BUDGET ANALYSIS

Saskatchewan: Budget 2025

Back in Black… If No Tariff Attack

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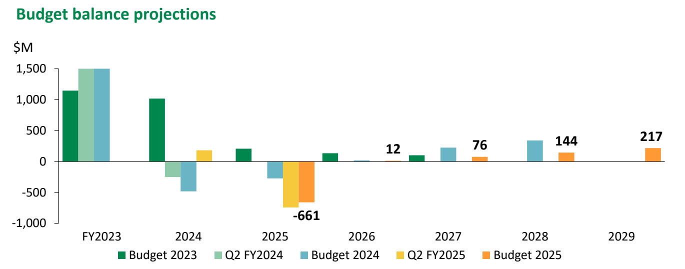
HIGHLIGHTS

- Saskatchewan's fiscal year 2025–26 (FY2026) forecasts a return to surpluses after the FY2025 deficit, with improved revenue under a no-tariff scenario offsetting incremental new spending as the government fulfills its campaign promises (graph 1). The updated plan includes cost-of-living relief and targeted funding for healthcare, education, and public safety. Table 1 on page 2 summarizes the province's updated fiscal forecasts.
- The optimistic revenue outlook is supported by strong economic growth assumptions, with real growth expected to accelerate to 1.8% in 2025 and 2.0% in 2026, driven by robust capital investment and resilient population growth. Oil price assumptions are less conservative than those in Alberta's budget.

Graph 1
Saskatchewan's No-Tariff Bottom Line Remains Largely Intact



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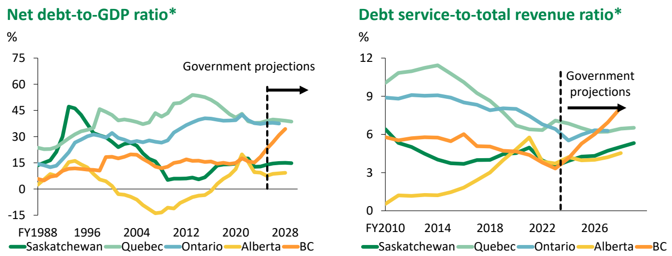
- Significant downside risks are heightened, with potential US tariffs reducing provincial revenue by up to $1.4B. We consider this a worst-case scenario.
- The net debt-to-GDP ratio remains on a relatively flat trajectory, well below that of all jurisdictions except Alberta.
- The considerable impact of tariffs will likely require a response from the government of a trade-oriented province like Saskatchewan, though specific measures are yet to be announced due to the fluidity of the situation. Although substantial downside risks are not reflected in the baseline, the strong financial stance and responsible spending outlined in this budget position the province well to address the potential impact of tariffs.

Our Takeaways

After a brief dip into deficit during the fiscal year 2024–25 (FY2025), Saskatchewan is forecasting a return to surpluses in its 2025 budget—maintaining the trajectory in the last budget—driven by an improved revenue outlook with no tariffs anticipated. The budget included a slew of campaign promises, such as cost-of-living relief measures and targeted funding for healthcare, education, and public safety. The government acknowledges significant downside risks to this outlook, estimating that the imposition of US tariffs and Canadian counter tariffs could reduce provincial revenue by up to $1.4B.

Slightly increased spending has partially eroded some revenue gains, but the province's balance sheet remains healthy under the no-tariff scenario. The net debt-to-GDP ratio is on a slight upward trend, peaking at 15.0% in FY2028—slightly higher than the previously estimated peak of 14.6% in FY2027, and well below that of all jurisdictions except Alberta (graph 2).

Graph 2
Saskatchewan Maintains Its Low-Debt Advantage



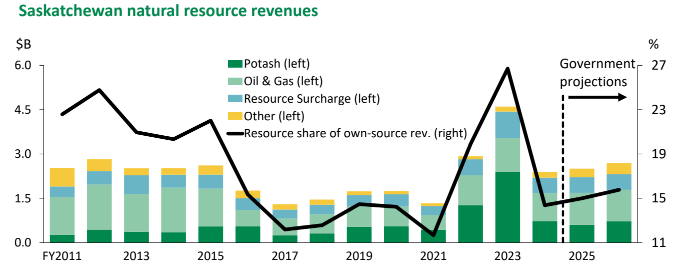
* Ontario and Quebec figures based on mid-year FY2024 projections
Provincial budget documents and Desjardins Economic Studies

Improved Revenue Projections Amid Rising Downside

Saskatchewan's revenue has been bolstered by a stronger handoff from last year, with notable gains in tax revenues driving continued growth in FY2026. Total revenue is projected to rise by 3.2% compared to last year, with gains observed across nearly all categories, particularly in tax revenues. Even after accounting for the tax reductions introduced under the Saskatchewan Affordability Act, tax revenue is expected to jump by 3.6% in FY2026, driven primarily by provincial sales taxes.

