



## The 2020 Saskatchewan Budget: Providing Guidelines for Expenses

On March 19<sup>th</sup>, Minister Finance Donna Harpauer unveiled the FY 2020-21 [estimates](#). In the face of the uncertainty raised by Covid-19 the province tabled a *schedule of budgetary appropriation and expense (the estimates)* for FY 2020-21 rather than presenting a full budget.<sup>1</sup> The estimates break down the government’s spending intentions by ministry and for the capital plan. It does not include revenue forecasts. Those would have been subject to major revisions in any case due to the uncertainty related to the full adverse economic impact of the coronavirus and the recent collapse in crude oil prices.

### Planning to increase expenditures due to the pandemic

Health expenses are forecast to increase by 3.8% to meet the increased pressure caused by the coronavirus outbreak. Schools are closed in the province. Still, education, the second largest spending item, will see its budget growing by 3.5% to address enrolment and collective bargaining. Overall, the *schedule* calls for a 3.1% increase in expenses in FY 2020-21 relative to FY 2019-20 (table 1). To stimulate the economy, the government also proposes a \$2.7B investment in infrastructure. While the estimates do not include a budgetary balance forecast, Finance Minister Harpauer “fully recognizes” that these stronger spending coupled to lower-than-expected revenue could lead to a deficit.

### Previous discipline leaves fiscal room to deal with the Covid-19 economic shock

As of writing, the number of confirmed cases in Saskatchewan remained low (33). However, the situation is fluid and emergency health expenditures could be much higher than budgeted. In that context, previous fiscal discipline will have paid off. Prior to the pandemic, Saskatchewan had completed a 5-year plan to eliminate a large \$1.5B deficit (1.9% of GDP) resulting from the 2015-16 oil shock. Expenses had been kept under control, resulting in a \$37M surplus according to last November’s [Mid-Year Financial report](#). As a result, the province enters this new economic contraction free of structural deficit. More importantly, the province has a sizeable fiscal capacity to deal with the Covid-19 and oil prices fallout. The province’s net debt for FY 2019-20 stood at 14.4% of GDP. (chart 1). The public debt ratio is one the lowest across all Canadian provinces, along with Alberta and British Columbia.

**Table 1: Saskatchewan Schedule of Appropriation and Expense (\$M)**

	Estimated 2019-20	Estimated 2020-21
Advanced education	727.6	738.9 1.5%
Corrections and Policing	404.4	417.2 3.2%
Education	2,479.0	2,564.9 3.5%
Finance Debt Servicing	494.7	513.2 3.7%
Health	5,554.1	5,765.5 3.8%
Social Services	1,237.0	1,287.7 4.1%
Others	2,830.0	2,862.8 1.2%
<b>Total</b>	<b>13,726.8</b>	<b>14,150.2</b> <b>3.1%</b>
Infrastructure		<b>2,700</b>

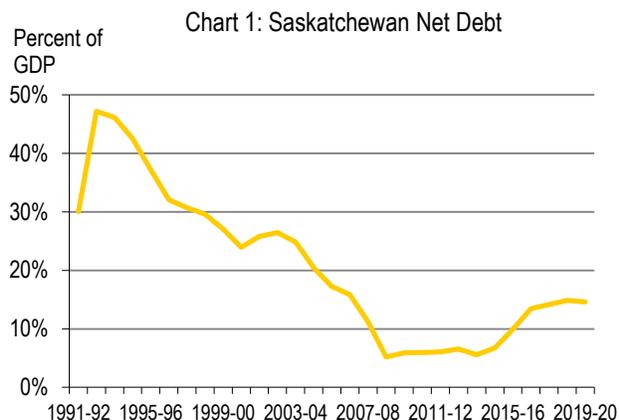
Source: Government of Saskatchewan, LBS Econ. Res. and Strategy.

<sup>1</sup> Once voted by the Legislature, the estimates become appropriations i.e. authorized government expenditures. Because of accounting differences, the estimates might not be comparable to the expenditures on a public account basis.

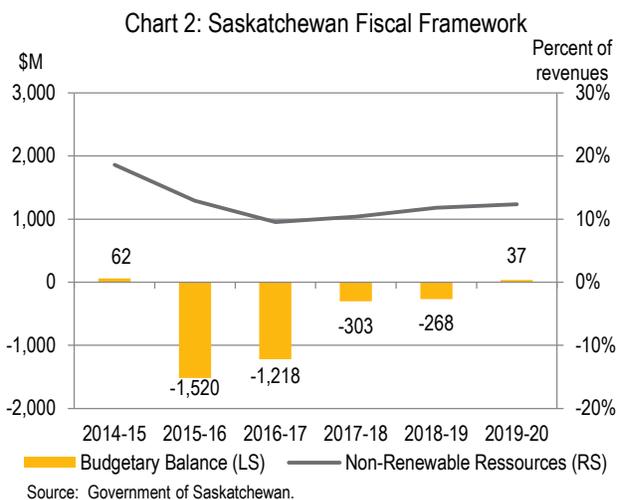


### Commodities will be a drag on the economy

Crude oil prices, a major export commodity for Saskatchewan, are falling due to the oil price war between Saudi Arabia and Russia. Lower global demand caused by the coronavirus exacerbates the decline. Fortunately, the province lowered its reliance on oil revenue in the past few years, from close to 20% in FY 2014-15 (prior to the oil shock) to 12% in FY 2019-20 (chart 2). The commodity shock could therefore be more tempered than the previous one on public finances. A cheaper Canadian dollar and lower risk-free interest rates will provide a partial offset to falling royalties.



Note: As of the the November 2019 Mid-Year Financial Report.  
Sources: Saskatchewan Government, Government of Canada Fiscal Reference Tables, LBS Econ. Res. and Strategy.



Source: Government of Saskatchewan.

### Borrowing requirements to increase at least moderately

The estimates lay out a \$2.6B financing program for FY 2020-21, including \$2.4B in Canadian debentures. The \$2.4B in Canadian debentures represent a \$440M increase relative to FY 2019-20, reflecting the increased governmental operating needs. \$1.1B of the borrowing program will be dedicated to finance the province's capital plan. Of course, the risk is that borrowing requirements turn out to be higher if the Covid-19 spread is not contained under a relatively short period of time.

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