

# 2023 Saskatchewan Budget Doing Away With Deficits

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## Highlights

- Saskatchewan’s seven-year streak of deficits has come to an end, as exceptionally strong nominal growth in 2022 padded provincial coffers. The books are expected to remain in the black through FY 2026/27. Meanwhile, net debt-to-GDP in the province – currently second lowest after Alberta – is set to drift lower to 13.2% in FY 2023/24.
- While unlikely to buck the broad trend of slowdown, the Saskatchewan economy is expected to top the provincial growth chart in 2023. Ongoing drivers of expansion include still-elevated prices for key commodities such as oil and potash, resilient business investment, and record population gains.

The Province of Saskatchewan is projecting a \$1.0 billion surplus in FY 23/24, or a healthy 1% of GDP. This comes on the heels of this past year’s surprise that saw the books swing from a \$463 million deficit projected in Budget 2022 to an estimated \$1.1 billion surplus. The strong hand off into this year has lifted the bar over the four-year projection horizon from a string of deficits to one of moderate, though declining surpluses. The government also plans to allocate some \$1 billion to pay down its operating debt this year, which should drive interest costs down by \$44.0 million annually. This budget contains targeted support for priority areas such as health care, education and social services and did not introduce any major policies on the tax front.

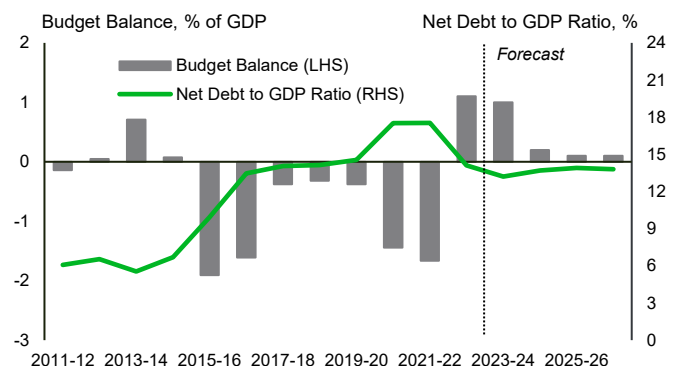
## FY 2022-23 Swings to a Healthy Surplus

The \$1.6 billion improvement in the budget balance for FY 2022/23 relative to budget estimates is attributed to a 55% surge in non-renewable resource revenues and a 20% lift in taxation revenues. Together, these components added a significant \$2.9 billion to the total revenue take which more than offset a higher-than-expected 8.5% jump in expenses. The bulk of the additional spend was largely owing to government’s commitment last August to provide \$450 million in one-time affordability payments to Saskatchewan residents and payout increases in Saskatchewan Crop Insurance indemnities and AgriStability benefits. The \$1.1 billion budget surplus for FY 2022/23 marks the first year of black ink since 2014 and the largest surplus since 2008.

## Continued Surpluses on Spending Restraint

Looking ahead, moderate and shrinking annual budget surpluses are anticipated. Over the next four years, spending growth is forecast to run at an average pace of just under 3%, outstripping annual revenue gains of 1.7%.

**Chart 1: Saskatchewan Now Carries the Second Lowest Debt Burden Across Provinces**



Source: Saskatchewan Budget 2023, StatCan, Department of Finance Canada, TD Economics.

Saskatchewan Economic Assumptions						
[ Per cent change unless otherwise noted ]						
Budget 2023						
Calendar Year	2022*	2023	2024	2025	2026	2027
Nominal GDP	19.9	0.8	1.2	2.6	3.0	2.5
Real GDP	4.8	1.3	1.8	2.2	2.3	2.3
Unemployment rate (%)	4.7	5.3	5.3	5.5	5.6	5.5
CPI	6.6	3.7	2.2	2.0	2.0	2.1
WTI (US\$/barrel)	94.3	80.0	78.0	75.0	78.0	79.0
Potash (US\$/KCl tonne)	626.1	368.2	371.2	374.6	363.9	351.9

\*2022 values are estimates. Source: Saskatchewan 2023-24 Budget, Statistics Canada, TD Economics.

