2021, the high frequency of adverse weather events and their heightened severity pose an upside risk to the expenditure profile for FY 2022-23 in our opinion. Notably, a 2021 [Bank of Canada analytical note](#) shows that Saskatchewan is one of the regions with high exposure to multiple types of natural disasters.

Declining deficit path

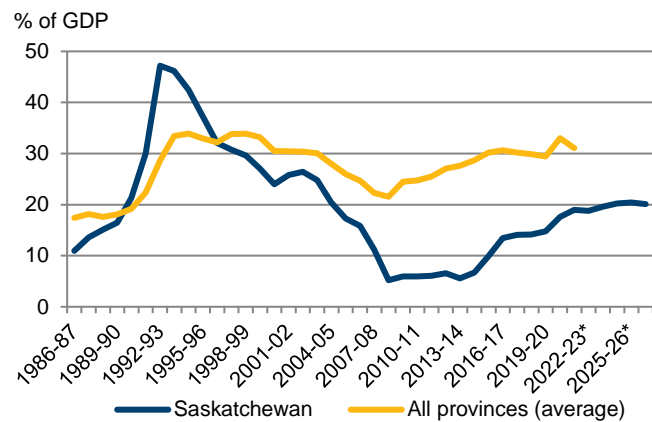
Reflecting the government’s preference for fiscal discipline, Budget 2022 only includes new targeted spending measures such as increased funding in health and long-term care and the fiscal impact of the Federal-Provincial early learning and child-care agreement. Total expenditures are therefore projected to decline 10.5% to \$17.6B in FY 2022-23 relative to the previous year. Overall, the deficit is tabled at \$463M (0.5% of GDP, chart 1), a level consistent with the pre-pandemic era (chart 1). Going forward, the government forecasts annual revenue growth to average 2.3% from FY 2023-24 to FY 2025-26, modestly higher than expenditures at 2% and allowing a shrinking deficit path until a balanced budget is reached in FY 2026-27. Higher-than-expected CPI inflation could exercise pressure on these rather conservative revenue and expenditure forecasts in the early years of the scenario since the Ministry of Finance projects CPI inflation to only average 2.8% in 2022 and 2.3% in 2023.

Chart 1: Saskatchewan Budgetary Balance



Source: Saskatchewan Government, provincial fiscal documents and LBS Econ. Res and Strategy calculations.

Chart 2: Net Debt



Source: Government of Canada Fiscal Reference Tables, Saskatchewan government and LBS Econ. Res. and Strategy.

Borrowing requirements decline, net debt-to-GDP stabilizing

Relative to the December update, the Ministry of Finance does not revise its borrowing requirements for FY 2021-22, stable at \$4.3B, including \$3.5B in term debt. As of last Friday, the government had completed that program, almost all with domestic issuances. For FY 2022-23, at \$3.5B, the financing program remains elevated. Almost \$700M in refinancing, as well as the intention to build \$500M in operational liquidity, explain comparatively higher borrowing. Despite the debt incurred over the past two years due to COVID-19, Saskatchewan continues to benefit from one of the lowest net debt-to-GDP ratio among provinces, estimated at 19% as of March 31st, 2022. Going forward, the province intends to use part of this fiscal room to finance part of the \$30B 2030-capital plan. In fact, Capital spending is forecast to reach a sizeable \$13.5B in FY 2026-27, one factor preventing net-debt-to-GDP to decline over the next few years (chart 2).

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