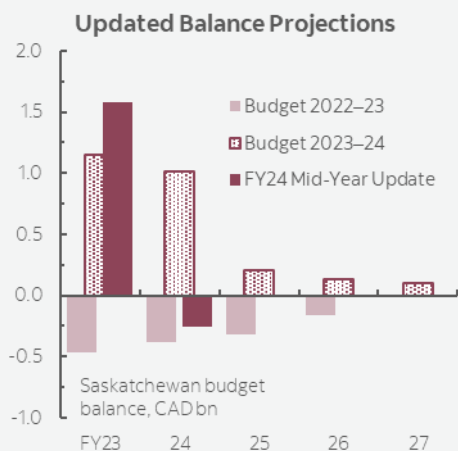


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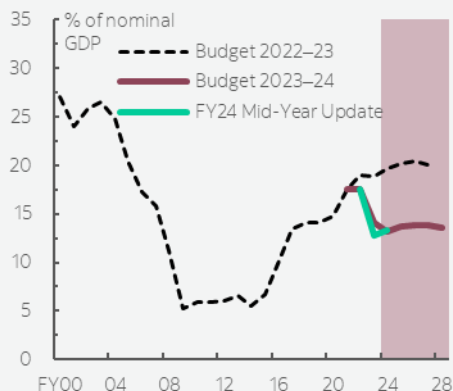
Chart 1



Sources: Scotiabank Economics, Saskatchewan Finance.

Chart 2

Saskatchewan's Net Debt Projections



Sources: Scotiabank Economics, Finance Canada, SK Finance.

Saskatchewan: 2023-24 Mid-Year Update

COST OF DROUGHT DRAINS BUDGET SURPLUS

- **Budget balance forecasts:** **-\$251 mn (-0.2% of nominal GDP) in FY24**, a reversal from the **\$1.0 bn (1.0%) surplus projected in Budget 2023** (chart 1), while the FY23 surplus came in more than **\$400 mn higher than estimated in March (\$1.6 bn, 1.4%)**.
- **Net debt:** increased by **\$918 mn versus Budget to \$15.0 bn for FY24** (chart 2); as a share of nominal output, net debt is now expected to rise from **12.8% in FY23 to 13.3% in FY24**.
- **Real GDP growth forecast:** incrementally lifted from **1.5% to 1.6% for 2023** but nudged down from **1.5% to 1.3% for 2024**; nominal GDP projection revised down from **1.7% to -1.2% for 2023** but raised from **1.4% to 2.2% for 2024**.
- **WTI price projections** lifted slightly to **US\$80.22/bbl in FY24** from **US\$79.5/bbl** projected in Budget 2023.
- **Borrowing requirements:** estimated at **\$2.4 mn for FY24—up \$737 mn from Budget 2023**.
- **Saskatchewan faces headwinds as impact of an unexpected drought and declining potash revenue erode the hefty surplus projected in March. Despite these challenges, the province maintains fiscal advantages with its low debt burden, strong credit ratings and disciplined spending ensuring resilience.**

OUR TAKE

Saskatchewan sees significant spending increases against dwindling economic prospects, reversing the initially projected hefty \$1 bn surplus and stead forecasting a modest deficit of \$251 mn. Impact of recent drought conditions, albeit milder than in 2021, adds over \$800 mn to crop insurance claims, weighing on the province's finances. Non-renewable resource revenue sees a downward revision of over \$700 mn, solely attributed to potash price pressures and lower-than-expected sale volumes, marking a -42% decline from last fiscal year. With the newly projected deficit, the province's net debt is expected to increase as a share of GDP to 13.3%, albeit from a lower starting point due to last year's better-than-expected results—the second lowest among provinces, exceeding only that of Alberta.

Robust economic momentum offset unforeseen weaknesses in resource revenue, maintaining the revenue projection largely unchanged from the March blueprint.

