

## Economics

# PROVINCIAL BUDGET BRIEFS

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## Saskatchewan budget 2023

The province of Saskatchewan benefitted from strong commodity prices and a healthy economy in the outgoing fiscal year, turning a budgeted deficit into an expected healthy surplus of \$1.15bn (over 1% of nominal GDP). While commodity prices have come down, which impacts revenue projections for the upcoming fiscal year, spending is also expected to be lower. As a result, a further \$1.0bn surplus is expected, which will be used to pay down debt. While oil price assumptions look a little optimistic given events of the past couple of weeks, sensitivity analysis suggests that even at today's level the province should still be able to achieve a healthy surplus. Borrowing requirements are expected to fall from \$2.7bn in 2022/23 to \$1.7bn in fiscal 2023/24, of which \$1.2bn will be satisfied through long-term debt.

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

| Fiscal measure          | 2021/22<br>Actual | 2022/23<br>22 Budget | 2022/23<br>23 Budget | 2022/23<br>Change | 2023/24<br>23 Budget | 2024/25<br>23 Budget | 2025/26<br>23 Budget | 2026/27<br>23 Budget |
|-------------------------|-------------------|----------------------|----------------------|-------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Revenue</b>          | 18,136            | 17,158               | 20,262               | 3,104             | 19,678               | 19,372               | 19,816               | 20,314               |
| Own source              | 13,839            | 13,195               | 16,628               | 3,432             | 15,594               | -                    | -                    | -                    |
| • % change              | 25.7              | 0.6                  | 24.2                 | 23.6              | -6.2                 | -                    | -                    | -                    |
| Federal transfers       | 3,459             | 3,220                | 3,361                | 142               | 3,555                | -                    | -                    | -                    |
| Net income from Crowns  | 838               | 743                  | 273                  | -470              | 529                  | -                    | -                    | -                    |
| <b>Expenditures</b>     | 19,604            | 17,621               | 19,115               | 1,494             | 18,660               | 19,164               | 19,681               | 20,213               |
| Program spending        | 18,886            | 16,809               | 18,298               | 1,490             | 17,848               | -                    | -                    | -                    |
| • % change              | 30.0              | -11.3                | -3.1                 | 8.2               | -2.5                 | -                    | -                    | -                    |
| Public debt charges     | 718               | 812                  | 817                  | 5                 | 812                  | -                    | -                    | -                    |
| <b>Surplus(deficit)</b> | -1,468            | -463                 | 1,147                | 1,610             | 1,017                | 208                  | 134                  | 101                  |

## Saskatchewan economy catching and surpassing others

Saskatchewan made a slower rebound from the pandemic than some other parts of the country, as drought conditions impacted agriculture and overall GDP in 2021. However, the province played catch-up in 2022, with real GDP estimated to have risen by 4.8% - well above the national average. The impact of higher commodity prices meant that nominal GDP, which has a closer relationship with revenues, increased by roughly 20% last year. While Saskatchewan's economy is expected to slow in line with the weakening national and global outlook, the tailwinds of strong population growth and business investment (including within the resource sector) are expected to support modest-to-moderate growth over the forecast horizon. After slowing to 1.3% in 2023, real GDP growth is expected to accelerate again and average over 2% between 2024 and 2027.

The forecasts for nominal GDP aren't much stronger than those for real GDP, reflecting forecasts of slightly lower commodity prices and a strengthening in the exchange rate over the forecast horizon. However, events of the past couple of weeks have left this year's forecast for WTI oil prices (\$79.5/bbl for fiscal 2023/24) looking a little on the optimistic side. That said, sensitivity analysis suggests that even at today's level, the hit to revenues would be fairly modest and the province should still be on course for a healthy budget surplus. A \$1/bbl divergence in oil price results in a \$15.6mn change in oil royalties.

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

| Economic assumptions     | 2022 | 2023 | 2024 | 2025-27 |
|--------------------------|------|------|------|---------|
| Real GDP                 | 4.8  | 1.3  | 1.8  | 2.3     |
| • Private sector average | 5.4  | 1.5  | 1.5  | -       |
| Nominal GDP              | 19.9 | 0.8  | 1.2  | 2.7     |
| Employment growth (K)    | 19.8 | 5.4  | 5.7  | 8.1     |
| Unemployment rate (%)    | 4.7  | 5.3  | 5.3  | 5.5     |
| Retail sales             | 7.5  | 2.3  | 2.4  | 3.1     |

Note: 2025-27 is three-year average

Table 3: Key financial assumptions

| Financial assumptions    | 2022/23 | 2023/24 | 2024/25 | 25/26-26/27 |
|--------------------------|---------|---------|---------|-------------|
| Exchange rate (US\$/C\$) | 76.2    | 74.4    | 76.0    | 77.7        |
| WTI (US\$/bbl)           | 90.7    | 79.5    | 77.3    | 77.0        |
| Potash (US\$/KCl tonne)  | 562     | 369     | 372     | 367         |

Note: 2025/26-2026/27 is three-year average

## Healthy surplus to remain in 2023/24, before slimming

Having originally budgeted for a deficit in the outgoing 2022/23 fiscal year, Saskatchewan is now on course to post a surplus of \$1.15bn (just over 1% of nominal GDP). Own source revenues are expected to be \$3.4bn higher than originally anticipated, with just under half of this improvement directly linked to resource revenue (mostly potash rather than oil). Corporation tax receipts are also expected to be more than \$1bn higher than originally budgeted for. Partly offsetting the improvement in revenue, spending is currently expected to be \$1.5bn higher than Budget 2022's projections, with more than half of the increase linked to agriculture. That included higher crop insurance indemnities due to elevated insured crop prices.

