Scotiabank

GLOBAL ECONOMICS

FISCAL PULSE

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Contributors

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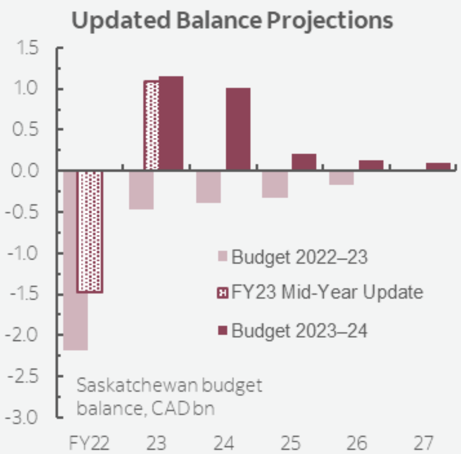
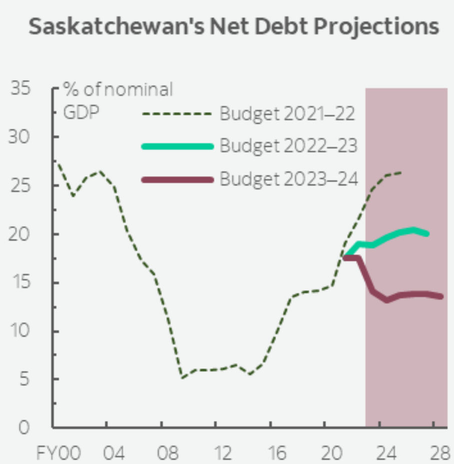
Chart 1



Sources: Scotiabank Economics, Saskatchewan Finance.

Chart 2



Sources: Scotiabank Economics, Finance Canada, SK Finance.

Saskatchewan: 2023–24 Budget

BALANCED BUDGET, TARGETED SPENDING

- **Budget balance forecasts: $1.1 bn (1.1% of nominal GDP) in FY23, $1.0 bn (1.0%) in FY24, $208 mn (0.2%) in FY25; $134 mn (0.1%) in FY26; $101 mn (0.1%) in FY27—a substantial improvement from previous multi-year outlook (chart 1).**
- **Net debt: decline further to 13.2% of nominal GDP in FY24 from 14.1% in FY23, then stabilize between 13.6% to 13.9% of GDP in each of the next four years—a much lower trajectory than in the last budget and among the lowest in Canada (chart 2).**
- **Real GDP growth forecast: 4.8% last year, 1.3% this year, 1.8% next year.**
- **Borrowing requirements: $2.7 bn forecast for FY23, $1.7 bn in FY24.**
- **The balanced budget and measured spending increases presented in the budget are positive. Although the projected 79.5 USD/bbl WTI price for FY24 aligns with Alberta's budget and falls slightly below Scotiabank's latest projections, it is important to consider the high sensitivity of Saskatchewan's fiscal outlook to volatile oil prices, which could lead to significant downside if crude prices fall short of expectations. Nevertheless, Saskatchewan's net debt burden is still holding comfortably below levels in all provinces except for Alberta.**

OUR TAKE

In Saskatchewan's Budget 2023, the province is well-positioned for a balanced budget, thanks to the strong handoff from FY23's revenue windfalls, particularly from non-renewable resources. Despite an anticipated sharp decline in non-renewable resource revenue (-25.9%), the province still forecasts another hefty surplus of 1% of GDP in FY24 and plans to maintain a balanced budget through FY27. The balanced path allows net debt to stabilize between 13–14% as a share of output through FY27, representing a significant improvement from last year's budget which anticipates the ratio to peak at 20.3% in FY26.

Total revenue forecast has been raised by $2.5 bn (14.7%) for FY24 versus last year's budget—still a slight projected decline of 2.9% from FY23 due to a moderation in commodity prices. Non-renewable resource revenue is expected to account for 17% of total revenue, a decline from 22% in 2023, and consistent with the long-term average, with the share expected to decline steadily and reach 15% by FY27. Federal transfers are expected to exceed last year's budget by 10.4%, with the Canada Health Transfer accounting for one-third of the increase, on top of the $172 mn additional funding from the new federal-provincial bilateral health care agreement. In outer years, Saskatchewan expects another 1.6% decline in total revenue in FY25 as commodity prices return to long-term averages, followed by solid revenue growth of 2.3% per year over the next two years.

While program spending is anticipated to drop by 2.5% in FY24 as affordability measures subside, projected spending profile is nonetheless higher than outlined in last year's budget, with a proposed $1 bn in new spending (chart 3). Without major policy changes, key increases in FY24 are concentrated in agriculture (up 39.4% from previous budget mainly due to higher crop insurance indemnities), health (up 3.4%), and education (up 6.2%). The province foresees greater spending pressures in the coming years, pencilling in a moderate growth rate of 2.7% through FY25 to FY27.

