Saskatchewan Budget Highlights

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Highlights and analysis of Saskatchewan's FY19/20 budget — **March 20, 2019, 3:30 pm**

Sticking to the Script

Robert Kavcic, Senior Economist • robert.kavcic@bmo.com • 416-359-8329

The **Province of Saskatchewan is projecting a small $34 million surplus for FY19/20,** or negligible as a share of GDP. That is improved from the $380 million deficit now expected for FY18/19 (slightly deeper than the mid-year update). Recall that this coming fiscal year marks the third in the government's ongoing plan to balance the books, so that promise appears on track at this point. Of course, Saskatchewan is very much at the mercy of oil prices, and recent gains in WTI and Canadian prices have helped the cause—the Province continues to forecast without a contingency, a practice that started last year. That said, the price and currency assumptions are perfectly reasonable, though not overly conservative. Net debt will dip as a share of GDP, to 14.7% in FY19/20, after rising steadily in recent years.

The only major policy change was a change to the **Potash Production Tax** (effective April 1st), which eliminates the Saskatchewan Resource Credit is for potash production, while Crown and freehold royalties will no longer be deductible in determining the base—this will contribute to a $117 million gain in potash revenues this coming fiscal year, but the impact of this specific measure is unclear.

Total revenue is projected to rise 4.8% to $15.0 billion in FY19/20, with resource revenues and income taxes adding to growth. A solid gain in resource revenues (up 7%) comes on the back of the $117 million jump in potash revenues, partly the result of the above-mentioned tax change. Prices and sales are expected to nudge very modestly higher as well. Meantime, oil-related revenues are expected to hold relatively steady. WTI oil prices are expected to average $59.75 for the fiscal year, while the light-heavy differential improves to 24.8%. The loonie is pegged at 77.2 US cents, which is probably the most conservative forecast in the plan at this point (a lower loonie brings in higher revenues).

While higher year-over-year, keep in mind that overall resource revenues ($1.8 billion) have fallen from around $3 billion just a few years ago. Longer term, WTI is expected to drift up gradually to just above $70 by FY22/23, while the differential gradually narrows to 17% and the loonie moves back to 80 US cents.

Note: A $1 drop in oil prices would cut revenues by $15 million; a $10 drop in potash would shave $54 million; and a 1 cent increase in the value of the Canadian dollar would cut $28 million.

The revenue outlook is also based on **reasonable economic growth assumptions**. Real GDP is projected to rise 1.2% in 2019 before picking up to 2.4% next year. Our call is similar at 0.9% this year, and bit more restrained at 1.3% in 2020 (but could be scaled up if oil production rebounds, as the Province is expecting). The key message

Table 1
Fiscal Summary

Saskatchewan (C$ mlns, except where noted)

	Est. 18/19	19/20	Forecast 20/21	21/22
Summary Budget				
Revenue	14,330	15,025	15,339	15,668
Expenses	14,710	14,991	15,290	15,596
Contingency	—	—	—	—
Summary Balance	(380)	34	49	72
Net Debt	12,132	12,648		
As a percent of GDP:				
Summary Balance	(0.5)	0.0		
Net Debt	14.8	14.7		
Percent of total revenue:				
Resource Revenues	11.9	12.2		
Federal Transfers	17.5	16.4		
Key assumptions:				
WTI Oil (US$/bbl)	62.50	59.75	61.50	64.75
Potash (US$)	211	221	225	230
Real GDP (% chng)	1.0	1.2	2.4	1.7
Nominal GDP (% chng)	3.6	2.0	3.7	3.4

Table 2
Borrowing Requirements

Saskatchewan (C$ mlns)

	18/19	19/20
Total borrowing	**3,212**	**2,265**
Operating	975	107
Saskatchewan Builds	1,500	1,300
Crown Corporations	737	858

Source: Provincial Budget ( ) = deficit
Note: GDP figures are for calendar year (FY19/20=CY19)

here is that the economy is growing, but continues to be held back by weaker oil-sector capital investment and a retrenching residential housing sector—think inventory overhang from the prior boom, and falling home prices. Population growth, while still solid at 0.9% y/y, has slowed sharply from recent years as net interprovincial flows have turned deeply negative.

Total spending is projected to rise a modest 1.9% in FY19/20, to $15.0 billion. The Province has kept a firm lid on operating spending, which is little changed over the past four years. Looking ahead, the Province plans to hold total spending growth at 2% per year through FY22/23, maintaining thin surpluses along the way.

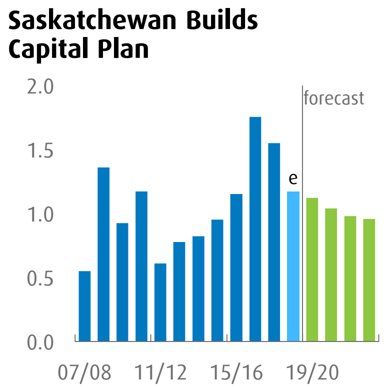
Meantime, **capital spending** under the Saskatchewan Builds Capital Plan will continue to decline this year, to $$1.12 billion, down from last year's $1.17 billion total. The program peaked at $1.8 billion in FY16/17, and has now begun to consistently fade through the forecast horizon. Recall that Saskatchewan had a massive infrastructure shortfall between 2010 and 2015, when the economy was rollicking and population growth was running at 50-year highs. As such, the Province was racking up debt through the capital plan despite operating surpluses. That environment is now well past.

The slowly shrinking capital spending program, combined with the small operating budget surplus, will reduce borrowing requirements this fiscal year. **Total borrowing requirements** are expected to be $2.3 billion in FY19/20, down from $3.2 billion in FY18/19. The Saskatchewan Builds Capital Plan still accounts for a big chunk of the borrowing program ($1.3 billion). Crown Corporations will borrow $858 million and the remainder ($107 million) is for refinancing operating debt. That will lift public debt above 24% of GDP, while **net debt** will dip a tick, and remains comparatively low versus its peers at 14.7% of GDP. The latter is up 8 ppts from just five years ago, and the rapid pace of increase (due to operating deficits and a swelling capital spending plan) was becoming a bit of an issue from a credit perspective—so stability on this front is welcome.

The Bottom Line: The Province of Saskatchewan has stuck to its plan to balance the books this fiscal year, and the borrowing program has slimmed alongside lower capital spending—both are positive developments from a credit perspective.

Chart 1
Capital Spending Fading

Saskatchewan (C$ blns)



Source: Provincial Budget e = estimate