Resource revenue is set to increase by 7.9%, as the potash outlook improves and strong gains in uranium sales offset anticipated weaknesses in oil and gas. Non-renewable resource revenues are expected to account for 12.8% of total revenue in FY26, slightly higher than in FY25 but still under the targeted share of 15% (graph 3)– the amount deemed prudent and sustainable for fiscal planning purposes.

Graph 3
A Less Commodity-Reliant Revenue Base than in Recent Years



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The strong revenue outlook is underpinned by optimistic yet reasonable economic and commodity market assumptions, without accounting for the substantial downside tariffs could impose. Saskatchewan's real growth is expected to accelerate to 1.8% in 2025 and 2.0% in 2026, aligning with the average forecasts from private-sector analysts before considering the impact of tariffs. The anticipated rebound in 2025 is expected to be driven by significant growth in capital investments (+10.8% in 2025) and resilient population growth (+1.5% in 2025), largely consistent with our optimistic view on the province.

The projected WTI price of 71 US$/barrel for FY2026 is less conservative than Alberta's forecast of 68 US$/barrel. Similarly, the WCS-WTI differential is expected to widen to 15 US$/barrel in FY2026, which is narrower than Alberta's assumption of 17.1 US$/barrel. Saskatchewan's projection is largely in line with our forecasts before considering the impact of U.S. administration policies, but it provides little buffer against potential downside risks amid growing uncertainty. As a rule of thumb, 1 US$/barrel is linked with a fiscal impact of $17.9M in oil revenue.

TABLE 1
Summary of Fiscal Forecasts

	2023–2024	2024–2025		2025–2026		2026–2027		2027–2028		2028–2029
IN $M (EXCEPT IF INDICATED)	Actual	Bud. 2024	Bud. 2025	Bud. 2024	Bud. 2025	Bud. 2024	Bud. 2025	Bud. 2024	Bud. 2025	Bud. 2025
Total revenues	20,993	19,862	20,408	20,617	21,056	21,400	21,835	22,213	22,643	23,481
Total expense	20,811	20,135	21,069	20,598	21,044	21,175	21,759	21,874	22,499	23,264
Budget balance	**182**	**-273**	**-661**	**18**	**12**	**225**	**76**	**340**	**144**	**217**
% of GDP	*0.2*	*-0.2*	*-0.6*	*0.0*	*0.0*	*0.2*	*0.1*	*0.3*	*0.1*	*0.2*
Net Debt, % of GDP	*12.9*	*14.0*	*13.9*	*14.6*	*14.6*	*14.6*	*14.9*	*14.3*	*15.0*	*14.8*
*WTI Price, US$/barrel**	*77.8*	*77.0*	*74.3*	*75.0*	*71.0*	*75.0*	*72.0*	*78.0*	*75.3*	*76.5*
Borrowing Requirement		4,364	5,003	—	4,043	—	—	—	—	—
*Real GDP, % change**	*2.3*	*1.0*	*1.6*	*1.8*	*1.8*	*2.3*	*2.0*	*2.1*	*2.2*	*2.2*
*Nominal GDP, % change**	*-4.8*	*2.1*	*4.2*	*3.2*	*2.6*	*3.7*	*3.8*	*3.5*	*4.5*	*4.4*

* Calendar year: FY2024 corresponds to 2023, etc.
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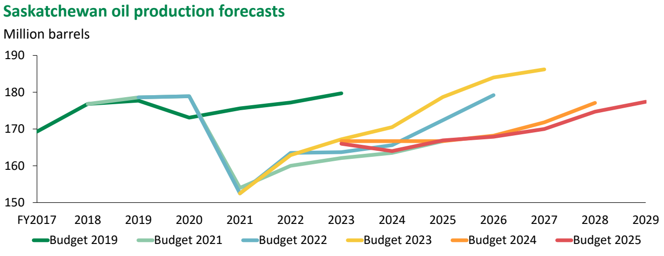
Crude production is expected to improve steadily at an average rate of 1.5% over the medium term. Driven by the Trans Mountain Expansion project, this has narrowed price differentials and boosted investor confidence in adding new production capacity. However, this trajectory for output growth remains well below previous budget plans (graph 4). Therefore, oil and gas have become less significant in natural resource revenues, making the province's finances less sensitive to crude oil prices.