In the upcoming year, program spending is actually slated to contract by 2.4% to \$18.6 billion. A part of this drop can be chalked up to last year's one time affordability payments falling out of the numbers. Across ministries, the government plans to reduce budget allocations in agriculture and economic development, which accounts for most of the decline, while the government has boosted spending in others. For example, the Ministry of Health will receive a \$431 million boost (or 6.7% y/y) with the Education sector earmarked to receive a commensurate 6.7% increase in funds.

Revenues are also expected to take a step back, mainly on lower non-renewable resource revenues (-26%) as commodity prices are expected to continue to normalize after last year's spike induced by the outbreak of the Russian-Ukraine conflict. This will be partly countered by the anticipated lift from GBE net income, other own-source revenues, and federal government transfers. Taxation revenue is expected to be largely flat but remains robust.

### Strong Outlook is Based on Reasonable Assumptions

For 2022, the government estimates that real GDP grew by 4.8%, moderately softer than our 5.5% expectation. However, there is strong alignment between our view and the budget assumptions over 2023 and 2024, with real GDP growth projected to average 1.6% over that time. By comparison, we expect Canada to eke out increases of only around 0.5% over the next two years.

Commodities prices, which are currently under some downward pressure due to worries around the U.S. banking system, have the potential to disproportionately tip the revenue scales in either direction as non-renewable resource revenues account for nearly 20% of the total revenue take

for the province. At least for now, the \$79.50/barrel projection in the budget for 2023 appears reasonable and sits below our forecast of \$85/barrel for the year. The estimated sensitivity of a US\$1 increase per barrel is a \$15.6 million increase in oil royalties. As such, if our forecast pans out, this would roughly translate into an upside revenue surprise of around \$75 million. We also expect that Saskatchewan's oil well drilling activity and oil production will remain robust.

Elsewhere in the commodity complex, the budget is assuming that potash prices fall to an average of US\$369/tonne, down from \$US 562 last year. This still represents an elevated price level, which the budget assumes to hold through the forecast horizon. Saskatchewan potash producers continue to expand their global market share, up to 37.0% in 2022, with further gains expected to be captured this year.

### Improved Net Debt Trajectory

The net debt-to-GDP ratio is projected to fall to 13.2% in FY 2023/24, before inching up to 13.8% by FY 2026/27. Despite the slight uptrend, Saskatchewan will solidify its spot as the second least indebted province as a share of GDP even as several other provinces' fiscal positions show moderate to substantial improvements.

The near-term improvement in the debt burden comes even as the Province tabled a record \$3.7 billion capital plan this fiscal year, an increase of \$540 million from last year. The plan sees significant capital spend in areas like health care, municipal infrastructure, and Crown corporations. Meanwhile, total borrowing requirements for the 2022-23 fiscal year will decrease this year, standing at \$1.7 billion, well below last year's \$3.5 billion figure.

### Bottom Line

Saskatchewan's finances have kicked off the year in a favourable position, and the government opted to keep its power dry by refraining from large new tax and spending initiatives. Benefitting from an outperforming economy, the government is intent to continue to chip away at its debt burden and focus spending on a few priority areas such as health and education.

<b>Saskatchewan Government Fiscal Position</b>					
[ Millions of C\$ unless otherwise indicated ]					
<i>Fiscal Year</i>	2022-23 Plan	2023-24 Plan	2024-25 Plan	2025-26 Plan	2026-27 Plan
<b>Revenues</b>	<b>20,262</b>	<b>19,678</b>	<b>19,372</b>	<b>19,816</b>	<b>20,314</b>
% change	11.7	-2.9	-1.6	0.7	4.9
<b>Expenditures</b>	<b>19,115</b>	<b>18,660</b>	<b>19,164</b>	<b>19,681</b>	<b>20,213</b>
% change	-2.5	-2.4	2.7	2.7	2.7
<b>Surplus (+)/Deficit (-)</b>	<b>1,147</b>	<b>1,017</b>	<b>208</b>	<b>134</b>	<b>101</b>
% of GDP	1.1	1.0	0.2	0.1	0.1
<b>Net Debt</b>	<b>14,968</b>	<b>14,128</b>	<b>14,798</b>	<b>15,405</b>	<b>15,753</b>
% of GDP	14.1	13.2	13.7	13.9	13.8

Source: Saskatchewan Budget 2023-24, TD Economics.

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