The 2018 Saskatchewan Budget: Deficit Reduction Plan on Track, Balanced Budget in Sight

Investors should be pleased to see that the Province of Saskatchewan is on track with its ambitious deficit reduction plan unveiled last year. The Province forecasts a modest $365M deficit in FY 2018-19 (0.4% of nominal GDP), a significant leap from the $595M deficit registered in FY 2017-18 and the $1.2B shortfall recorded two years ago. A return to fiscal balance is expected in FY 2019-20, ending a brief four-year period of fiscal deficit. After projecting a tiny $6M surplus in FY 2019-20, this budget plans for larger surpluses of $108M and $212M in FY 2020-21 and FY 2021-22, respectively.

Total revenues are projected to increase by a moderate 2.2% in FY 2018-19, principally fueled by a 6.2% increase in taxation revenues. The provincial sales tax rate will remain at 6.0% but some exemptions are being removed. For instance, the purchase of a used light vehicle and energy star appliances will now be subject to the PST. Furthermore, in order to return to a balanced budget in FY 2019-20, the government intends to keep the personal income tax rate unchanged in 2019, therefore delaying by 12 months the 0.5% reduction announced last year.

Non-renewable resource revenue is expected to increase by 4.4% in FY 2018-19, a softer pace of growth compared to anticipated increase in taxation revenue. Oil and natural gas royalties are budgeted to rise to $700M, as higher WTI crude oil prices in FY 2018-19 (US$58 per barrel) are expected to more-than-offset the growing discount for Canadian oil relative to the WTI benchmark. Potash royalties are projected to increase at a faster rate than oil royalties, driven mostly by stronger sales rather than an increase in prices (projected at C$399 per K2O tonne). Altogether, non-renewable resource revenues are projected to account for only 10% of the Province's total revenues in FY 2018-19, down from a high of 32% a decade ago. However, generating fiscal revenues from more stable sources is a constructive development which is taken into account by credit rating agencies when they periodically review the Province's credit outlook.

In addition to a moderate improvement in fiscal revenues, the government promises to continue keeping a tight grip on spending. Total expenses in FY 2017-18 were unchanged compared the previous year at $14.8B. In FY 2018-19, the government plans to spend $14.6B, a 1.4% reduction relative to FY 2017-18. Lower expenses are projected in six (out of ten) departments.

Finally, total borrowing requirements are projected at $3.2B in FY 2018-19, up from $2.4B in FY 2017-18. This increase is principally driven by the Province's strategy to pre-borrow $600M to finance capital expenditures in FY 2019-20. The government is borrowing in advance to ensure that funds will be available when needed and to capitalize on the current low interest rate environment. Altogether, funding for the capital spending plan will represent almost half of the borrowing program for FY 2018-19.

In summary, in FY 2018-19, the Province is maintaining its objective of eliminating the fiscal deficit years before other oil-producing provinces and, hopefully, before the next economic downturn. This plan to rapidly eradicate the deficit will contribute to lower the Province's net debt-to-GDP already relatively low versus its peers at 15%.

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Fiscal Sensitivities for FY 2018-19* (in millions $)	
Oil royalties: US$1 per barrel change in WTI oil price	16
Potash royalties: US$10 per KCI tonne in potash price	35
Non-renewable resources revenue: 1 US cent change in the CAD	21

* change in the entire fiscal-year average; Source : The 2018-19 Saskatchewan budget