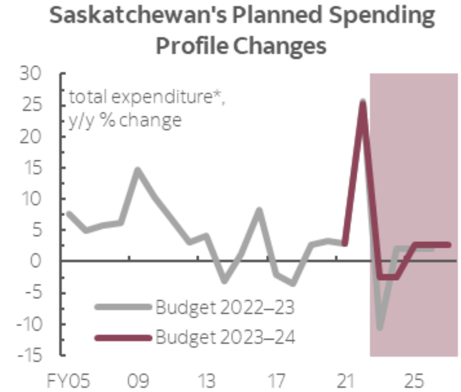
The government's forecast is based on reasonable near-term economic assumptions, although volatile commodity prices and economic uncertainty pose potential downside risks. Real GDP growth is expected to decelerate to 1.3% in 2023— very close to our latest forecast of 1.3%—with nominal growth projected to stagnate in 2023 after surging by 20% last year. The government expects a robust recovery in real growth to 1.8% in 2024—slightly more positive than our forecast as well as the private sector average. The projected WTI price of 79.5 USD/bbl in FY24 is close to 10 USD higher than the current spot price, but still consistent with both Alberta's budget forecast and our latest projection for the upcoming fiscal year (chart 4). The province's medium-term outlook is underpinned by steady fiscal-year averages of WTI prices within the range of 75.75 USD/bbl and 78.25 USD/bbl, and an annual production growth of 2.3%. The current fiscal outlook is highly sensitive to these assumptions—a US$1 per barrel change in average WTI oil price results in a $15.6 mn change in royalties, up from last year's estimate of $14 mn.

Saskatchewan continues to deploy lofty capital plan spending, aiming to invest $30 bn in infrastructure by 2030. Infrastructure outlays are now estimated at $3.8 bn per year from FY24 to FY27, with peak spending at $4.1 bn planned in FY25. The bulk of funds is concentrated in projects like highways, municipal infrastructure and projects managed by Crown Corporations.

Consistent with a hefty projected surplus, borrowing is expected to fall to $1.7 bn in the upcoming fiscal year, down from the $2.7 bn completed this fiscal year. 70% of FY24 borrowing requirements are expected to be funded by long-term debt, with the remainder through short-term and internal financing. The government is planning to pay down up to $1 bn in taxpayer-supported debt this fiscal year, partly offset by new borrowing for the Saskatchewan Capital Plan.

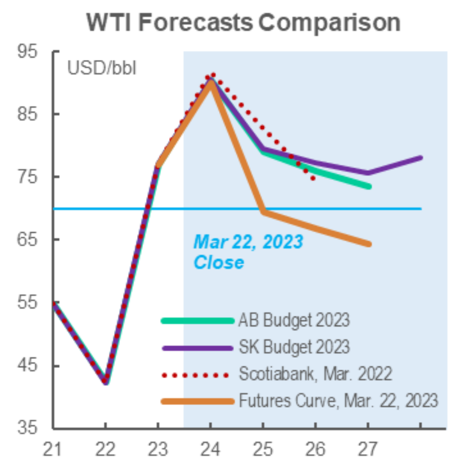
While recent turmoil in the global banking system has caused provincial spreads to widen across the board (albeit well below crisis levels), the balanced budget and a measured approach to fiscal planning presented in Saskatchewan's Budget 2023 should offer some reassurance amid continuing market volatility.

Chart 3



* Includes crop insurance indemnities and AgriRecovery program costs.
Sources: Scotiabank Economics, Finance Canada, SK Finance.

Chart 4



Sources: Scotiabank Economics, Scotiabank Global Banking and Markets, Saskatchewan Finance.

Current-Year Fiscal Forecast
$ millions except where noted

	FY23		FY24
	Nov. '22	Mar. '23	Mar. '23
Total Revenue	19,509	20,262	19,678
Non-Renewable Resources	4,306	4,512	3,345
Other Own-Source	11,829	12,388	12,779
Federal Transfers	3,375	3,361	3,555
Total Spending	18,416	19,115	18,660
Program Spending	17,603	18,298	17,848
Agriculture	1,244	1,799	1,450
Health	6,885	6,973	7,056
Education	3,796	3,776	4,036
Social Services	1,624	1,602	1,665
Other	4,054	4,147	3,641
Debt Service	812	817	812
% of Revenue	*4.2*	*4.0*	*4.1*
Budget Balance	**1,094**	**1,147**	**1,018**
% of GDP	*1.1*	*1.1*	*1.0*
Net Debt	**15,171**	**14,968**	**14,128**
% of GDP	*14.6*	*14.1*	*13.2*

Sources: Scotiabank Economics, Saskatchewan Finance.

Outer-Year Fiscal Projections
$ millions except where noted

	FY23	FY24	FY25	FY26	FY27
Total Revenue	20,262	19,678	19,372	19,816	20,314
% change	*11.7*	*-2.9*	*-1.6*	*2.3*	*2.5*
Total Expenditure	19,115	18,660	19,164	19,681	20,213
% change	*-2.5*	*-2.4*	*2.7*	*2.7*	*2.7*
Budget Balance	**1,147**	**1,017**	**208**	**134**	**101**
% of GDP	1.1	1.0	0.2	0.1	0.1
Net Debt					
% of GDP	14.1	13.2	13.7	13.9	13.8

Sources: Scotiabank Economics, Saskatchewan Finance.

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