Graph 4
Oil Production Growth Subdued Compared to Previous Plans



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Assessing Tariff Implications

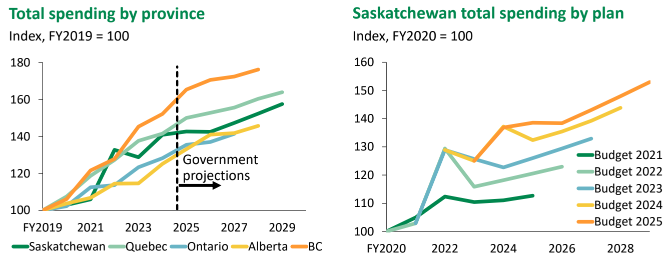
As an export-oriented province, Saskatchewan's economic growth faces significant pressure due to tariffs imposed by both the US and China. Energy, agriculture, and non-metallic minerals are the province's top three export categories, making it particularly vulnerable to these trade barriers. The government estimates that, in an alternative scenario accounting for the impact of US tariffs and Canadian countermeasures, Saskatchewan's exports to the US could decline by 30%, real GDP could decrease by 5.8%, and government revenue could drop by up to $1.4B relative to its baseline.

However, we view these estimates as more pessimistic than our latest forecasts incorporating tariff impacts, considering them a worst-case scenario. Lower tariffs from the US on Canadian energy exports, coupled with the reliance on Canadian heavy oil, should provide some buffer against the economic fallout from US tariffs. Additionally, Saskatchewan benefits from a diversified range of export destinations beyond the US and China, which helps mitigate the impact of proposed tariffs. Therefore, while Saskatchewan's growth will likely decelerate this year and next, in line with other provinces, it remains resilient and is well-positioned to outperform the national average.

New Spending Measures Are Incremental and Targeted

Total expenses for FY2026 are projected to be $446M (2.2%) higher than in the previous budget, while remaining largely unchanged from FY2025's spending levels (graph 5). New spending has been kept incremental and targeted, focusing on healthcare, education, and crime prevention. Additional funds in those areas are meant to reduce surgical wait times, improve students' reading levels and make communities safer.

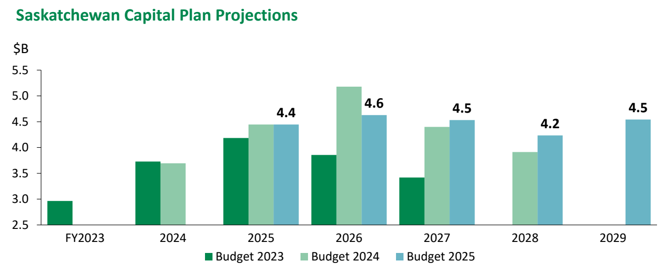
Graph 5
Saskatchewan's Spending Plan Lifted Yet Still Manageable



* Ontario and Quebec figures based on mid-year FY2024 projections
Statistics Canada, provincial budget documents and Desjardins Economic Studies

The budget maintains a historically high capital spending plan, with funding more spread out in the outer years compared to its previous plan (graph 6). The upgraded Saskatchewan Capital Plan totals $17.9B over the next four years, jointly funded by the government and commercial Crowns. Investment is set to reach a record level of $4.6B in FY2026 and remain elevated through FY2029, primarily directed towards hospitals and schools. Increased infrastructure spending should help support the province's growth outlook.

Graph 6
Infrastructure Plan Timelines Delayed Again



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Debt and Borrowing

Saskatchewan's borrowing program is expected to decline to $4.0B in FY2026, with debt repayments of $1.6B. This follows an increased forecast of $5.0B in FY2025, up from $4.4B estimated in last year's budget, mostly due to the Saskatchewan Capital Plan. While the government primarily borrows in Canadian dollars (85%), Saskatchewan has recently increased its borrowing from foreign capital markets, helping to lower overall borrowing costs.

The budget's release after market close means we have to wait until tomorrow to gauge the market response. Investors may interpret the budget as sending mixed signals: while the return to surplus and a responsible spending plan are encouraging, the significant downside related to tariffs may cause investor apprehension. Overall, Saskatchewan spreads should continue to track crude prices, with tariff uncertainty adding pressure on long-term spreads. However, Saskatchewan's favorable fiscal stance compared to other provinces should help keep its borrowing costs manageable over time.