

ECONOMIC RESEARCH AND STRATEGY



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Saskatchewan Budget 2024 – Larger Bond Issuance Necessary to Finance Largest Capital Spending Plan on Record

Factors beyond the government's control deteriorated Saskatchewan's public finances in FY 2023-24. The droughts of last summer led to unexpected financial assistance to the agriculture sector. Crop insurance claims and drought relief for livestock producers resulted in a \$1.1B overrun in costs at the agriculture department. Furthermore, the normalization of potash prices since the Russian invasion of Ukraine occurred faster-than-expected. Ultimately, the deficit estimate widened to a sizeable \$483M in FY 2023-24, ending in a few days, nearly doubling since the mid-year fiscal update released last November, which proposed a \$250M shortfall.

As for FY 2024-25, the government plans to shrink the annual deficit to a manageable \$273M. This improvement in the budgetary balance is possible as expenses are projected to decrease at a faster pace (-3.5%) relative to revenues (-2.5%). Investors should monitor current contract negotiations between teachers and the government as the outcome may alter the spending outlook. The Province is negotiating with the Saskatchewan Teacher's Federation on matters concerning classroom size and complexity, on top of wages. The government proposed to choose between one of the two following options: a 7% wage increase over three years, or the same salary increase formula used for members of the legislative assembly. The teachers' union has asked for a 2% annual wage increase for the next four years plus adjustments tied to CPI inflation. Government projections suggest that the union's proposal would result in a total wage increase of 23.5%.

The 2.5% dip in total revenues during FY 2024-25 is not broad-based but rather concentrated as weaker potash prices filter through to weaker corporate taxation revenues. Federal transfers (\$3.8B) in FY 2024-25 remain intact relative to last year. The non-renewable revenues are also projected to edge up to \$2.7B. Budget 2024 assumes potash prices will fall modestly after the plunge of 2023, but potash volume sales are projected to increase modestly. Additionally, uranium prices have recently reached their highest levels in more than 16 years as nuclear power is increasingly perceived to play a major role in the global energy transition. Moreover, the budget uses an average WTI price of US\$77 per bbl, the same price observed in FY 2023-24, on average. The International Energy Agency recently raised its estimate of global oil demand by 110K b/d to 100.3M b/d in 2024, contributing to lifting WTI prices above \$US80.

The flagship measure of Budget 2024 relates to new funding for the building of schools (11 this year alone), part of the \$4.4B capital spending program. This record-high capital spending plan also includes additional financing for health care facilities. Accordingly, net debt will increase by \$1.2B to \$15.2B, translating into a net debt-to-GDP ratio of only 14%, compared to a peak of 17.5% during the pandemic. These public



investments will require additional borrowing requirements, projected at \$3.98B in FY 2024-25 versus \$2.263B in FY 2023-24.

In summary, the financial situation of the Province of Saskatchewan is very solid, even as the government plans to run a manageable operational deficit in FY 2024-25. The highlight of this budget is unambiguously the big capital spending plan. Beyond the \$4.4B tally announced for FY 2024-25, the budget also proposes ambitious capital spending for the following three years. These should make the Province of Saskatchewan somewhat more present on the bond market relative to what financial markets have been accustomed to in previous years.

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