

BUDGET ANALYSIS

Saskatchewan: Budget 2024

Low Debt Burden Maintained Despite Return to Deficit

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HIGHLIGHTS

- ▶ Saskatchewan’s fiscal year 2024–25 (FY2025) penciled in deficits in FY2024 and FY2025—in contrast to last year’s plan—but then baked surpluses in from FY2026 to FY2028 (graph 1). Table 1 on page 2 summarizes the province’s updated fiscal forecasts.
- ▶ Despite that deterioration, the province maintains one of the smallest public debt burdens in Canada, as measured by the net debt-to-GDP and debt service-to-revenue ratios.
- ▶ New measures largely amounted to detailed spending forecasts. Expenditures in health, education and social services and assistance are all expected to rise by between 1% and 4% in the coming fiscal year.
- ▶ The province expects to borrow \$4.4B in FY2025.

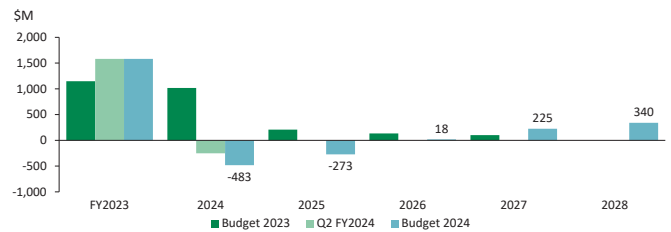
Main Takeaways

At the end of the day, while Saskatchewan’s fiscal position deteriorated relative to prior projections in its 2024 budget, the province maintains one of the smallest public debt burdens in Canada. That’s good news in a budget season where many governments have forecast bigger downgrades to their bottom lines and more significant upward revisions to their debt profiles. Expected to hover near 14% over the next five fiscal years, Saskatchewan’s net debt-to-GDP ratio would be the lowest of any province other than Alberta, assuming current projections hold. Its debt service-to-revenue ratio similarly ranks favourably (graph 2).

Economic and commodity market assumptions underlying the plan look reasonable, but also highlight some challenges that could be ahead. Economic growth forecasts are in line with the average across the private sector (including our projections). Ditto

Graph 1
Saskatchewan’s Bottom Line

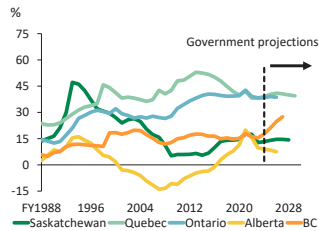
Budget balance projections



Saskatchewan Ministry of Finance and Desjardins Economic Studies

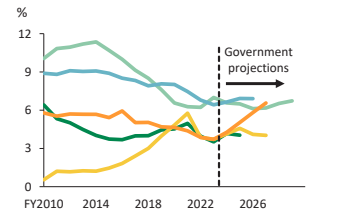
Graph 2
Saskatchewan’s Low Debt Burden

Net debt-to-GDP ratio*



* Ontario figures based on mid-year FY2024 projections
Provincial budget documents and Desjardins Economic Studies

Debt service-to-total revenue ratio*

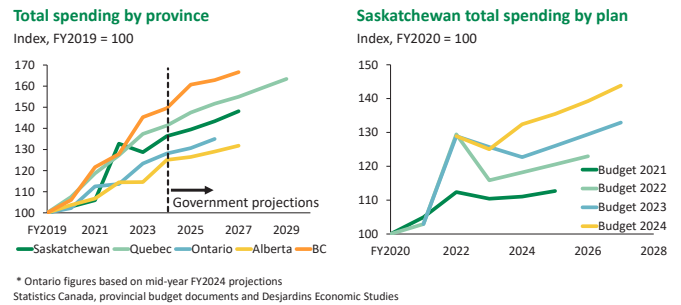


for crude value expectations, which are in fact about US\$5/barrel below our latest set of forecasts for the next two years. That said, as signalled in the FY2024 mid-year update, outer-year forecasts for crude production were lowered. The

province does not expect sectoral output to recover to the trajectory assumed before the pandemic (graph 3), though it does anticipate that investor confidence will improve after the Trans Mountain Expansion project comes online later this year.

Another piece of good news in the plan was no significant further increase to Department of Agriculture spending (though risks remain on this front). Severe droughts in the prairies led to big upward revisions in crop insurance payments in several prior plans, including in FY2024. That was not the case this year, a more modest boost to the FY2024 projection expected to be followed by a \$1B drop in departmental spending in FY2025. Despite significant prior upward revisions related to agriculture, Saskatchewan's pandemic-era spending plans are towards the middle of the pack even after including the boost from insurance amounts (graph 4). Still, extreme weather events are becoming more common across the world. Saskatchewan's economy is also more oriented towards the agricultural sector than that of any other part of Canada, so weather-related production disruptions can have potentially disproportionate impacts in this province.

Graph 4
How Saskatchewan's Spending Plans Compare

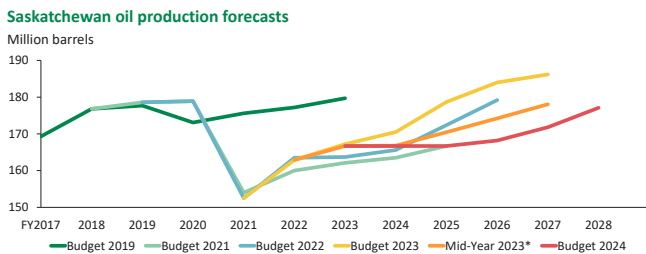


Fiscal Plan Details

Budget 2024 saw revisions to revenues outstripped by revisions to spending. Relative to Budget 2023, forecasts for total government receipts were increased by a combined \$2.4B from FY2025 to FY2027. Soft growth expected in FY2025 primarily reflects a drop in corporate income taxes related to a prior-year tax base adjustment. Total expenditures projections were lifted by almost \$2.9B over that period.

