Lower commodity prices keep budget in deficit; balance to be restored next year

- The Saskatchewan government projects a budget deficit of $434 million in FY16/17, little changed from a $427 million shortfall now estimated in FY15/16.
- It expects to balance its books next year and run small surpluses the following two years.
- The main culprit for this year’s deficit is a $352 million drop in non-renewable resource revenues resulting from lower prices for oil and potash.
- The government has launched an in-depth review of its spending and revenue sources in order to identify the “transformational changes” necessary to return to balance.
- Saskatchewan’s debt will rise but it remains low. Net debt is expected to increase to 11.6% of GDP at the end of FY16/17 from 10.0% in FY15/16 and 6.7% in FY14/15.

Weak commodity prices continue to drill a hole into revenues,...
Saskatchewan’s Finance Minister Kevin Doherty yesterday confirmed that the fiscal picture of his province will continue to be significantly impacted by the downturn in global commodity markets. He expects low prices for oil and potash will drill a $352 million hole into the provincial government’s non-renewable resource revenues in FY16/17, on the heels of an even larger $778 million drop now estimated in FY15/16. Non-renewable resource revenues are projected to total just under $1.5 billion this year, a decline of 19.1% from FY15/16 and the lowest level since FY03/04.

...causing a second-consecutive deficit in FY16/17 of $434 million
The fall in revenue last year tipped the provincial budget into deficit ($427 million) for the first time in four years. Much the same is expected for the current fiscal year with the government projecting a $434 million shortfall. While increases in other sources of revenue (including taxation and federal transfers) are projected to more than offset the drop in non-renewable revenues and boost total provincial revenues by $156 million (1.1%) to $14.0 billion in FY16/17 (after declining by $191 million in FY15/16), this will remain short of the $15.5 billion the government projects to spend on programs and servicing its debt. Expenses are projected to rise by $163 million (1.3%) this year, with education (up $69 million) and transportation (up $29 million) claiming most of this increase. The budget does not project any increase for health.

Quick return to balance
Finance Minister Doherty indicated that these back-to-back deficits will be short-lived, however. Yesterday’s budget calls for a return to balance in FY17/18 and small surpluses in the following two years. The government plans on a strong 3.1% rebound in revenues and an overall spending freeze to balance its books next year. Revenues will benefit from higher...
projected commodity prices in FY17/18—in particular, the government assumes oil prices to rise from an average of US$41/barrel for the West Texas Intermediate in 2016 to averages of US$51/barrel in 2017 and US$60/barrel in 2018—although the budget did not provide item-by-item revenue estimates beyond the current fiscal. A stronger expected provincial economy no doubt will also be positive for next year’s revenues. The government forecasts nominal GDP to swing back solidly into positive growth in 2017 and 2018 (with projected rates of 6.8% and 6.1%, respectively) after falling deeply in 2015 (by 7.4%) and 2016 (by 3.0%). To ensure the return to balance in FY17/18, the government has launched a comprehensive review of revenue sources and expenditure programs, and signaled that it intends to implement "transformational changes".

The budget includes few new measures
Budget 2016 proposes only a few new initiatives that have a small monetary impact on either revenues or expenses. The biggest announcement was the elimination of tax rebates for children's sports programs (generating $5.5 million in extra revenue). Other measures include the closure of a northern jail, cuts to spending on urban parks, a reduction in prescription drug subsidies. As promised in the recent provincial election campaign, there were no new taxes or increases in existing taxes.

Borrowing requirements
The government estimates total borrowing requirements to decline in FY16/17 to $2.0 billion from $2.3 billion in FY15/16. The decline is due in part to lower requirements from crown corporations. Of the $2.0 billion required this year, $491 million will be for the purpose of 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 $13.5 billion at March 31, 2016 to $14.8 billion at March 31, 2017. Net debt is projected to rise from $7.6 billion to $9.1 billion, over the same interval. As a percentage of GDP, net debt is set to increase from 10.0% to 11.6%, which remains quite low. Despite the near-term challenges, the Saskatchewan government continues to enjoy substantial fiscal flexibility.

Saskatchewan’s Consolidated Fiscal Plan

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<td>Total revenues</td>
<td>14,059</td>
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<td>14,464</td>
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<td>Total expenditures</td>
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<td>Surplus/(deficit)</td>
<td>62.0</td>
<td>(427.0)</td>
<td>(434.0)</td>
<td>6.0</td>
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<tr>
<td>Net debt</td>
<td>5,552</td>
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<td>Net debt to GDP (%)</td>
<td>6.7</td>
<td>10.0</td>
<td>11.6</td>
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