2024 Saskatchewan Budget

Stable Fiscal Position Despite Moving Back to Deficits

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Highlights

- Saskatchewan is back to running deficits after a brief foray into surplus territory. Nonetheless, the debt-to-GDP ratio is expected to creep up only modestly in the year ahead, likely leaving the Province with the second lowest burden among Canadian jurisdictions, after Alberta.
- The Saskatchewan economy is expected to remain an outperformer relative to other provinces over the medium term, providing some underlying support to the government's fiscal position. Ongoing drivers of growth include a supportive commodities backdrop, resilient business investment, and durable population gains.

The Province of Saskatchewan is projecting a narrow $273.2 million deficit in FY 2024/25 (0.2% of GDP)– marking an improvement from the $483 million shortfall now estimated for the 2023/24 fiscal year. Still, after back-to-back deficits, the government is anticipating a return to balanced books in FY 2025/26, with small surpluses thereafter.

This budget focuses on spending in health care, education and social services, while also ramping up capital outlays. No major tax changes were introduced. With solid economic prospects supporting revenues over the medium term, Saskatchewan is well-positioned to keep its overall fiscal position in check.

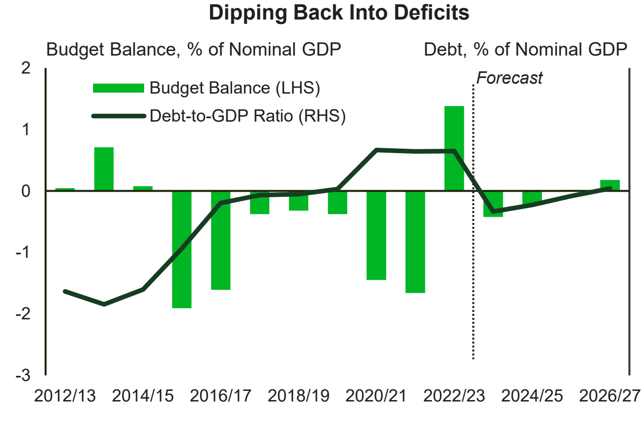
FY 2023-24 Budget Balance Swings to a Deficit

The $483 million deficit now estimated for FY 2023/24 represents a small downward revision from the most recent fiscal update, but hefty $1.5 billion deterioration from the budget surplus initially tabled a year ago. A nearly 7% increase in taxation revenues and solid gain in other own-source revenues were overshadowed by the hit to non-renewable resource revenues as a result of lower potash prices. Soaring crop insurance payouts also accounted for more than half of the unexpectedly large 12% climb in expenses.

Revenues Decline in FY 2024/25 Before Picking Up to Solid Levels

FY 2024/25 revenues are projected to dip by 2.6%. The pullback is largely a result of a decrease in corporate income taxes related to a large one-time adjustment received in FY 2023/24. In contrast, personal income tax revenue is expected to chalk up a modest 2% gain reflecting solid employment prospects. Meanwhile, non-renewable resource revenue is expected to rebound by 12.2% in the year ahead, also offsetting some of the broader revenue decline. Looking out beyond next year, revenue growth is expected to return close to its historical average.

Chart 1: Saskatchewan Maintains Low Debt Burden Despite Dipping Back Into Deficits



Source: Saskatchewan Budget 2024, TD Economics.

Saskatchewan Economic Assumptions						
[Percent Change Unless Otherwise Noted]						
Budget 2024						
Calendar Year	2023	2024	2025	2026	2027	2028
Nominal GDP	-0.3	2.1	3.2	3.7	3.5	4.1
Real GDP	1.4	1.0	1.8	2.3	2.1	2.2
Unemployment Rate (%)	4.8	5.5	5.6	5.6	5.5	5.5
CPI	3.9	2.6	2.0	2.0	2.0	2.0
WTI (US$/Barrel)	77.6	77.0	75.0	75.0	78.0	79.0
Potash (US$/KCl Tonne)	338.2	263.9	279.5	293.9	308.6	323.8
Source: Saskatchewan Budget 2024, TD Economics.						