Fueled by the resilience in the province's labour market and consumer spending, tax revenue is poised to grow by 2.4% in FY24, contrasting the budget's projected slight decline. As potash drove the sharp downward revision in non-renewable resource revenue versus the Budget (-\$718 mn, -21.5%), oil and gas projection remained intact with slight improvement linked to a tighter light-heavy differential. Non-renewable resource revenue is now expected to come in -10% below levels in FY22 before the commodities boom following Russia's invasion of Ukraine.

With only incremental changes versus the budget, near-term economic assumptions underpinning the update appear realistic, although headwinds on commodity prices and economic uncertainty pose potential downside risks.

Real growth is projected at a robust 1.6% in 2023, a hair above our latest forecast of 1.5%. With weaker price levels in the resource sector, nominal output is set to decline by -1.2% this year instead of the 1.7% growth pencilled in at budget time—largely in line with our current estimate of -1.5%. WTI prices are now expected to average US\$80.22/bbl in FY24, slightly below the current market pricing and in line with Scotiabank GBM's October forecasts. Compared to Alberta's forecast of US\$75/bbl in its first quarter update, Saskatchewan's forecast does

not leave much room for downside risks given heightened uncertainty over the horizon. As a rule of thumb, US\$1/bbl is linked with a fiscal impact of \$16 mn in royalties.

Spending is expected to come in \$1.3 bn (7.0%) higher than projected in March with increases anticipated in all categories except for health.

Severe droughts and wildfires throughout the summer lead to increased crop insurance claims which have added an additional \$853 mn to agriculture spending, 59% above what was projected at the beginning of the fiscal year. The wildfire response measures have also resulted in higher projected spending on protection of persons and property, up \$111 mn (11.5%) from the initial Budget. Education expenditure is also projected to be \$271 mn (6.7%) above Budget 2023 projections owing largely to inflation-indexed defined benefit pension plans. While the province no longer anticipates a decline in program spending this fiscal year, spending restraint remains a key element in the updated spending plan—program spending excluding agriculture expenditures is expected to grow by a moderate 2.9% in FY24.

Mirroring the \$1.3 bn deterioration in the province’s bottom line, borrowing requirements were estimated at \$2.4 bn for FY24, up \$737 mn from Budget 2023.

| Updated Fiscal Forecast | | | | |
|--------------------------------|---------------|---------------|---------------|---------------|
| \$ millions except where noted | | | | |
| | FY23 | | FY24 | |
| | Mar. '23 | Final | Mar. '23 | Nov. '23 |
| Total Revenue | 20,262 | 20,595 | 19,678 | 19,713 |
| Non-Renewable Resources | 4,512 | 4,603 | 3,345 | 2,627 |
| Other Own-Source | 12,388 | 12,635 | 12,779 | 13,521 |
| Federal Transfers | 3,361 | 3,357 | 3,555 | 3,566 |
| Total Spending | 19,115 | 19,014 | 18,660 | 19,964 |
| Program Spending | 18,298 | 18,198 | 17,848 | 19,141 |
| Agriculture | 1,799 | 1,835 | 1,450 | 2,303 |
| Health | 6,973 | 7,010 | 7,056 | 7,056 |
| Education | 3,776 | 3,792 | 4,036 | 4,306 |
| Social Services | 1,602 | 1,587 | 1,665 | 1,686 |
| Other | 4,147 | 3,973 | 3,641 | 3,789 |
| Debt Service | 817 | 816 | 812 | 823 |
| % of Revenue | 4.0 | 4.0 | 4.1 | 4.2 |
| Budget Balance | 1,147 | 1,581 | 1,018 | -251 |
| % of GDP | 1.1 | 1.4 | 1.0 | -0.2 |
| Net Debt | 14,968 | 14,598 | 14,128 | 15,046 |
| % of GDP | 14.1 | 12.8 | 13.2 | 13.3 |

Sources: Scotiabank Economics, Saskatchewan Finance.

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