

## Economics

# PROVINCIAL BUDGET BRIEFS

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## Saskatchewan budget 2022

The province of Saskatchewan is expecting decreasing deficits in the coming years on the way to its unchanged plan to achieve budget balance no later than 2026/27. For fiscal 2021/22, the deficit is estimated to be \$2.2bn, smaller than the \$2.6bn expected a year ago or the \$2.7bn projected in the mid-year update. A large part of that improvement is attributable to higher non-renewable resource revenue. Heading into fiscal 2022/23, non-renewable resources will continue to support revenue while expenses fall as some programs end, resulting in a much smaller \$463mn deficit. Due to the improvements, borrowing requirements for this outgoing fiscal year have dropped by some \$400mn to \$4.3bn, of which \$3.5bn will be funded through long-term debt. Looking ahead to the upcoming year, borrowing is estimated to be \$3.5bn. That is forecasted to be financed with \$3.3bn of LT debt and \$0.2bn of new ST debt. Under the current assumptions, net debt-to-GDP is estimated to drop by two ticks to 18.8% for the upcoming fiscal year, before gradually increasing and peaking at 20.4% in 2025/26.

**Table 1: Summary of fiscal position: (C\$millions)**

| Fiscal measure          | 2020/21<br>Actual | 2021/22<br>21 Budget | 2021/22<br>22 Budget | 2021/22<br>Change | 2022/23<br>22 Budget | 2023/24<br>22 Budget | 2024/25<br>22 Budget | 2025/26<br>22 Budget |
|-------------------------|-------------------|----------------------|----------------------|-------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Revenue</b>          | <b>14,524</b>     | <b>14,478</b>        | <b>17,496</b>        | <b>3,018</b>      | <b>17,158</b>        | <b>17,589</b>        | <b>18,011</b>        | <b>18,534</b>        |
| Own source              | 11,391            | 10,671               | 13,116               | 2,445             | 13,195               | -                    | -                    | -                    |
| • % change              | -0.4              | 9.2                  | 15.1                 | 5.9               | 0.6                  | -                    | -                    | -                    |
| Federal transfers       | 3,133             | 2,909                | 3,406                | 498               | 3,220                | -                    | -                    | -                    |
| Net income from Crowns  | 1,278             | 899                  | 974                  | 74                | 743                  | -                    | -                    | -                    |
| <b>Expenditures</b>     | <b>15,651</b>     | <b>17,089</b>        | <b>19,681</b>        | <b>2,592</b>      | <b>17,621</b>        | <b>17,973</b>        | <b>18,332</b>        | <b>18,699</b>        |
| Program spending        | 14,930            | 16,334               | 18,956               | 2,622             | 16,809               | -                    | -                    | -                    |
| • % change              | 2.7               | 7.1                  | 27.0                 | 19.8              | -11.3                | -                    | -                    | -                    |
| Public debt charges     | 721               | 755                  | 725                  | -30               | 812                  | -                    | -                    | -                    |
| <b>Surplus(deficit)</b> | <b>-1,127</b>     | <b>-2,611</b>        | <b>-2,185</b>        | <b>426</b>        | <b>-463</b>          | <b>-384</b>          | <b>-321</b>          | <b>-165</b>          |

## Saskatchewan economy recovering strongly

Saskatchewan's economy rebounded strongly in 2021, with real GDP growing 3.5%, roughly in line with last year's growth expectations. Many key economic indicators returned to or exceeded pre-pandemic levels. Notably, housing starts and manufacturing sales had the highest growth relative to pre-pandemic levels among the provinces. Nominal GDP, a better indicator for revenue growth, was much stronger than anticipated (10.1% vs 5.9% expected last year).

Looking forward, the province sees real GDP growth increasing to 3.7% in 2022, below the consensus forecast (4.1%) and only a bit above our own forecast (3.3%). Economic growth is then expected to slow to 2.5% in 2023 before averaging 2.2% for the two following years. Investment in the mining, agriculture, oil and gas, and forestry sectors is expected to drive significant growth. Drilling activity increased significantly in 2021 and is expected to further increase in 2022 and beyond, with a projection of 2,700 wells by 2026, up from 1,319 in 2021. The province is also expecting to see increased production of potash as a result of the supply disruption in Belarus. In nominal terms, GDP is expected to grow by 9% in 2022, before moderating to 3.7% in 2023.