Outlook is Based on Mostly Reasonable Assumptions

For 2023, the government estimates that real GDP grew by 1.4%, roughly in line with our forecast. However, for 2024, our latest forecast incorporates somewhat more optimism in terms of both real and nominal GDP (1.7% real GDP; 5.1% nominal). Over the coming quarters, we expect the provincial economy to benefit from a mix of firming commodity markets, employment and spending above the national average, and solid investment intentions.

Commodity prices have the potential to disproportionally impact revenues since non-renewable resource revenues account for nearly 15% of the government's total revenue take. The budget is projecting that WTI will average $77/bbl for 2024. This forecast is slightly more conservative relative to our $80/bbl projection. The government's budget sensitivity of $17.5 million for every $1 gain in WTI could yield an upside revenue surprise of over $50 million.

Elsewhere, the budget is assuming that potash prices drop slightly to an average of US$268/tonne, down slightly from $US/284 last year, but then expected to gradually increase over the forecast horizon.

Spending Gets Boosted Across Most Sectors

Total spending in FY 2024/25 is expected to decline by 3.5% relative to last year's revised tally. However, the $1 billion agricultural expense boost in FY 2023/24 masks this year spending bump health care, education and social service. Spending in these sectors, which account for 70% of total spending, will rise by 2.2% this year.

In FY 2024/25, new spending in the health care sector–amounting to $583 million–is geared towards physician services, operating costs and hospital and acute care capacity. New spending in education is allotted to K–12 operating expenses, classroom supports, and early learning/childcare. Social services outlays are geared towards funding for income assistance, child and family services, and housing programs.

Meanwhile, Saskatchewan's capital plan is expected to accelerate to $4.4 billion in FY 2024/25, an almost 20% increase from last year. Targeted areas include Health Care and Education, along with Crown Corporations such as SaskPower. Capital Plan estimates of $4.5 billion a year over the next three years, on average, puts spending well above historical levels.

Net Debt Trajectory Still Intact

After retiring $1 billion in gross operating debt last year, the net debt-to-GDP ratio is projected to stand at 13.3% in FY 2023/24, before creeping up to a peak of 14.6% by FY 2025/26. These levels are still comparatively low relative to the province's history and shouldn't jeopardize Saskatchewan's standing as the province with the second lowest debt burden in Canada.

The near-term uptick in the debt burden comes on the back of increased capital plan spending and near-term deficits. Meanwhile, total borrowing requirements for FY 2024/25 will increase substantially to $4.4 billion, up from last year's projected $2.7 billion. Most of the borrowing will take place using long-term instruments.

Bottom Line

Last year's one-time revenue adjustment – combined with pressures to spend on health care and education amid a growing population base – have pushed the government back into deficit. However, the foray into red ink should be temporary, supported by a solid medium-term economic outlook. This is the last tabled Budget before the October 28th 2024 provincial election.

Saskatchewan Government Fiscal Position [Millions of C$ unless otherwise indicated]					
Fiscal Year	**2023-24 Forecast**	**2024-25 Budget**	**2025-26 Target**	**2026-27 Target**	**2027-28 Target**
Revenues	**20,383**	**19,862**	**20,617**	**21,400**	**22,213**
% Change	-1.0	-2.6	3.8	3.8	3.8
Expenditures	**20,866**	**20,135**	**20,598**	**21,175**	**21,874**
% Change	9.7	-3.5	2.3	2.8	3.3
Surplus (+)/Deficit (-)	**-483**	**-273**	**18**	**225**	**340**
% of GDP	-0.4	-0.2	0.0	0.2	0.3
Net Debt	**14,601**	**15,490**	**16,827**	**18,197**	**18,834**
% of GDP	12.8	13.3	14.0	14.6	14.6

Source: Saskatchewan Budget 2024, TD Economics.