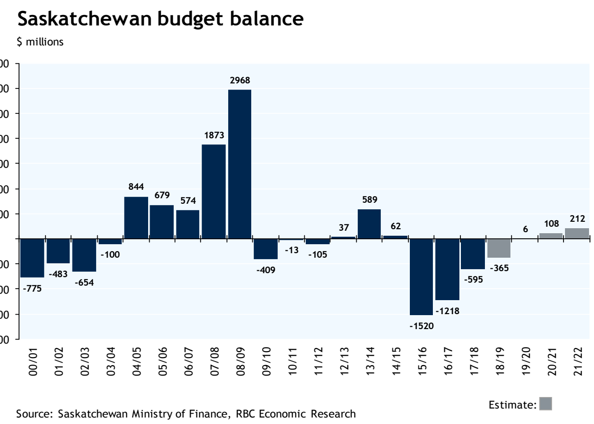
SASKATCHEWAN BUDGET 2018

April 11, 2018

Highlights

- Budget 2018 is projecting a FY18/19 deficit of $365 million before eking out a surplus of $6 million in FY19/20. Thus the government reconfirmed its objective of eliminating the deficit next fiscal year as promised in last year's budget. The surplus is projected to continue to grow through FY21/22.
- Budget 2018 announced very few new initiatives in contrast to Budget 2017 that outlined a relatively significant reorientation of its fiscal policy away from a heavy reliance on non-renewable resource revenue. A key hallmark of the shift was the announced one percentage point increase in the provincial sales tax (PST) to 6%.
- The only tax changes announced this year was the elimination of PST exemption for used motor vehicles and a particular brand of energy efficient appliances.
- Annual expenditure growth through FY21/22 is kept at only 1.3% which is one half of the average rate of growth in revenues. This restraint occurs despite the government indicating a solid increase in key expenditure areas of health, social services and education with the main offset being ongoing restraint in public sector compensation. However the limited detail provided as to how these savings will be achieved presents a major risk to a return to balance next fiscal year.
- An offsetting upside risk to revenue growth is the Saskatchewan government's very conservative GDP growth outlook in the near term.



Overview

After introducing a very significant shift in fiscal policy last year that included an increase in the provincial sales tax by a percentage point to 6%, Saskatchewan's Budget 2018 is very much more one of allowing those earlier policy actions to take hold with little in the way of new initiatives being announced. The hike in the PST last year was part of a laudable attempt by the province to reduce its fiscal dependence on non-renewable resource revenues and allow it to eliminate the current deficit position and return to surplus by FY19/20. Budget 2018 confirmed the province's intent to achieve a surplus in FY19/20 and maintain it through FY21/22. This improving fiscal position results from solid annual increases in revenues of 2.7% with expenditure growth being restrained to just 1.3%.

Most of the expenditure restraint occurs in the near term. Budget 2018 indicates that this was in part achieved by a decrease in its public sector pension liability of $404 million spread over both FY17/18 and FY18/19. However this savings seems to have resulted more from how the liability was calculated rather than any policy actions. In terms of specific expenditure initiatives, Budget 2018 only makes mention of "$70 million in savings over two years, $35 million in this Budget [FY18/19?] and next fiscal year [FY19/20?]." Without firmer details it is difficult to fully assess the likelihood of these savings being achieved which puts at risk the improving fiscal balance through FY21/22. Countering this downside risk is the government's very conservative outlook for GDP growth particularly in 2018. If stronger growth is realized, it would provide an additional boost to revenues that could offset any shortfall in the projected expenditure savings.

Budget Balance Profile

Budget 2018 is projecting a deficit in FY18/19 of $365 million. This is slightly larger than the $304 million projected last year but it is down from the $595 million deficit estimated for FY17/18. This improving trend continues through the forecast with the government indicating a minimal $6 million surplus in FY19/20 with this surplus growing to $108 million and $212 million in FY20/21 and FY21/22, respectively. The government is no longer showing a contingency reserve fund of

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$300 million each year over the medium term as was indicated in Budget 2017. This does leave the province more vulnerable to any potential negative shock. However, this contingency fund was being largely funded by a projected $250 million in savings each year from reduced public sector compensation costs. The failure of those savings to be found could have jeopardized the contingency funds being available to offset any negative shock. Budget 2018 eliminated the explicit mention of these savings in its fiscal projections.

Revenues

The solid increases in revenue growth through the medium term is in part the result of last year's one percentage point hike in the PST rate to 6%. The only new revenue measures introduced in Budget 2018 was to widen the PST tax base marginally by now including used light motor vehicles and ENERGY STAR appliances. The increase in FY18/19 revenues was helped by a 4.4% increase in non-renewable resource revenues. However, Budget 2018 emphasizes that the resulting level of $1,482 million in revenues is almost one-half the $2,614 million earned in FY14/15 and thus indicating the government's reduced reliance on this source of funding. Specific estimates of this revenue source are not provided beyond that fiscal year but its forecast of generally rising energy prices would imply continued modest growth through the forecast.

