Manitoba Budget Highlights

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Highlights and analysis of Manitoba's FY19/20 budget — **March 7, 2019, 4:00 pm**

Down with PST

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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. 18/19	Forecast 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

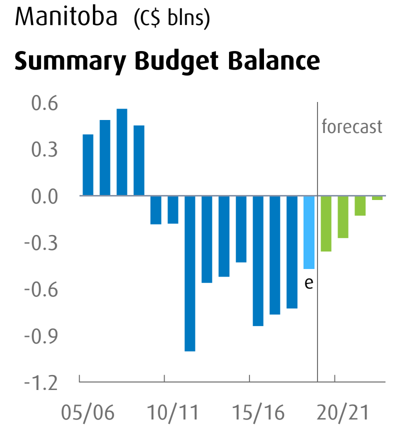
markets). As such, if the current slowdown does materialize into something more significant, we'd fully expect Manitoba to weather any storm relatively well.

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



Source: Provincial Budget e = estimate