

# Manitoba Budget Highlights

Highlights and analysis of Manitoba's FY18/19 budget

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## Shallower Deficit Waters

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The Province of Manitoba is projecting a \$521 million summary budget deficit in FY18/19, improved from the \$726 million now expected for FY17/18. That weighs in at 0.7% of GDP, still one of the chunkier shortfalls on the provincial landscape, behind only Alberta and Newfoundland & Labrador (with those budgets pending). Notably, FY17/18 is tracking better than expected, and **the entire deficit profile is improved**—the cumulative shortfall between FY17/18 and FY19/20 is now \$450 million lower than projected a year ago. Net debt, however, continues to rise, on pace to reach 34.3% of GDP this coming fiscal year, which runs counter to most other non-oil provinces (and the federal government) that are seeing the ratio level off or decline at this stage of the cycle. The improved deficit track comes alongside a net \$95 million in tax increases (full-year basis) and a serious limit on spending growth beyond the current fiscal year.



### Summary of Major Policy Measures

- **Carbon tax** details: The already-planned \$25/tonne tax will be effective September, 2018, and is expected to raise \$248 million/year in revenue, with a promise to return all revenues to taxpayers through various channels. Some exemptions (e.g., farmers and some large industrial emitters) will also apply.
- **Basic personal income tax exemption** will gradually rise from \$9,271 in 2017 to \$11,402 by 2020. Note that the average in Ontario and the three western provinces is roughly \$14,000, so Manitoba is working on closing a wide gap on this front.
- **Corporate income tax** threshold raised by \$50k, to \$500k.
- Planned 1 ppt reduction in the **provincial sales tax** in 2020.
- **Health and education spending** grow less than 2% this year; total spending growth runs at 1.4% a.r. through the forecast horizon.
- **Borrowing requirements** of \$6.4 billion.

**Total revenues are projected to rise 4.1% to \$16.8 billion in FY18/19.** Income taxes will rise 2.6%, while Federal transfers look to get a hefty 7.2% bump, largely because of higher equalization payments. GBE net income is expected to rise as well, adding \$842 million to the consolidated bottom line. On a fiscal-years basis, net tax increases will add \$118 million in FY18/19—the carbon tax bites right away, while tax reductions get phased in gradually over time. Note that the Province is assuming real GDP growth of 2.0% this year and 1.6% in 2019, which is a touch more conservative than our view (2.0% and 1.8%, respectively), but still consistent with solid

**Table 1  
Fiscal Summary**

Manitoba (C\$ mlns, except where noted)	Est. 17/18	Forecast 18/19
Revenues	16,128	16,787
Government Revenue	15,370	15,945
GBE Net Income	758	842
Expenditures	16,804	17,423
Government Expenses	15,840	16,389
Debt Service	964	1,034
In-year Adjustment/other	50	(115)
Summary Net Income	(726)	(521)
Summary Net Debt	23,952	25,044
As a percent of GDP:		
Budget Balance	(1.0)	(0.7)
Net Debt	34.0	34.3
As a percent of revenue:		
Debt Service	6.0	6.2
Federal Transfers	26.0	26.8
Key assumptions:		
Real GDP (% chng)	2.0	1.6
Nominal GDP (% chng)	4.3	3.8

Source: Provincial Budget ( ) = deficit  
Note: GDP figures are for calendar year (FY18/19=CY18)

**Table 2  
Borrowing Requirements**

Manitoba (C\$ mlns)	18/19
Government Business Ent.	4,289
General Purpose Borrowing	1,113
Capital Investment Assets	436
Health Fac., Other Crowns, Teachers	581
Total Borrowing Requirements	6,418

and stable fundamentals. The stability of Manitoba's diverse economy has indeed been quite remarkable, and is one factor supporting the Province's credit despite recent troubles, with no outsized concentration in one industry (such as autos in Ontario, for example). In fact, the standard deviation of GDP growth has been the lowest in the country over the past decade.

**Total spending is expected to rise** a firm 3.7% to \$17.4 billion in FY18/19, despite sub-2% growth in health and education—higher debt service costs and spending across other departments lift overall growth. That said, the Province is looking at some very lean years ahead, with annualized spending growth expected to run at just 1.4% through FY21/22, and sub-1% in the latter three years of that forecast horizon. Given Manitoba's economy rarely produces major upside surprises, the success of the longer-term plan will likely hinge on this spending discipline.

In order to fund the deficit and ongoing capital spending program, total **borrowing requirements are pegged at \$6.4 billion in FY18/19**, with \$2.3 billion in refinancing. Government business enterprises (mainly Manitoba Hydro) will account for \$4.3 billion of the total borrowing, with \$1.7 billion in refinancing. Note that the Province has already completed roughly \$600 million of borrowing for this fiscal year.

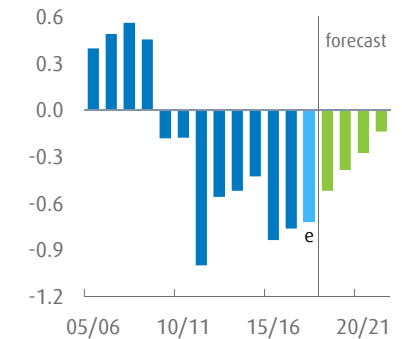
Summary **net debt** will rise to \$25.0 billion from \$24.0 billion at the end of FY17/18. That weighs in at 34.3% of GDP, up three ticks from the prior year. The bad news is that the debt burden continues to rise, counter to what we're seeing in most other provinces. The good news is that the rate of growth is flattening significantly—net debt-to-GDP was rising at more than 2 ppts per year at one point earlier in this cycle. Shallower deficits through the forecast horizon and sturdy nominal GDP growth should stabilize this ratio going forward.

**The Bottom Line:** The carbon tax details and offsetting, albeit gradual, tax reductions are the centrepiece of this budget. From a credit perspective, the shallower deficit path is certainly welcome news for a Province that has seen its ratings under pressure, but that will rest on some firm spending restraint in the years ahead.

Chart 1  
**Deficit Shrinking**

Manitoba (C\$ blns)

### Summary Budget Balance



Source: Provincial Budget e = estimate

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