

BUDGET ANALYSIS

Saskatchewan: Budget 2023 Canada's Breadbasket Bakes in Surpluses

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HIGHLIGHTS

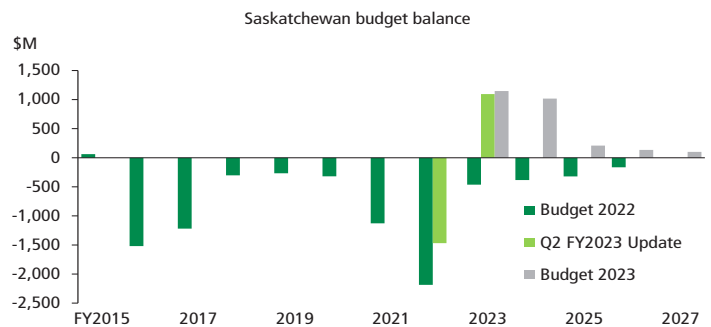
- ▶ Saskatchewan's 2023 budget projected surpluses through 2026–27 (FY2027), reversing prior plans for deficits until the last year of the forecast (graph 1).
- ▶ The province's net debt-to-GDP ratio is expected to hover between 13% and 14% of nominal GDP for the next four fiscal years. That trajectory is 6–7% lower than in Budget 2022, and exceeds only that of Alberta so far.
- ▶ Saskatchewan anticipates borrowing requirements of just \$1.6756B in FY2024, a step down from the \$2.5B figure for FY2023.
- ▶ Natural resources revenues are expected to fall this year amid softening commodity values. Price forecasts look appropriately prudent.
- ▶ Expenses were revised higher over the forecast period, with year-over-year increases planned in health and education spending in FY2024. Drought-related costs once again led to agricultural cost overages in FY2023.
- ▶ There was little movement in spreads immediately after the release. Bond yields should continue to track commodity prices going forward.

Our Takeaways

Saskatchewan maintains one of the strongest fiscal positions of any province. Having largely kept spending in check since the last pre-pandemic commodity price correction, it has more recently benefited from price buoyancy across the range of natural resources it produces. Amid financial market volatility, a diversified commodity sector should safeguard provincial royalties against a severe downturn, and price projections look appropriately conservative.

Beyond commodity prices, climate disruptions appear to be emerging as a risk for the province's agricultural sector. These not only impact growth prospects and revenues, but also put pressure on spending via crop insurance payments. Rising

GRAPH 1
Saskatchewan Returns to Surplus this Year



Sources: Saskatchewan Ministry of Finance and Desjardins Economic Studies

agricultural production and new export opportunities bode well for the industry. But this budget also highlights the downside risks facing the sector, and to public finances.

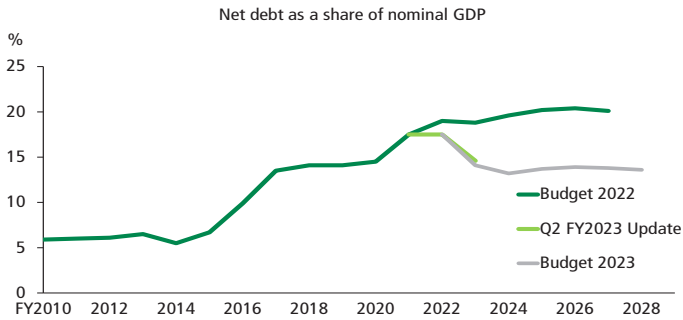
Outer-Year Fiscal Indicators Improved as Expected

Saskatchewan now projects surpluses through FY2027, contrasting with previous plans for fiscal shortfalls until that year. Black ink is forecast at \$1.1B (1.1% of nominal GDP) in FY2023, \$1B (0.9%) in FY2024, and \$200M (0.2%) in FY2025.

With the balance turnaround, the province's debt burden was revised lower. Saskatchewan's net debt-to-GDP ratio is now set to stabilize between 13% and 14% through FY2027. That

trajectory is 6–7% lower than in Budget 2022 (graph 2), and is the second-lowest of any province (behind only Alberta).

GRAPH 2
Saskatchewan's Debt Load Shoots Lower



Sources: Saskatchewan Ministry of Finance and Desjardins Economic Studies

Saskatchewan anticipates borrowing requirements of just \$1.6756B in FY2024, a step down from the \$2.5B figure in FY2023. In FY2024, about \$1.1B is forecast to be allocated to Government Business Enterprises. By source, short-term financing accounts for \$202.6M, term borrowing makes up \$1.173B—dropping from almost \$2.1B in FY2023—and \$300M comes from internal financing.

Some \$600M in FY2024 borrowing plans relates to infrastructure. FY2024 to FY2026 Saskatchewan Capital Plan outlays were raised by a combined \$3.1B versus last year's fiscal blueprint. Total capital outlays are now expected to increase by more than 25% in FY2024 versus a prior estimate of just 2%. Significant boosts beyond the coming fiscal year suggest more borrowing ahead.

