

Economics

PROVINCIAL BUDGET BRIEFS

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Saskatchewan budget 2024

The province of Saskatchewan is now projecting a \$483mn deficit for the outgoing fiscal year, with the deterioration relative to last year's budgeted surplus largely due to increased spending on agricultural insurance claims. Even though expenditure in that area is anticipated to normalise in the year ahead, increases in spending on health, education and debt interest payments are expected to keep the province in deficit, albeit a modest one as a proportion of GDP (0.2%). The shift to a budget deficit, combined with increased borrowing requirements for capital spending and on behalf of crown corporations, will see long-term borrowing rise to \$4.0bn in fiscal 2024/25, from \$2.3bn in the outgoing fiscal year.

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

Fiscal measure	2022/23 Actual	2023/24 23 Budget	2023/24 24 Budget	2023/24 Change	2024/25 24 Budget	2025/26 24 Budget	2026/27 24 Budget	2027/28 24 Budget
Revenue	20,595	19,678	20,383	706	19,862	20,617	21,400	22,213
Own source	16,988	15,594	15,847	253	15,425	-	-	-
• % change	22.7	-6.2	-6.7	-0.5	-2.7	-	-	-
Federal transfers	3,357	3,555	3,735	181	3,780	-	-	-
Net income from Crowns	250	529	801	272	657	-	-	-
Expenditures	19,014	18,660	20,866	2,206	20,135	20,598	21,175	21,874
Program spending	18,198	17,848	20,041	2,193	19,224	-	-	-
• % change	-3.6	-2.5	10.1	12.6	-4.1	-	-	-
Public debt charges	816	812	824	12	912	-	-	-
Surplus(deficit)	1,581	1,017	-483	-1,499	-273	18	225	340

Saskatchewan growth likely to remain above-average

Like the rest of the country, growth in Saskatchewan's economy decelerated in 2023 and is likely to do so again this year. With the province basing its outlook on a consensus of private sector forecasters, real GDP growth is expected to decelerate to just 1% this year before accelerating thereafter to average around 2%. With commodity prices expected to be more stable this year following some large declines in 2023, nominal GDP should fare better. Indeed, growth of just over 2% in 2024 would be an improvement from the mild contraction estimated for last year.

The assumptions for commodity prices in the coming 2024/25 fiscal year are slightly conservative relative to current spot prices. Fiscal sensitivities provided by the province suggest that a \$1/bbl difference in average oil price over the year would bring a \$17.5mn change in revenue, while a \$10/KCI tonne difference in potash price would see a \$52.6mn swing in revenue.

Saskatchewan has seen rapid population growth, and homebuilding activity has held up better than the national average in the current high interest rate environment. Business investment has also outperformed, and the province cites ongoing investments in manufacturing and natural resources as key drivers of future capacity and growth.

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

Economic assumptions	2023	2024	2025	2026-28
Real GDP	1.4	1.0	1.8	2.2
Nominal GDP	-0.3	2.1	3.2	3.8
Employment growth (K)	10.7	8.4	8.8	8.7
Unemployment rate (%)	4.8	5.5	5.6	5.5
CPI	3.9	2.6	2.0	2.0

Note: 2026-28 is three-year average

Table 3: Key financial assumptions

Financial assumptions	2023/24	2024/25	2025/26	26/27-27/28
Exchange rate (US\$/C\$)	74.0	74.4	74.9	76.2
WTI (US\$/bbl)	77.3	77.0	75.0	77.0
Potash (US\$/KCl tonne)	284	268	283	305.0

Note: 2026/27-2027/28 is two-year average

Back to modest deficits

Today's budget included the Q3 update for the outgoing 2023/24 fiscal year, with a deficit of \$483mn now projected. While that's a modest deficit as a proportion of GDP (0.4%), it comes in contrast to the \$1.0bn surplus tabled in Budget 2023 and represents a further slight deterioration relative to the mid-year update. The change comes on the expense side, as total revenues are tracking modestly higher than initially budgeted, despite lower resource revenues. Relative to last year's budget, the largest increase in spending has been in agriculture (+1.1bn) due to higher crop insurance claims following last year's drought. Health spending is also now expected to be almost \$0.5bn higher than Budget 2023, partly driven by worker compensation and a contract settlement with Saskatchewan Medical Association.

For the upcoming 2024/25 fiscal year, the province is now expecting to see a further, albeit slightly narrower, deficit of \$273mn (0.2% GDP). Revenues are projected to decline mainly due to an expected drop in corporation income tax receipts following a record intake in the outgoing fiscal year. Resource revenues are anticipated to rise slightly, but remain well below levels seen in fiscal 2022/23 when commodity prices were at their peak. While the province has stopped collecting the federal carbon tax on home heating, this move doesn't impact its own revenue or budget deficit projections.

On the spending side, a decline relative to the outgoing 2023/24 fiscal year is mainly reflective of an expected \$1.0bn drop in agriculture expenditures as insurance claims normalise. Spending in other priority areas such as health and education will continue to increase, while debt servicing costs will be approximately \$90mn (11%) higher than in the outgoing year.

