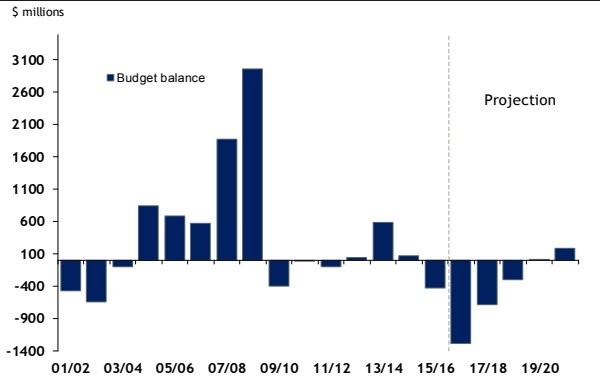


SASKATCHEWAN BUDGET 2017
March 23, 2017

Saskatchewan government takes remedial action and a longer path to budget balance

Saskatchewan budget balance



Source: Saskatchewan Ministry of Finance, RBC Economics

- The return to budget balance is delayed until FY19/20—two years later than previously planned.
- The Saskatchewan government projects a deficit of \$685 million in FY17/18, on the heels of an upwardly revised shortfall of \$1.3 billion in FY16/17.
- Several new initiatives were undertaken on both the revenue and expenditure sides of the ledger that boost and expand revenue sources, and restrain spending growth.
- Non-renewable resource revenues are expected to recover only partially from the steep decline in the past three years.
- Saskatchewan’s debt will continue to rise but it remains low. Net debt is expected to increase to 15.2% of GDP at the end of FY17/18 from 13.8% in FY16/17 and 9.9% in FY15/16.

Budget assumptions

	2016	2017	2018
Real GDP growth (%)			
Budget 2017 planning assumption	-0.2	0.8	2.0
RBC	-1.8	1.8	2.3
Nominal GDP growth (%)			
Budget 2017 planning assumption	-3.2	4.9	5.7
RBC	-5.2	7.0	5.4

Source: Saskatchewan Finance, RBC Economics Research

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Facing a tough challenge—deeper deficit in FY16/17 makes it abundantly clear

With difficult economic circumstances continuing to undermine key revenue sources and the growing realization that contribution from resource revenues could not be counted on to turn the provincial fiscal situation around any time soon, Saskatchewan's Finance Minister Kevin Doherty faced a significant challenge in preparing his 2017 budget. The path laid out in previous budgets was not going to take his government back to budget balance as promised and significant adjustments had to be made. Such became increasingly evident with successive upward revisions to the provincial deficit projection for FY16/17 since Budget 2016, with the latest revision delivered yesterday showing a shortfall of \$1.3 billion—triple the original projection of \$434 million in last year’s budget. This deeper hole resulted from both revenues and expenditures erring from their projected paths; therefore, remedial action was necessary on both sides of the ledger.

Meeting the challenge: adjusting both sides of the ledger...

And this is precisely what Budget 2017 is about: adjusting the course (and mix) of both revenues and expenditures to return to balance on a sustainable basis. This budget is heavy on new tax measures and spending restraint. It includes more than \$900 million in net new tax measures, which will contribute to a 14.9% increase in taxation revenues in FY17/18. The revenue side will also benefit from partial recovery in non-renewable resource revenues (projected to increase by 10.0%) thanks to higher expected commodity prices—the budget assumes the WTI benchmark to average US\$56 per barrel in FY17/18, compared to US\$49 per barrel in FY16/17, and average potash prices to rise from C\$376 per tonne in FY16/17 to C\$386 per tonne in FY17/18. Still, at \$1.4 billion, those revenues would remain close to half their level in FY14/15 and represent only 10% of total government revenues. The main spending restraint initiative in Budget 2017 is an employee compensation funding cost reduction of \$250 million (3.5% of government payrolls) that will be

rolled out across government organizations during the course of the year—and therefore is stated as a separate line item in the budget for the time being.