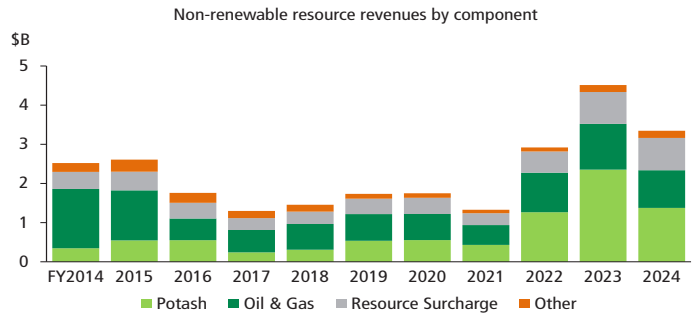
Provincial Economy, Revenues Well-Positioned Despite Uncertain Global Outlook

Saskatchewan expects resource revenues to fall in FY2024 as prices ease across the commodity complex, but remain elevated relative to the last 10 years (graph 3).

We think the government's commodity price forecasts are cautious and reasonable, but there are risks to the downside. The price of WTI has recently been hovering well below the US\$ 80/barrel forecast. Our base case projections assume that global demand-supply imbalances will push crude prices closer to this target as the year progresses, but further market volatility could easily hold back those gains. Potash value forecasts prudently anticipate a 40% drop from last year. But prices have been coming down rapidly from their 2022 peak. Though less impacted by market sentiment than crude, they could weaken further amid a more downcast global economic environment.

Still, we think the most likely outcome is that the province's finances hold up well in the event that economic and financial

GRAPH 3
Potash Anchors Jump in Saskatchewan Resource Revenues



* FY2023-Q2 Update forecast.
Sources: Saskatchewan Ministry of Finance and Desjardins Economic Studies

conditions further deteriorate. Saskatchewan's economy is among the least exposed to housing in Canada, its housing markets are among the most affordable, and its households are some of the least indebted. This should safeguard the province against the worst effects of an interest rate- and real estate-led downturn in 2023. And work on the \$7.5B Jansen potash mine should also offer a major boost to capital investment. In fact, according to the latest investment intentions survey, Saskatchewan alone is expected to account for three-quarters of Canada's non-oil and gas mining outlays this year.

Table 1 summarizes changes to forecasts for Saskatchewan's key economic indicators.

TABLE 1
Updated Saskatchewan Economic Projections

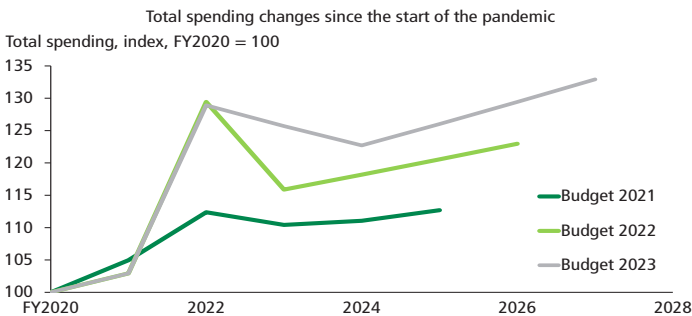
	2023	2024	2025	2026	2027
Real GDP Growth (%)					
Budget 2022	2.5	2.2	2.2	1.7	—
Budget 2023	1.3	1.8	2.2	2.3	2.3
Nominal GDP Growth (%)					
Budget 2022	3.7	1.3	1.4	2.5	—
Budget 2023	0.8	1.2	2.6	3.0	2.5
WTI Price (US\$/barrel)					
Budget 2022	73	68	70	71	—
Budget 2023	80	78	75	78	79
Oil Production* (M barrels)					
Budget 2022	165.6	172.4	179.2	—	—
Budget 2023	170.5	178.7	184.0	186.2	—
Potash Price (US\$/KCl tonne)					
Budget 2022	396.9	385.9	374.9	361.9	—
Budget 2023	368.2	371.2	374.6	363.9	351.9

* FY2024 corresponds to calendar year 2023 and so on
Sources: Saskatchewan Ministry of Finance and Desjardins Economic Studies

Spending Raised, Agriculture Sector Costs Linger

Relative to Budget 2022, Saskatchewan lifted its expenditure projections in each year of the planning horizon (graph 4 on page 3). However, those increases appear to largely relate to further cost overages in FY2023 at the Department of Agriculture. Outer-year rates of spending growth were only incrementally increased.