Revenue diversification has continued. We've noted in the past that while oil and gas still play an important role in Saskatchewan revenues, potash is becoming nearly as significant a contributor. Potash royalties are expected to total \$1.5B combined in FY2024 and FY2025 versus about \$2B for oil and gas (graph 5 on page 3). Of course, diversification across commodity sectors has been an area of strength for some time in Saskatchewan. But more broadly, the plan also showed that while natural resource revenues are expected to rise as share of own-source receipts over the next year, the share should remain well below those of the mid-2010s and during the temporary spike in FY2023.

Graph 3
Oil Production Outlook Weakens



* Assumes 2.2% annual growth beyond this year, in line with stated assumption
Saskatchewan Ministry of Finance and Desjardins Economic Studies

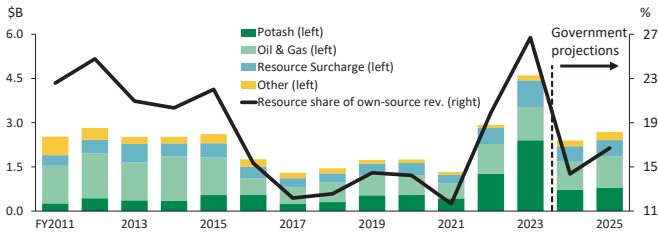
TABLE 1
Summary of Fiscal Forecasts

IN \$M (EXCEPT IF INDICATED)	2023–2024		2024–2025		2025–2026		2026–2027		2027–2028
	Q2 FY2024	Bud. 2024	Bud. 2023	Bud. 2024	Bud. 2023	Bud. 2024	Bud. 2023	Bud. 2024	Bud. 2024
Total revenues	19,713	20,383	19,372	19,862	19,816	20,617	20,314	21,400	22,213
Total expense	19,964	20,866	19,164	20,135	19,681	20,598	20,213	21,175	21,874
Budget balance	-251	-483	208	-273	135	18	101	225	340
% of GDP	-0.2	-0.4	0.2	-0.2	0.1	0.0	0.1	0.2	0.3
Net Debt, % of GDP	13.3	13.3	13.9	14.0	13.8	14.6	13.6	14.6	14.3
WTI Price, US\$/barrel*	80.2	77.6	78.0	77.0	75.0	75.0	78.0	75.0	78.0
Borrowing Requirement	2,413	2,678	—	4,364	—	—	—	—	—
Real GDP, % change*	1.6	1.4	1.8	1.0	2.2	1.8	2.3	2.3	2.1
Nominal GDP, % change*	-1.2	-0.3	1.2	2.1	2.6	3.2	3.0	3.7	3.5

* Calendar year: FY2024 corresponds to 2023, etc.
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Graph 5
A Less Commodity-Reliant Revenue Base

Saskatchewan natural resource revenues



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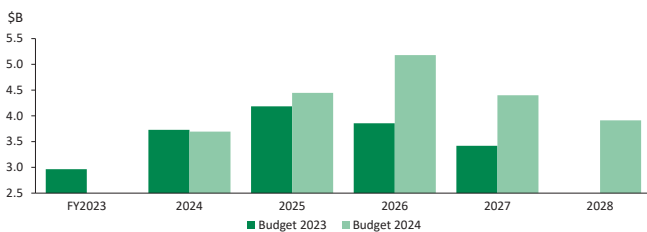
New measures largely amounted to detailed expenditure announcements. Expenditures in health, education and social services and assistance are all expected to rise by between 1% and 4% in the coming fiscal year. Although longer-term demographic projections were not included in the budget, Saskatchewan forecast a 2.6% total consumer price index gain for calendar year 2024 and noted the nearly 3% year-over-year gain in its population as of October 2023. Those numbers suggest real per capita expenditure cuts in FY2025. The province also highlighted in recent announcements that it would index the personal income tax system and offer a sales tax rebate on new home construction.

Debt and Borrowing

Saskatchewan increased FY2025 to FY2027 infrastructure plans by a combined \$2.6B versus Budget 2023 forecasts (graph 6). Of the \$14B total now anticipated for those three fiscal years, about half relates to provincial crown corporations. Healthcare and education remain the focus of the capital plan, and the government noted that project delays had contributed to weaker-than-previously expected outlays in FY2024. These outlays should help meet the needs of a rapidly growing population.

Graph 6
Infrastructure Plan Timelines Shift Again

Saskatchewan Capital Plan Projections



Saskatchewan Ministry of Finance and Desjardins Economic Studies

In line with red ink and higher capital requirements, Saskatchewan’s borrowing program is expected to rise to \$4.4B in FY2025 with debt repayments of \$1.3B. That follows an increased forecast of \$2.7B in FY2024, most of which relates to the Saskatchewan Capital Plan. The majority of the financing activity this year will come via long-term borrowing—just like last year.

The budget’s publication just before market close means we’ll have to wait until tomorrow for a full sense of the investor response, but there were no big surprises in today’s fiscal plan. Broadly, we expect Saskatchewan spreads to continue to track oil prices. That said, day-to-day yield movements shouldn’t be as sensitive to crude values as in Alberta. We’ve seen longer-dated Saskatchewan spreads decouple somewhat from those of Alberta since the mid-2010s crude price correction. Saskatchewan’s economy and public finances were not hit as hard during that period, in part because of increased commodity sector diversification.