

ECONOMIC RESEARCH AND STRATEGY



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Sébastien Lavoie,
Chief Economist
LavoieS@vmbi.ca
514 350-2931

Saskatchewan Budget 2023 – Supersize Surpluses and Debt Repayment

Saskatchewan's economy thrives, benefiting from a fragmented world and global efforts to seek long-term energy and food security. For instance, the low-carbon transition led U.S. environmental authorities regulating the biofuel industry to approve the utilization of Canadian canola oil. More than half of the country's canola acres are in Saskatchewan, where companies are expanding canola crushing capacity at a fast pace. At the same time, potash production rises in response to worsening food insecurity, while potash prices have fallen from sky-high levels observed a year ago to remain historically elevated. Also, global oil market conditions remain tight.

Altogether, Saskatchewan's advantageous economic and fiscal position was plentifully confirmed in Budget 2023. FY 2022-23 ended with a gargantuan \$1.1B surplus which only surpassed in 2007 and 2008, almost matching the mid-year update estimate of last November. Total spending edged down (-2.6%) after the unusual 25% surge of FY 2021-22 triggered by agriculture expense, as drought conditions during the 2021 summer resulted in record crop insurance claim payouts. Total revenue jumped (+11%) as natural resource revenues surged by 48%. The outright debt level has fallen by more than \$1B, allowing the net debt-to-NGDP to plunge from 17.5% to a very low 14.1% in a single year.

The government projects another supersize \$1B surplus in FY 2023-24. Total revenues are projected to pull back modestly by 2.7% to \$19.7B. Key assumptions underlying the revenue outlook include: an average year in terms of crop production after a remarkable 2022 season; lower, but still elevated, potash prices at US\$369/KCI tonne; a 10% increase in potash sales driven by higher output; high wheat and canola prices; a 4.2% increase in oil production; a WTI average price of US\$80 per barrel in 2023 (close to Alberta's 2023 budget forecast of US\$79). Federal transfers continue to represent a large share of total revenues at 18%, compared to 17% for resource revenues, 16% for the personal income tax and 14% for sales tax.



The government intends to lower spending for a second consecutive year, by 2.1% to \$18.7B. The policy choice made is to dedicate the \$1B surplus to debt repayment. The level of public debt will decline to a lesser extent in FY 2023-24 than in FY 2022-23. The debt reduction commitment will be offset by record-high capital spending to support economic growth through the construction and renovation of infrastructure. Indeed, the size of the capital plan will jump from \$3B annually in recent years to \$3.7B in FY 2023-24. Altogether, long-term borrowing requirements are projected at a relatively small \$1.2B in FY 2023-24, versus \$2.1B in FY 2022-23 and closer to \$3B in FY 2021-22.

In summary, the province of Saskatchewan has been influenced by major global, geopolitical and climate events in recent years rapidly shifting the state of public finances. In FY 2021-22, the province registered a \$1.5B deficit as the pandemic and the severe summer drought fueled expenses. Also, the \$0.5B deficit originally projected in the 2022 budget turned into a sizzling \$1B surplus as the Russian invasion of Ukraine tightened oil and potash global conditions. These events remind us that the revenue outlook and budgetary situation of any provincial issuer, including Saskatchewan, can change quickly. As for 2023, we will find out in the next few weeks and months to what extent the latest episode of U.S. banking liquidity stress tightens financial conditions of consumers and companies.

Sébastien Lavoie | Chief Economist
514 213-4571 | LavoieS@vmbi.ca

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