GRAPH 4
Easing Expenditure Restraint Again



Sources: Saskatchewan Ministry of Finance and Desjardins Economic Studies

Recall that in 2021, the Prairie Provinces experienced a severe drought that weighed down Saskatchewan’s economic recovery and bloated FY2022 expenses. Increases in Saskatchewan Crop Insurance indemnities and AgriStability benefits then led to successive upward spending revisions in FY2023. According to this budget, drought conditions again pushed costs up between mid-year and Q3 FY2023, though the province expects related expenses to fall in FY2024. FY2024 plans include funds for agricultural business risk management programs.

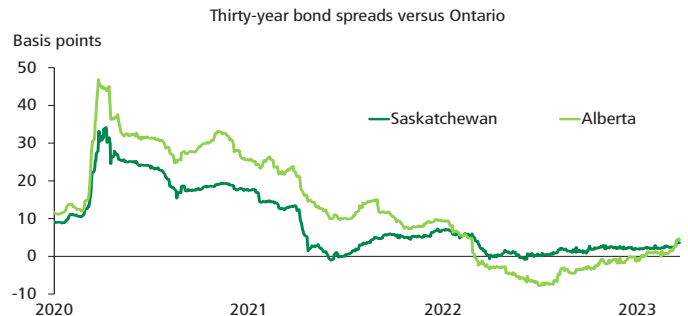
Still, most core program expenses are set to rise in the coming fiscal year. The plan bakes in increases of over \$200M for both the Education and Health departments in FY2024. Key measures in the latter category include funding to recruit and retain provincial healthcare workers and reduce surgical wait times. For federal transfers, Saskatchewan expects to receive \$111M for a new bilateral health care agreement and \$61M via the one-time Canada Health Transfer top-up payment.

Despite spending increases, Saskatchewan has been more restrained than most of the larger Canadian jurisdictions since the start of COVID-19. By FY2026, total expenditures are forecast to be about 29% higher than in FY2020. That compares to 22% in Alberta, 35% in Quebec, and over 40% in BC as of those provinces’ latest budgets. It also follows the trend during the last pre-pandemic commodity price correction. Following that period, weaker expenditure growth than in other commodity-producing jurisdictions helped keep Saskatchewan’s deficit from blowing out more significantly.

Spreads Little Changed, Should Follow Commodity Prices

Investors view Saskatchewan as an issuer subject to the ups and downs of crude price movements, but not quite as sensitive to fluctuations as other net oil-producers. Amid diversification of the commodity sector over the last several years, longer-dated bond yields have decoupled somewhat from those of Alberta. In more recent sessions characterized by market volatility and sliding oil prices, the province’s spreads have widened versus those of Ontario but traded through Alberta (graph 5).

GRAPH 5
Saskatchewan Long Bond Yields Decouple Somewhat vs. Alberta



Sources: Bloomberg and Desjardins Economic Studies

Budget’s publication just before market close means we’ll have to wait until tomorrow for a fuller sense of investor reactions, but spreads will surely follow oil prices in the near-term. Yet, economic and fiscal contributions from other sectors suggest that moves aren’t likely to be as drastic as for other major producers. Longer term, performance against the financial plan targets should help provincial borrowing costs.

TABLE 2
Summary of Fiscal Forecasts

IN \$B (EXCEPT IF INDICATED)	2021–2022	2022–2023		2023–2024		2024–2025	2025–2026	2026–2027
	Actual	Q2 FY2023	Budget 2023	Budget 2022	Budget 2023	Budget 2023	Budget 2023	Budget 2023
Total Revenues	18.1	19.5	20.3	17.6	19.7	19.4	19.8	20.3
% change	24.9	7.5	11.7	2.6	-2.8	-1.5	2.1	2.5
Non-Renewable Resource Revenues	2.9	4.3	4.5	—	3.3	—	—	—
% change	163.6	47.3	54.1	—	-26.7	—	—	—
Other Own-Source Revenues	11.7	11.8	12.4	—	12.8	—	—	—
% change	13.2	1.1	6.0	—	3.5	—	—	—
Federal Transfers	3.5	3.4	3.4	—	3.6	—	—	—
Total Expense	19.6	18.4	19.1	18.0	18.7	19.2	19.7	20.2
% change	11.3	-6.1	-2.5	5.3	-2.2	2.7	2.6	2.5
Program Spending	18.9	17.6	18.3	—	17.9	—	—	—
% change	26.5	-6.8	-3.0	—	-2.3	—	—	—
Debt Charges	0.7	0.8	0.8	—	0.8	—	—	—
% of total revenues	4.0	4.1	3.9	—	4.1	—	—	—
Budget Balance	-1.5	1.1	1.1	-0.4	1.0	0.2	0.1	0.1
% of GDP	-1.7	1.1	1.1	-0.4	0.9	0.2	0.1	0.1
Net Debt, % of GDP	17.5	14.6	14.1	19.6	13.2	13.7	13.9	13.8

Sources: Saskatchewan Ministry of Finance and Desjardins Economic Studies