Budget assumptions

	2017	2018	2019	2020	2021	2022
Real GDP growth (%)						
Budget 2018 planning assumption	1.5	1.3	2.5	2.6	2.2	1.9
RBC	2.1	2.9	2.5			
Nominal GDP growth (%)						
Budget 2018 planning assumption	4.9	4.0	4.3	4.2	4.6	4.5
RBC	5.8	5.4	4.2			

Source: Saskatchewan Ministry of Finance, RBC Economic Research

The Saskatchewan government seems to be very conservative as to its GDP growth assumptions at least in the near term which does offer some upside risk to the projected revenue outlook. For 2018 the government is only assuming real GDP growth of 1.3% which is down from their estimate of an already weak 2017 growth rate of 1.5%. The consensus estimate of 2018 growth by private sector forecasters is 2.0% with RBC Economics assuming an even stronger 2.9% increase. Budget 2018 mentions the suspension of production this year at a uranium mine as a key factor weighing on growth this year. However, the divergence with the RBC forecast is more with respect to agricultural production. Budget 2018 indicates that the hot dry summer weather did not have as big a hit on growth as had been feared. Though this is true, it was still the case that the adverse growing conditions lowered crop production by almost 5% in 2017 which was a key factor restraining the overall GDP growth rate last year. Our forecast assumption going into the start of any year is for normal growing conditions to prevail which for 2018 growth we assume will reverse the 2017 drop in crop production. That lift is what contributes to our projection of 2018 GDP growth of 2.9%. The Saskatchewan government assumed that agricultural production will decline a further 1.4% which weighs on its GDP growth rate. Given the vagaries of weather conditions and impact on agricultural production, there is reason for the Saskatchewan government to be conservative as to its estimate of the upcoming harvest. However, if more normal growing conditions prevail in 2018, it will provide an additional revenue boost to the government's fiscal projections.

Expenditures

Over the four fiscal years ending FY21/22, the Saskatchewan government is only assuming average annual expenditure growth of 1.3% which is one-half the rate of increase it is assuming for revenues. Most of the restraint occurs over the first two years where expenditures growth is between ½% to 1% before rising to between 1 ½% to 2% over the last two years. This lower overall expenditure growth rate is achieved despite significant increases in areas of health, social services and education. The main offset is the government's commitment to restrain public sector compensation costs. In terms of specific proposals it was limited to $70 million in savings in the current and next fiscal years. However, other savings will need to be found for the government to achieve its very modest growth in expenditures though Budget 2018 leaves it unclear as to where they will come from.

Capital Spending

Budget 2018 confirmed that the government will continue to lower capital spending through the medium term from an all-time high in FY16/17 of $1.9 billion to $1.6 billion in FY17/18 and $0.8 billion in FY21/22. Initially the drop in spending between FY18/19 and FY19/20 reflects a reduction in transportation infrastructure spending. However, over the subsequent two years the reductions are spread mainly between education and IT government capital spending. Capital spending in health care and education generally continue to trend higher through the medium term.

Net Debt

The persistence of a deficit in FY18/19 contributes to Saskatchewan's net debt continuing to rise to $12.6 billion in FY18/19 from $11.8 billion in FY17/18. As a share of GDP, the ratio in FY18/19 rises to 15.4% from 15.0% in FY17/18. It is of note that the pace of increase in this ratio is slowing relative to the FY16/17 ratio of 13.5%. As well, despite the upward trend, the net debt-to-GDP ratio for Saskatchewan is among the lowest in Canada.

Borrowing Requirement

Budget 2018 indicated a FY18/19 borrowing requirement of $3.2 billion. The government indicated that a majority of this funding is to finance capital expenditures in that fiscal year. As well, the government indicated $600 million of borrowing has been undertaken to finance in advance some planned capital expenditure for FY19/20. Such was reportedly undertaken to assure that funds would be available when needed and also to take advantage of current low interest rates.

Saskatchewan's Consolidated Fiscal Plan

($ millions)	Actual	Forecast	Planned		Projected	
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Total revenues	13,626	13,943	14,244	14,761	15,114	15,518
Total expenditures	14,844	14,538	14,609	14,755	15,006	15,306
Human Resource Compensation Measure	-	-	-	-	-	-
Contingency Allocation	-	-	-	-	-	-
Surplus/(deficit)	(1,218)	(595)	(365)	6	108	212
Net debt	10,192	11,775	12,648			
Net debt to GDP (%)	13.5	15.0	15.4			

Source: Saskatchewan Ministry of Finance, RBC Economic Research

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