For the upcoming fiscal year, own source revenues are expected to drop by just over \$1bn as the windfall from last year's commodity price surge reverses. Partly offsetting this decline in terms of total revenue, transfers from the federal government and net income from crown corporations are both expected to be higher. Spending is also expected to be lower in fiscal 2023/24 than it has been in the outgoing fiscal year, with program spending expected to see a 2.5% decline. However, this partly reflects lower expected spending for agriculture which was much higher than initially budgeted for in the outgoing fiscal year. The budget still allows for spending increases in health and education. Efforts to pay down debt will help keep debt service costs stable at \$812mn in fiscal 2023/24, despite the higher interest rate environment.

Overall, the province expects a \$1.0bn surplus in fiscal 2023/24 (just less than 1% of nominal GDP). The medium term projections see total revenues rising at an average annual pace of only 1%, while spending increases by closer to 3%, seeing the surplus narrow to \$101mn by fiscal 2026/27 (0.1% of current GDP).

## Borrowing requirements are dropping

In the budget last year, borrowing for this current fiscal year was estimated to be \$3.5bn, which was planned to be satisfied through \$3.3bn of long-term debt and \$0.2bn of new short-term debt. However, due to the improvements mentioned above, borrowing requirements for this outgoing fiscal year dropped by some \$800mn to \$2.7bn.

To fulfil those requirements, the province left short-term funding unchanged at \$0.2bn, while introducing \$400mn of internal financing, which was not tabled in the budget. The remaining was completed through long-term debt issuance of \$2.1bn. That was achieved through four deals with the largest transaction being US\$1.0bn, while the remaining three were completed in the domestic markets. Their only other foreign bond outstanding is a CHF\$100mn due 2032, which was issued in 2022.

Looking ahead, the 2023/24 borrowing requirements are estimated to be \$1.7bn. That is expected to be funded by \$1.2bn of long-term debt, \$0.2bn of new short-term debt, while the province is choosing to fund the remaining \$0.3bn through internal financing.

Due to the lower borrowing this year, as well as some planned retirement of debt from the surplus position forecasted, the province has generated an estimated \$117mn in annual interest savings.

Table 4: Borrowing requirements (C\$millions)

| Borrowing requirements     | Budget<br>2022/23 | Update<br>2022/23E | Budget<br>2023/24F |
|----------------------------|-------------------|--------------------|--------------------|
| General revenue fund (GRF) | 1,070             | -                  | -                  |
| Saskatchewan capital plan  | 1,400             | 1,267              | 600                |
| Crown corporations         | 1,052             | 1,417              | 1,076              |
| <b>Total</b>               | <b>3,522</b>      | <b>2,684</b>       | <b>1,676</b>       |

Table 5: Borrowing sources (C\$millions)

| Borrowing sources  | Budget<br>2022/23 | Update<br>2022/23E | Budget<br>2023/24F |
|--------------------|-------------------|--------------------|--------------------|
| Long-term debt     | 3,295             | 2,058              | 1,173              |
| Short-term debt    | 227               | 226                | 203                |
| Internal financing | -                 | 400                | 300                |
| <b>Total</b>       | <b>3,522</b>      | <b>2,684</b>       | <b>1,676</b>       |

## Net debt as a percentage of GDP shows significant improvement

For this outgoing fiscal year, Saskatchewan's net debt is forecasted to finish at \$15.0bn, a significant improvement from the budget estimate. That is largely due to the swing from a projected deficit that would have needed to be funded, to a surplus of \$1.1bn. That places the net debt-to-GDP ratio at 14.1% at March 31, 2023, down from the 17.5% the prior year.

Meanwhile, for this upcoming fiscal year, the ratio is projected to be further reduced to 13.2%. That is a result of another surplus projected for 2023/24 and retirement of \$1.0bn in operating debt. That forecasted ratio would rank the province second lowest in Canada.

Under the current assumptions, Saskatchewan's net-debt-to-GDP ratio is forecasted to remain relatively stable in the medium-term, ranging from 13.2% to a maximum of 13.9%. This outlook is a significant improvement from last year's budget which anticipated the net debt-to-GDP ratio peaking at 20.4% in 2025/26.

## Overall debt increasing due to capital spending

The 2023/24 Saskatchewan Capital Plan calls for \$3.7bn of investment and a projected expenditure of almost \$15.2bn in the next four years. This year's plan represents an increase of \$543.4mn, or 17.1%, over the 2022/23 Budget. Overall, this plan helps supports the province's Growth Plan target of investing \$30.0bn in infrastructure spending by 2030. One of the key areas of spending is in transportation infrastructure, with nearly \$1.8bn over the next four years, including \$443mn in 2023/24. Another key area is in health care which is also projected to see \$1.8bn of infrastructure spending over the next four years, with \$338mn planned this year.

As a result, taxpayer-supported debt is expected to increase over the medium-term from \$18.5bn to \$22.3bn due to borrowing for the Saskatchewan Capital Plan, which will partially be offset by the repayment of operating debt. The province has a sinking fund designated for the repayment of taxpayer-supported debt and is estimated to reach \$2.5bn over the medium-term. Meanwhile, self-supporting debt is also expected to increase over the medium-term from \$12.0bn to \$15.1bn, due to planned capital spending by Government Business Enterprises. The sinking funds designated for the repayment of self-supporting debt is estimated to reach \$1.6bn over the medium-term.

The province stated that planning for and enabling the repayment of capital debt upon maturity continues to be a key principle of undertaking for this capital financing plan. As a result, the province remains committed to having at least two per cent of the value of these borrowings set aside and invested each year to ensure that sufficient cash will be available to repay the debt as it comes due.

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