The medium term projections show the province returning to balance in fiscal 2025/26, with surpluses gradually growing to \$340mn by 2027/28. Revenues are expected to increase by just under 4% a year during that period, broadly mirroring the assumptions for nominal GDP, while spending will increase by an average of less than 3%.

Borrowing requirements are increasing

In the budget last year, borrowing for this current fiscal year was estimated to be \$1.7bn, which was planned to be satisfied through \$1.2bn of long-term debt, \$0.2bn of new short-term debt and \$0.3bn of internal financing sources. However, due to the deterioration in the 2023/24 fiscal outlook which led to a reduction in cash available from operations, borrowing requirements for this outgoing fiscal year are now \$2.7bn.

To fulfil those requirements, the province left internal financing unchanged at \$0.3bn, while short-term funding was lowered to \$0.1bn. The remaining amount was completed through long-term debt issuance of \$2.3bn. That was achieved through nine deals which were all completed domestically. Meanwhile, the province currently has only two foreign denominated bonds outstanding, one in USD and another in CHF.

Looking ahead to the upcoming year, higher requirements for both the capital plan and GBEs, as well as new requirements for the General Revenue Fund places 2024/25 borrowing requirements at \$4.4bn. That is expected to be funded through \$4.0bn of long-term debt and \$0.4bn of new short-term debt. Unlike this outgoing year, the province is not using any internal financing sources to fund requirements.

As a result of the increase in required borrowing this past year, financing charges in 2023/24 are forecast to be slightly higher than budgeted. Meanwhile, charges in 2024/25 are expected to increase from this outgoing year due to interest on new Saskatchewan Capital Plan debt, as well as higher interest rates on refinanced debt.

Table 4: Borrowing requirements (C\$millions)

Borrowing requirements	Budget 2023/24	Update 2023/24E	Budget 2024/25F
General revenue fund (GRF)	-	-	927
Saskatchewan capital plan	600	1,700	1,900
Crown corporations	1,076	978	1,537
Total	1,676	2,678	4,364

Table 5: Borrowing sources (C\$millions)

Borrowing sources	Budget 2023/24	Update 2023/24E	Budget 2024/25F
Long-term debt	1,173	2,263	3,980
Short-term debt	203	115	384
Internal financing	300	300	-
Total	1,676	2,678	4,364

Net debt as a percentage of GDP is growing due to deficit and spending

For this outgoing fiscal year, Saskatchewan's net debt is forecasted to finish at \$15.2bn, an increase of \$1.1bn from the budget estimate. That is largely due to the swing from a projected surplus to a deficit, which needed to be funded. That places the net debt-to-GDP ratio at 13.3% at March 31, 2024, up from the 12.8% in the prior year. That is still a significant reduction from the 17.5% in 2022, as the government retired debt in the prior two years.

Meanwhile, for this upcoming fiscal year, the ratio is projected to further increase to 14.0%. That is a result of net debt increasing by \$1.2bn due to capital spending and borrowing for GBEs. Under the current assumptions, Saskatchewan's net-debt-to-GDP ratio is forecasted to remain relatively stable over the medium-term. The ratio is projected to peak in 2026 and 2027 at 14.6%, before falling to 14.3% by March 31, 2028. This outlook is a deterioration from last year's budget which anticipated the net debt-to-GDP ratio reaching 13.6% in 2027. Despite the projected increase, the ratio is still forecasted to be the second lowest amongst its provincial peers.

2024/25 Capital budget the largest in Saskatchewan's history

The 2024/25 Saskatchewan Capital Plan calls for \$4.4bn of investments and continues to support the growth plan's objective of investing \$30.0bn in infrastructure by 2030. That is the largest capital investment in a single year in Saskatchewan's history. Over the next four years through 2027/28, there are \$17.9bn of investments planned. That compares to last year's capital plan which had \$3.7bn and \$15.2bn, respectively, in investments over a four year span. Meanwhile, the \$30.0bn growth plan objective is unchanged from last year's budget.

One of the two key areas of spending is in Health Care, with nearly \$2.6bn over the next four years including \$517mn in 2024/25. The other area is in Transportation Infrastructure which is projected to see \$1.8bn of spending over the next four years, with \$417mn planned this upcoming year. Meanwhile, total Crown corporation spending is projected to be \$2.6bn this upcoming year, while totalling \$9.5bn over the four-year plan. That is the largest capital investment in the sector's history.

As a result, gross taxpayer-supported debt is forecast to be \$21.1bn at March 31, 2025, up from \$19.2bn the previous year due to increased borrowing for the Saskatchewan Capital Plan. Meanwhile, self-supporting debt is expected to increase over the medium-term from \$12.6bn in 2024 to \$16.1bn by 2028 due to planned capital spending by Government Business Enterprises. The province does have sinking funds designated for the repayment of debt and is estimated to reach a combined \$4.8bn by 2028. Of that total, the sinking fund designated for the repayment of self-supporting debt is estimated to reach \$1.8bn over the medium-term, while the remaining \$3.0bn is for taxpayer-supported debt.

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