

Manitoba Budget Highlights

Highlights and analysis of Manitoba's FY19/20 budget

March 7, 2019, 4:00 pm

Down with PST

Robert Kavcic, Senior Economist • robert.kavcic@bmo.com • 416-359-8329

The **Province of Manitoba** is projecting a \$360 million summary budget deficit in FY19/20, slightly improved from the \$470 million now expected for FY18/19. That weighs in at less than 1% of GDP, and remains on a clear improving path since bottoming at more than \$800 million in 2015. Also, \$50 million will be added to the Fiscal Stabilization Account, lifting the balance to \$265 million by the end of the fiscal year. The Province continues to set a gradual track toward balance, with a small (\$28 million, or effectively balanced) deficit remaining by FY22/23. Indeed, the full path of the budget balance remains very little changed from that set a year ago. The big difference is that, below the surface, Manitoba is cutting the provincial sales tax by 1 ppt, as long promised, and the revenue losses are offset by gains elsewhere, including higher federal transfers. Net debt is also expected to level off at 34.7% of GDP, after rising steadily for the past decade—the ratio was only 24% coming out of the financial crisis.



Summary of Major Policy Measures

- **Provincial sales tax cut** by 1 ppt, to 7%, as of July 1st, 2019. This will cost \$325 million on a full-year basis, and comes a year earlier than promised. That will leave the combined provincial/federal sales tax at 12%, 1 ppt lower than Ontario and the lowest rate east of Saskatchewan.
- **Extension of various business tax credits**, including those for film and video production and small business venture capital. Total full-year cost is \$40 million.
- **Borrowing requirements** of \$5.1 billion (\$6.7 billion, with \$1.5 billion already pre-funded).

Total revenues are projected to rise 2.0% to \$17.0 billion in FY19/20. A solid gain in personal and corporate income tax receipts is offset by lost revenue from the sales tax cut (\$237 million impact this fiscal year). Major federal transfers to Manitoba will rise 7% to \$4.3 billion in FY19/20, led by a \$218 million gain in Equalization payments. In fact, payments under that program are up more than \$500 million from three years ago.

Note that the Province is assuming real GDP growth of 1.7% this year and 1.5% in 2020, which is effectively in-line with our view of 1.6% for both years. This is a notable step down from its recent performance, with growth topping 3% in 2017 and holding just below 2% last year. That said, this outlook is entirely consistent with clearly slowing activity across much of Canada. If there's a positive takeaway here, it is that **Manitoba's economy is probably the most stable on the map, with no outsized concentration in one industry** (such as autos in Ontario, or the big runs in some housing

**Table 1
Fiscal Summary**

Manitoba (C\$ mlns, except where noted)	Est.	Forecast
	18/19	19/20
Revenues	16,694	17,025
Government Revenue	15,826	16,219
GBE Net Income	868	806
Expenditures	17,164	17,480
Government Expenses	16,143	16,392
Debt Service	1,021	1,088
In-year Adjustment/other	-	(95)
Summary Net Income	(470)	(360)
Summary Net Debt	25,211	26,113
As a percent of GDP:		
Budget Balance	(0.6)	(0.5)
Net Debt	34.7	34.7
As a percent of revenue:		
Debt Service	6.1	6.4
Federal Transfers	26.9	28.3
Key assumptions:		
Real GDP (% chng)	1.0	1.7
Nominal GDP (% chng)	2.3	3.6

Source: Provincial Budget () = deficit
Note: GDP figures are for calendar year (FY19/20=CY19)

**Table 2
Borrowing Requirements**

Manitoba (C\$ mlns)	19/20
Government Business Ent.	3,214
General Purpose Borrowing	631
Capital Investment Assets	288
Health Fac., Other Crowns, Teachers	1,008
Total Borrowing Requirements	5,141

markets). As such, if the current slowdown does materialize into something more significant, we'd fully expect Manitoba to weather any storm relatively well.

Total spending is expected to rise a modest 1.7% to \$17.5 billion in FY19/20, following 1.6% growth last fiscal year. Given population growth in the 0.5%-to-1.0% range (it has slowed, but remains historically strong) and inflation of around 2%, the Province has been bending the spending curve down in real per-capita terms. Given Manitoba's economy rarely produces major upside surprises (the flip side of its stability), the success of the longer-term plan will likely hinge on continued spending discipline.

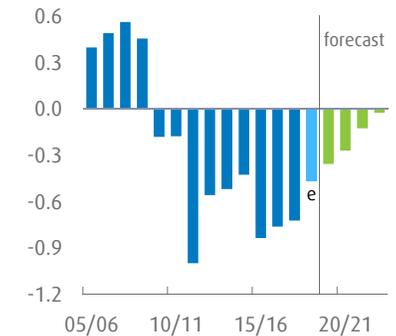
In order to fund the deficit and ongoing capital spending program, **total borrowing requirements** are pegged at \$5.1 billion in FY19/20, after factoring in \$1.5 billion in pre-funding. Refinancing makes up \$3.0 billion of that total. Government business enterprises (mainly Manitoba Hydro) will account for \$3.2 billion of the total borrowing, with \$2.3 billion in refinancing (none pre-funded). Summary net debt will rise to \$26.1 billion from \$25.2 billion at the end of FY18/19. That weighs in at 34.7% of GDP, unchanged from the prior year. If that target holds, it will mark the first halt in a rising net debt-to-GDP ratio since the financial crisis. Shallower deficits through the forecast horizon and sturdy nominal GDP growth should begin to pull this ratio down in the years ahead—the Province is currently targeting 33.4% of GDP by FY22/23, when the budget is effectively balanced.

The Bottom Line: A solid economic run, higher federal transfers and firm spending restraint have all helped keep Manitoba's fiscal plan on track, all while cutting the sales tax as promised. If this momentum continues (and that might be a difficult ask given a softening economic backdrop), it would support the Province's credit, which had been under some stress in recent years.

Chart 1
Deficit Shrinking

Manitoba (C\$ blns)

Summary Budget Balance



Source: Provincial Budget e = estimate

General Disclosure

"BMO Capital Markets" is a trade name used by the BMO Financial Group for the wholesale banking businesses of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Limited in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Limited and BMO Capital Markets Corp are affiliates. This document is issued and distributed in Hong Kong by Bank of Montreal ("BMO"). BMO is an authorized institution under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) and a registered institution with the Securities and Futures Commission (CE No. AAK809) under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). BMO does not represent that this document may be lawfully distributed, or that any financial products may be lawfully offered or dealt with, in compliance with any regulatory requirements in other jurisdictions, or pursuant to an exemption available thereunder. This document is directed only at entities or persons in jurisdictions or countries where access to and use of the information is not contrary to local laws or regulations. Their contents have not been reviewed by any regulatory authority. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This document is not to be construed as an offer to sell, a solicitation for or an offer to buy, any products or services referenced herein (including, without limitation, any commodities, securities or other financial instruments), nor shall such information be considered as investment advice or as a recommendation to enter into any transaction. Each investor should consider obtaining independent advice before making any financial decisions. This document is provided for general information only and does not take into account any investor's particular needs, financial status or investment objectives. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

Dissemination of Research

Our publications are disseminated via email and may also be available via our web site <http://economics.bmocapitalmarkets.com>. Please contact your BMO Financial Group Representative for more information.

Conflict Statement

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., Member FDIC. Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets. BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A., BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Securities Limited (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Inc., used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

© Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.

TM Trademark Bank of Montreal

© COPYRIGHT 2019 BMO CAPITAL MARKETS CORP.

A member of BMO Financial Group