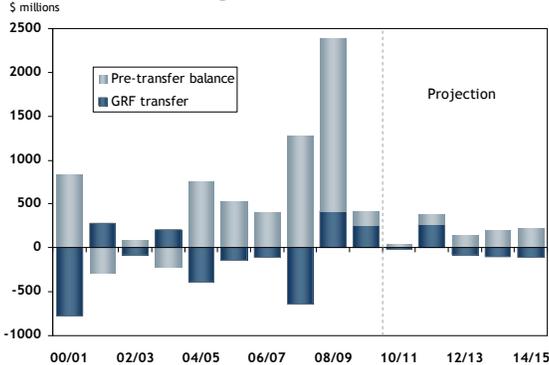


SASKATCHEWAN BUDGET 2011
March 24, 2011

Saskatchewan budget balance



Source: Saskatchewan Ministry of Finance, RBC Economics Research

Fiscal austerity in the land of the living skies

The 2011 Saskatchewan budget, released on Wednesday, introduced a number of new tax cuts while simultaneously decreasing projected expenditures. This allowed the government to project a small surplus of \$115 million for 2011/12, half of which will be transferred (as per legislation) to the province's reserve fund. The planned expenditure cuts are large in real terms and represent a substantial deviation from recent trends. Without a detailed plan as to how these savings are to be achieved, it is difficult to assess the extent to which the government will be able to meet its fiscal targets.

Expenditures in 2011/12 are projected at \$10.7 billion, a decrease of 2.4% (\$268 million) relative to 2010/11 (this is, however, up 5.5% relative to the projection for 2011/12 in last year's budget.) Projected spending cuts are broad based, with most spending areas seeing declines and few seeing significant increases. Among the elements that stand out – both from a historical point of view and when compared to plans in other provinces – health spending, which represents 41.8% of general expenditures, is projected to decline by 2.3%. Overall, the projected cuts in total, expenditures in Saskatchewan will represent a significant degree of fiscal restraint. In real per capita terms (i.e., removing the effect of inflation and population growth), government spending is forecasted to drop the most in 23 years. Using our inflation forecast for the province of 2.8% and assuming population growth of 1.5% (the average in the past two years), real per capita spending would fall substantially by 6.7%. To would be even more drastic than the 5.4% real per capita cut achieved in 2009/10 and represent a sharp reversal from the average *growth* of 3.3% per year in the five years leading up to the recession. In yesterday's budget, the provincial government offered few details as to how it intends to implement these cuts.

The budget projects a decrease in revenues of 1.8% (\$193 million) in 2011/12, which will bring revenues down to \$10.8 billion. This decline is the result of lower Crown corporation transfers (-\$360 million), a decrease in interest-related earnings and refunds of prior-years' expenditures (-\$132 million), along with a decrease in federal transfers (-\$100 million.) Some offset is provided by increased projected tax receipts and resource royalties, which are expected to contribute \$408 million in additional revenue next year as a result of strong economic growth and firm oil and potash prices. Tax revenues are projected to rise in spite of several new tax cuts announced in the budget, including an increase in personal income tax exemption levels, a decrease in the small business tax and reductions in property taxes for education (first promised in the 2009/10 budget.) The government is also fulfilling its previous commitment to revenue-sharing with municipal governments, which will involve municipal transfers equivalent to one percentage point of PST. As usual, revenue projections are subject to considerable risk due to the volatility of commodity prices.

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The province's four year fiscal plan shows surpluses in all years, with average revenue growth of 4.5% and average expenditure growth of 4.4% per year. The result is that the *Growth and Financial Security Fund* (the province's rainy day fund built up from past surpluses) is projected to grow throughout the forecast period. The *GSFS* is expected to finish 2011/12 with a balance of \$711 million, a substantial improvement over last year's projection of \$339.5 million. It is then forecasted to grow to \$998 million by the end of 2014/15.

The government's economic projections indicate provincial GDP growth of 4.2% in 2011 and 2.8% in 2012, which are below our forecasts of 4.5% and 4.8%, respectively. Growth is then expected to slow to 2.1% in each of the following two years.

Saskatchewan's fiscal plan

(\$ millions)	Actual	Forecast	Estimated	Projected		
	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Total revenues	10,267	10,988	10,794	11,331	11,828	12,319
Total expenditures	10,099	10,948	10,679	11,181	11,628	12,094
Pre-transfer surplus	168	40	115	150	200	225
Transfer to GFSF	(84)	(20)	(58)	(75)	(100)	(113)
Transfer from GFSF	341		325			
Net transfers	257	(20)	268	(75)	(100)	(113)
GRF Surplus	425	20	383	75	100	113

Source: Saskatchewan Ministry of Finance, RBC Economics Research

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