The assumptions for oil prices (US\$79/bbl for WTI in 2022, falling to US\$73/bbl in 2023) are lower than the current price and our own expectations. Sensitivities provided by the province show a US\$1/bbl change in the fiscal-year average WTI

oil price results in an estimated \$14mn change in oil royalties. Similarly, a US\$10 per KCI tonne change in the realized potash price results in an estimated \$50 million change in potash royalties.

**Table 2: Key assumptions (Y/Y % chg)**

| Economic assumptions     | 2021 | 2022 | 2023 | 2024-26 |
|--------------------------|------|------|------|---------|
| Real GDP                 | 3.5  | 3.7  | 2.5  | 2.2     |
| • Private sector average | -    | 4.1  | 2.9  | -       |
| Nominal GDP              | 10.1 | 9.0  | 3.7  | 1.7     |
| Employment growth (K)    | 14.1 | 14.8 | 12.6 | 11.8    |
| Unemployment rate (%)    | 6.5  | 5.4  | 4.9  | 4.2     |
| Retail sales             | 11.8 | 0.5  | 2.7  | 1.6     |

Note: 2024-26 is two-year average

**Table 3: Key financial assumptions**

| Financial assumptions   | 2021 | 2022 | 2023 | 2024-2026 |
|-------------------------|------|------|------|-----------|
| Exchange rate (US¢/C\$) | 79.8 | 80.2 | 79.4 | 78.9      |
| WTI (US\$/bbl)          | 68.0 | 79.0 | 73.0 | 69.7      |
| Potash (US\$/KCI tonne) | 277  | 410  | 397  | 374       |

Note: 2024-26 is two-year average

## Plan to return to balance by 2026/27 unchanged

The \$2.2bn deficit for fiscal year 2021/22 is somewhat slimmer than the \$2.6bn anticipated a year ago. Relative to the 2021-22 budget, revenues were higher across all categories, but over a third of the increase came from higher non-renewable resource revenue. That was partially offset by larger expenses.

Looking forward to fiscal 2022/23, the deficit is expected to be slashed to \$463mn as expenses fall by about \$2bn.

Total revenue is forecast to decrease by 1.9% in 2022/23, as all major categories except non-renewable resources are expected to be lower than in the previous year. Corporation Income Tax revenue is budgeted to decrease by \$151mn as stronger-than-expected 2020 taxpayers assessments, resulting in a large positive prior-year adjustment in 2021/22, are not expected to repeat. Somewhat offsetting that reduction, the Provincial Sales Tax (PST) revenue is budgeted to increase by \$104mn, partially as a result of the implementation of PST on admissions and entertainment. Federal transfers are expected to fall by \$187mn, as many one-time contributions end. Non-renewable resource revenue is forecasted to increase by 19.4% (or \$473mn) primarily as a result of higher expected potash prices.

On the spending side, expenses are projected to be higher than in those planned for in 2021/22 budget, but lower than the current projection for expenses for that fiscal year. The province plans large increases in health expenses, including to reduce wait times for surgeries and increase compensation across the sector. The completion of some programs, such as the Saskatchewan Economic Recovery Rebate, will help bring down total expenses.

The medium-term outlook features deficits across the planning horizon, but Saskatchewan's plan to return to balance no later than 2026/27 remains unchanged. The deficit should narrow progressively over the next few years as revenue growth slightly outpaces expenses.

## Borrowing for operations decreasing

In the budget last year, borrowing for the 2021/22 fiscal year was estimated to be \$4.7bn which was planned to be satisfied through \$4.1bn of long-term debt and \$0.6bn of new short-term debt. However, due to the improvements mentioned above, borrowing requirements for the outgoing fiscal year have dropped by some \$400mn to \$4.3bn. The province chose to alter its plans and fund more through new short-term debt (\$0.8bn), while reducing long-term issuance to \$3.5bn.

Looking ahead, the 2022/23 borrowing requirements are estimated to be \$3.5bn, which is to be funded by \$3.3bn of LT debt and \$0.2bn of new ST debt. Of that amount, \$665mn is for the purpose of refinancing maturing debt, \$500mn is to improve operational flexibility through liquidity, while the remaining amount is to finance infrastructure assets and fund the deficit.

