

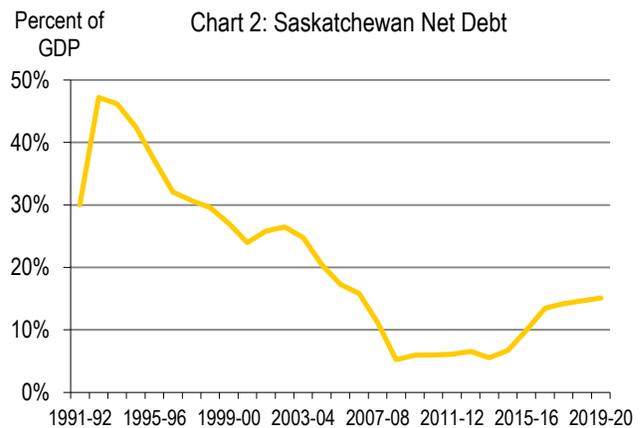
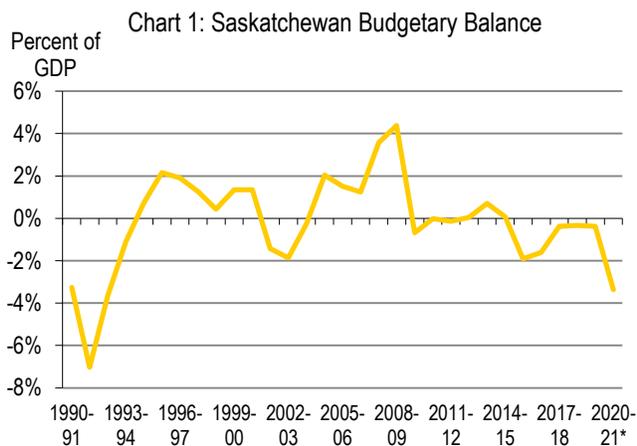


### The 2020 Saskatchewan Budget – Into Recovery Mode

Building on the spending *estimates* tabled in March, Saskatchewan Finance Minister Donna Harpaeur published yesterday a [full budget](#) for FY 2020-21. The coronavirus epidemic only emerged in the last few weeks of FY 2019-20, but still compelled the province to significantly revise down its bottom line forecast from a \$37M surplus expected last November to a \$319M deficit (0.4% of GDP). As large swaths of the economy shut down to contain the virus in April and were only partially reopened in May, the full effect of the pandemic on Saskatchewan’s public finances is being felt in FY 2020-21. A \$2.4B deficit (3.4% of GDP, chart 1) is projected, in line with our [forecast](#) published in May. This most likely is the largest deficit in dollar terms on record and represents the highest as a share of GDP since FY 1992-93.

The confirmed number of [Covid-19 cases](#) has been increasing very slowly in the last month and only two people remained hospitalized as of writing. Flattening the contagion curve early helped contain health care expenses. Total Covid-19 outlays correspond to \$148M and are managed within the budgets allocated in March. From this amount, \$118M is directly tied to health care costs. The government also adds a \$200M health care contingency fund to manage unforeseen expenses in case of a second wave. Overall, relative to FY 2019-20, total expenditures are forecast to grow 5.7%, a substantially smaller annual increase than following the last recession in FY 2009-10 (10.4%).

That being said, the main factor behind the projected deterioration in the government’s fiscal position consists of revenues declining 8.3%, to \$13.6B. This \$13.6B estimate rests on a robust 7.6% increase in federal transfers and a 11.7% reduction in own-source revenues. Notably, a large 18% expected reduction in oil production and lower crude oil and potash prices could lead to a 43% decline in non-renewable resources revenues, to \$1B. On the bright side, oil prices have stabilized lately at levels slightly above the \$US30/bbl government forecast for 2020. Also, the WCS-WTI differential remains lower than the \$US12 embedded in Budget 2020.



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



The pandemic continues to have devastating consequences, but Saskatchewan might have avoided the worst of the possible outcomes. The 12.8% nominal GDP contraction used in Budget 2020 corresponds to the second of the three [preliminary revenue impact scenarios](#) presented in April, meaning the government anticipates a strong economic recovery by September 2020. The province registered fewer coronavirus cases per 100K people than larger provinces such as Alberta, Quebec and Ontario and implemented its reopening plan earlier than most other jurisdictions. To underpin investment and employment, the government reinforces its infrastructure plan, now expected at \$7.5B over 2020 and 2021 combined. The capital plan represents nearly 40% of the province's \$4.5B borrowing requirements for FY 2020-21. While the latter represents a \$2.4B increase relative to FY 2019-20, 44% of this year's financing program has already been completed as of last Friday. At 15.1% of GDP before the crisis, public indebtedness remains among the lowest in the country along with Alberta and British Columbia, giving Saskatchewan plenty of fiscal room to weather the storm (chart 2). Finally, Budget 2020 does not include a timetable to return to balance. Finance Minister Harpaeur mentioned that it will be done in the coming years "*without having to cut programs and services*".

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