

Saskatchewan: 2021–22 Mid-Year Update

STRONG REVENUE GAINS OFFSET COST OF DROUGHT

- **Budget balance forecasts:** **-\$2.7 bn** (-3.1% of nominal GDP) in FY22, a slight increase of \$97 mn versus Budget 2021 (-\$2.6 bn, -3.2%) (chart 1), while the FY21 shortfall came in more than \$700 mn less than budgeted.
- **Net debt forecast:** lowered by \$871 mn to \$16.7 bn (19.4% of GDP) (chart 2, p.2) for FY22, helped by smaller-than-forecast FY21 deficit and debt.
- **Real GDP growth forecast:** increased to 3.6% in calendar year 2021, slightly higher than the 3.4% anticipated in the April 2021 Budget; nominal GDP projection raised from 5.9% to 11%.
- **Despite a slightly larger shortfall than previously anticipated, Update shows a province in the midst of a strong economic recovery, and fiscal advantages remain in Saskatchewan's balance sheet.**

OUR TAKE

Even though this update incrementally increased the current year deficit forecast, revisions to revenue projections show a province in the midst of a **strong economic recovery**. Forecasts for all revenue categories were lifted significantly higher than anticipated at Budget time in light of strong GDP growth this year. Total FY22 receipts are expected to come in \$2.4 bn (16.5%) stronger than forecast in April, with \$669 mn from non-renewable resources on the back of rising oil and potash prices. Federal transfers are set to contribute a further \$543 mn in addition to prior expectations. In all, projections do not suggest deviation from prior plans to balance the books by FY27.

Expenditure forecasts were raised significantly, and the increase slightly exceeded the revenue gain. The largest single overshoot came in agricultural spending; as a result of the widespread drought conditions experienced in the Prairies this summer, the province expects to spend \$1.4 bn more than at the time of its first quarter update—and \$2.1 bn more than in Budget 2021—on items such as crop insurance claims and relief for livestock producers. The government also expects its severe fourth pandemic wave to prompt a \$250 mn rise in health spending relative to Budget projections. Both factors could reasonably be expected to subside beyond FY22, though the recent floods in BC have reminded us that extreme weather events may become more common in the coming years.

Despite an upward revision in its deficit, Saskatchewan maintains some fiscal advantages versus other provinces. Among the provinces that have released mid-year updates, Saskatchewan's 19.4% net debt-to-GDP ratio exceeds only that of BC. That is also a material improvement versus the province's own expectation of 21.7% at Budget time. Continued prudence in this

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Updated Fiscal Forecast

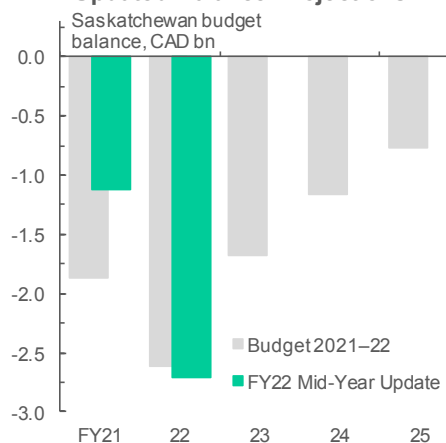
\$ millions except where noted

	FY22	
	Apr.'21	Nov. '21
Total Revenue	14,478	16,869
Non-Renewable Resources	1,329	1,997
Other Own-Source	10,241	11,421
Federal Transfers	2,909	3,451
Total Spending	17,089	19,577
Program Spending	16,334	18,822
Agriculture	879	3,023
Health	6,535	6,785
Education	3,753	3,790
Social Services	1,557	1,508
Other	4,489	6,739
Debt Service	755	755
% of Revenue	5.2	4.5
Budget Balance	-2,611	-2,708
% of GDP	-3.2	-3.1
Net Debt	17,585	16,714
% of GDP	21.7	19.4

Sources: Scotiabank Economics, Saskatchewan Finance.

Chart 1

Updated Balance Projections



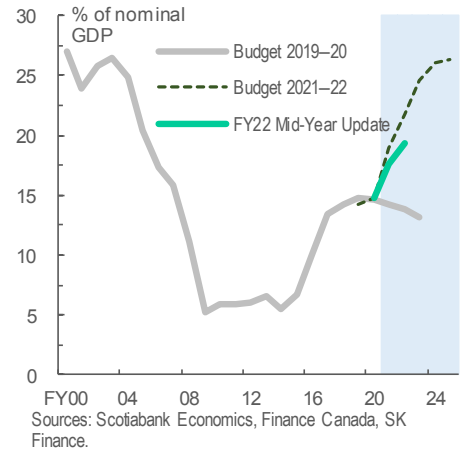
Sources: Scotiabank Economics, Saskatchewan Finance.

Update leaves room for upside to the province's bottom line. The government pencilled in a modest real GDP growth assumption of 3.6% in 2021, lower than the private sector average (4.3%).

Borrowing projections were not updated, but a similar deficit to the one anticipated at Budget time suggests that the program will be roughly in line with the \$4.7 bn forecast for FY22 at Budget time.

Chart 2

Saskatchewan's Net Debt Projections



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