...and taking longer to balance the books

New initiatives announced in yesterday's budget are not expected to close the gap between expenditures and revenues straightaway. The government instead opted to delay the return to balance by two years until FY19/20. During the interim, it projects to run deficits of \$685 million (0.8% of GDP) in FY17/18 and \$304 million (0.4% of GDP) in FY18/19. To get to a small surplus in FY19/20, the government expects revenue growth to average 3.6% annually in the next three years, and expenses to edge downwardly by 0.1% on average if we take into account the yet-to-be-allocated \$250 million reduction in compensation costs—which would contribute to a significant drop of 3.9% in expenditures in FY17/18.

A flurry of new tax measures that shifts the tax burden toward consumption

Budget 2017 introduces many new tax measures. It raises the provincial sales tax (PST) rate from 5% to 6%, effective March 23, 2017. This is estimated to boost revenues by \$242 million in FY17/18. The PST tax base is also broadened to include a number of previously exempted items such as children's clothing (estimated to bring in \$16 million in additional revenues), restaurant meals (\$95 million), insurance premiums (\$158 million) and property renovation (\$345 million). To help mitigate the impact of higher sales tax on lower income families, the government will increase the Low-Income Tax Credit (costing \$34 million). Additional tax measures include the elimination of other tax exemptions (for bulk purchase of gasoline, credits for post-secondary tuition and education expenses, and employees' tools, totaling \$68 million), increases in tobacco taxes (\$10 million) and liquor mark-ups (\$5 million), and a rise in the capital tax rate on large financial institutions from 3.25% to 4.00% (\$13 million). To some extent, these tax hikes (for the most part) represent a shift in the tax burden toward consumption and away from income because the provincial government moreover announced a number of income tax cuts in Budget 2017. These consist primarily of successive half-point reductions in both personal income tax rates and the general corporation income tax rate over the next three years, starting on July 1, 2017 (costing the government \$82 million and \$25 million, respectively, in foregone revenues in FY17/18).

Capital plan: scaling back expenditures from record levels

After more than tripling its capital expenditures in the previous six years—to an expected all-time high of \$1.9 billion in FY16/17—the Saskatchewan government intends to scale back its capital plan in the coming four years. For FY17/18, the provincial capital plan includes spending totaling \$1.6 billion, with more than half of this amount (\$861 million) slated for transportation infrastructure. The plan calls for further spending reductions in the following three years to \$722 million by FY20/21.

Borrowing requirements to decline

The government expects total borrowing requirements to decline to \$2.7 billion in FY 17/18 from an upwardly revised \$3.4 billion FY16/17. The decline is entirely attributable to a significant drop in the government's operating requirements (down \$1.1 billion), which will more than offset increases in requirements for the capital plan (up \$100 million) and by crown corporations (up \$250 million). Budget documents indicate that borrowing requirements in FY17/18 include an amount of \$377 million for refinancing maturing debt.

Provincial debt is rising but still low

Total public debt—which includes debt from Crown corporations and government enterprises—is projected to rise from \$16.1 billion at March 31, 2017 (revised upwardly from \$14.8 billion initially projected in Budget 2016) to \$18.2 billion at March 31, 2018. Net debt is projected to rise from \$10.6 billion to \$12.2 billion, over the same interval. As a percentage of GDP, net debt is set to increase from 13.8% to 15.2%, which remains quite low compared to other provinces. Despite the near-term challenges, the Saskatchewan government continues to enjoy substantial fiscal flexibility.

Saskatchewan's Consolidated Fiscal Plan

(\$ millions)	Actual	Forecast	Planned	Projected		
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Total revenues	13,633	13,694	14,165	14,694	15,237	15,708
Total expenditures	15,153	14,983	14,800	14,948	15,172	15,475
Human Resource Compensation Measure	-	-	(250)	(250)	(250)	(250)
Contingency Allocation	-	-	300	300	300	300
Surplus/(deficit)	(1,519.0)	(1,288.5)	(685.0)	(304.0)	15.0	183.0
Net debt	7,899	10,643	12,244			
Net debt to GDP (%)	9.9	13.8	15.2			

Source: Saskatchewan Ministry of Finance, RBC Economics Research

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