This past December, Saskatchewan said that they plan to access international markets to a larger extent than before, and that by fiscal year-end, they could be in the USD and/or European markets if funding conditions were attractive. Indeed, the province issued a CHF100mn 10yr bond just a little over a month ago. Meanwhile, the only other foreign bond outstanding for the province is a US\$300mn bond which matures in July of this year. That creates a possibility of a USD deal by the province to refinance that maturing debt.

Table 4: Borrowing requirements (C\$millions)

| Borrowing requirements     | Budget 2021/22 | Update 2021/22E | Budget 2022/23F |
|----------------------------|----------------|-----------------|-----------------|
| General revenue fund (GRF) | 2,300          | 1,925           | 1,070           |
| Saskatchewan capital plan  | 1,600          | 1,500           | 1,400           |
| Crown corporations         | 757            | 828             | 1,052           |
| <b>Total</b>               | <b>4,657</b>   | <b>4,253</b>    | <b>3,522</b>    |

Table 5: Borrowing sources (C\$millions)

| Borrowing sources   | Budget 2021/22 | Update 2021/22E | Budget 2022/23F |
|---------------------|----------------|-----------------|-----------------|
| Long-term debt      | 4,100          | 3,478           | 3,295           |
| New short-term debt | 557            | 775             | 227             |
| <b>Total</b>        | <b>4,657</b>   | <b>4,253</b>    | <b>3,522</b>    |

Table 6: Public debt (C\$millions)

| Public debt balances                   | Budget 2021/22 | Update 2021/22E | Budget 2022/23F |
|--|----------------|-----------------|-----------------|
| GRF operating debt                     | 9,400          | 9,000           | 9,925           |
| Saskatchewan capital plan              | 8,142          | 8,042           | 9,269           |
| Other government service organizations | 313            | 292             | 266             |
| Crown corporations                     | 9,911          | 9,853           | 10,584          |
| <b>Total</b>                           | <b>27,766</b>  | <b>27,187</b>   | <b>30,045</b>   |

## Net debt as a percentage of GDP to peak in 2025/26

Due mainly to the improved deficit forecast, net debt is projected to be around \$550mn lower than what was tabled last year. But despite being lower than expected, it is still increasing by \$2.5bn year-over-year, and is now estimated to be \$16.3bn as of March 31, 2022. As for this upcoming year, net debt is projected to increase to \$17.5bn on the back of the deficit forecast and capital spending.

Prior to the pandemic, Saskatchewan had a very low net debt-to-GDP ratio of 14.1% in 2019. However, due to the deterioration of its fiscal health, and in line with what was seen in other provinces, that ratio is forecasted to increase to 19.0% as at March 31, 2022.

Under the current assumptions, net debt-to-GDP is estimated to drop by two ticks to 18.8% for the upcoming fiscal year. Looking further ahead, that ratio is expected to gradually increase and peak in 2025/26 at 20.4%, after which point it is expected to decline to 20.1% the following year. Despite the increase over the medium term, the net debt ratio is still expected to be amongst the lowest of its provincial peers.

## Public debt increasing due to capital spending

Public debt for the fiscal year ending is estimated to be \$27.2bn, which is \$0.6bn lower than expected. That improvement was primarily due to the reduction in operating debt required to fund the 2021/22 deficit as well as decreases in Saskatchewan Capital Plan and GBE debt. For the year ending March 31, 2023, total public debt is forecasted to be \$30.0bn, an increase of \$2.9bn year-over-year. That is due to a \$1.3bn increase in debt for infrastructure assets under the Saskatchewan Capital Plan, \$0.9bn increase in operating debt to fund the deficit and increase liquidity, as well as \$0.7bn of increased debt for GBEs.

Throughout the forecast horizon, public debt is projected to steadily increase to \$35.2bn by March 31, 2027. Most of the increase is related to the capital plan debt, which sees it increasing from \$9.5bn this year to \$13.5bn by 2026/27.

Meanwhile, GBE debt is projected to increase by \$1.0bn over the same timeframe, while operating debt is only \$0.2bn higher.

The 2022/23 capital plan contributes a record \$3.2bn of capital spending for the upcoming fiscal year and a projected spending of nearly \$12.0bn over the next four years to spur economic recovery. This year's plan keeps the province on track with its Growth Plan Goal to invest \$30.0bn into infrastructure by 2030.

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