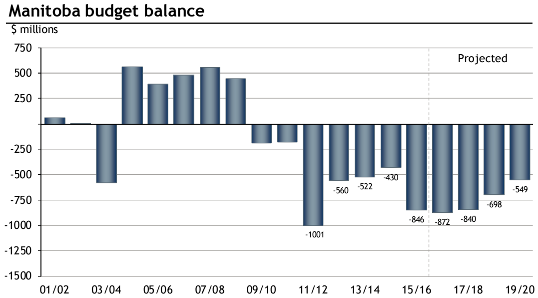
MANITOBA BUDGET 2017

April 12, 2017

A measured approach to cut the provincial deficit

- The Manitoba government projects that its budget deficit will decline modestly to $840 million in FY17/18 from a downwardly revised $872 million in FY16/17.
- The government re-introduced a medium-term fiscal plan that showed diminishing deficits in both FY18/19 ($698 million) and FY19/20 ($549 million).
- Net debt is projected to rise from 34.5% of GDP at the end of FY16/17 to 35.7% at the end of FY17/18.

Manitoba budget balance



Source: Manitoba Ministry of Finance, RBC Economics Research

The deficit reduction process was set in motion last year...

Weeks after taking on his new role as finance minister following last April's provincial elections, Cameron Friesen framed his government's fiscal challenge this way in Budget 2016: the gap between revenues and expenditures was not only larger than previously expected ($846 million in FY15/16 or double the previous government's original projection of $422 million), it was structural in nature and would deteriorate to a massive $1.9 billion shortfall if the situation was left unaddressed. Because the timeframe to prepare Budget 2016 (presented in May) was short, Minister Friesen last year presented only initial remedial steps, which contributed to stabilize the deficit at $872 million in FY16/17 according to the latest projection released in March. Still, Budget 2016 launched a wide-ranging review of government programs and operations, as well as a consultation process—including the appointment of an advisory panel—to chart the way forward. With much of the review and consultation now either well advanced or completed, the stage was set for a more comprehensive remedial plan to be delivered in Budget 2017.

...and a partial road map to balance was provided in Budget 2017

In the event, the budget presented yesterday indeed offered more details on how the government intends to balance its books over the longer term; however, it provided only a partial road map to get there because the fiscal plan—which extends three years to FY19/20—still showed a deficit by the end of it. In fact, the plan charted only slightly more than one-third of the way toward a balanced budget with a projected deficit of $549 million by the terminal year FY19/20.

Deficit projected to be little changed in FY17/18

Moreover, the government opted to proceed slowly in its deficit reduction endeavours this year. It forecasts a budget shortfall of $840 million in FY17/18 or just $32 million lower than last year's deficit. Despite speculation that fiscal restraint would be a central theme of Budget 2017, there is barely any slowing in the rise in program expenses. Program expenses are projected to grow by 3.1% this year to $16.1 billion. This rate of increase is just marginally slower than the average of 3.3% in the previous three years. The department of families will see the largest spending increase (6.0%) with more money going into expanding the number child care spaces in the province, as well as into affordable housing and rental assistance. Health and education will get increases of 3.2% and 2.7% respectively. Debt servicing costs are projected to continue to rise rapidly by 5.7% to $991 million, on the heels of a 9.7% surge in FY16/17. On the other side of the ledger, total revenues are projected to increase by 2.9% to

Budget assumptions

	2016	2017f	2018f
Real GDP growth (%)			
Budget 2017 planning assumption	1.4	2.0	2.0
RBC	1.7	1.9	2.2
Nominal GDP growth (%)			
Budget 2017 planning assumption	2.0	3.6	3.8
RBC	2.6	4.0	4.3

Source: Manitoba Finance, RBC Economics Research

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$16.1 billion, with income taxes (up 6.2%) contributing most to the rise. Finally, the government expects to get a $115-million boost to its bottom line from so-called in-year adjustments and lapses, which would be derived from both its revenue sources and spending programs.

No tax increases but some tax credits are eliminated

In terms of new measures, Budget 2017 holds the line of taxes with no tax increases nor new taxes. There is, in fact, some relief arising from the indexation of personal income tax brackets and basic personal exemption amount (costing the government an estimated at $23 million in FY17/18). On the other hand, the budget phased out or eliminated a number of 'boutique' tax credits, including the tuition fee income tax rebate (boosting revenues by $47 million) and primary care giver tax credit ($9 million). It also reduced a number of business tax credits, including the research and development tax credit (boosting revenues by $9 million). On net, new measures in Budget 2017 are estimated to bring in $77 million in added revenues for the government in FY17/18.

Steady spending on strategic infrastructure

The government maintained its commitment to invest in infrastructure to the tune of $1.8 billion in FY17/18, although Budget 2017 sees only a small increase from the $1.7 billion invested last year. Roads, highways, bridges and flood protection continue to represent the lion's share of this spending ($747 million). Health, education and housing ($641 million) also will continue to get substantial investment.

Net debt still on the rise

With the budget continuing to be in deficit this year and the government's investment in infrastructure remaining historically elevated, the province's debt will continue to rise. Manitoba's net debt is projected increase by 7.2% from $23.1 billion (34.5% of GDP) at the end of FY16/17 to $24.8 billion (35.7% of GDP) at the end of FY17/18. The provincial net debt-to-GDP has risen steadily over the eight years from 21.9% in FY08/09.

Financing requirements expected to rise slightly

Budget 2017 estimates Manitoba's borrowing requirements (including both general and self-sustaining borrowings) at $6.7 billion in FY17/18, of which $2.1 billion will be for refinancing purposes. Budget documents indicated that, to date, approximately $1.1 billion of funding for 2017/18 has been completed. In last year's budget, the provincial government anticipated its total borrowing requirements to be $6.5 billion in FY16/17 with $2.2 billion needed for refinancing.

Still an early draft?

Those who expected to get a complete road map to budget balance will have to wait a little longer because Budget 2017 presented a plan that will take us only part of the way there. And, for those who expected to see the start of a period of tough austerity as the government embarked on a process to address its structural challenges, they too might have been surprised to see that Budget 2017 opted instead for a measured approach to contain costs. That being said, the budget presented yesterday likely is still an early draft of the plan that the government ultimately will follow in the coming years. Rapid growth in debt servicing costs is a clear reminder of the pressure to stabilize the province's fiscal situation—including its debt. As in-depth program reviews identify opportunities to generate savings, further spending restraint is likely to emerge in the coming years.

Manitoba's fiscal plan

$ millions	Actual	Forecast	Budget	Projection	Projection
	2015-16	2016-17	2017-18	2018-19	2019-20
Revenue	15,054	15,643	16,101	16,584	17,081
Expense	15,900	16,515	17,056	17,397	17,745
Program expenses	15,045	15,577	16,065	-	-
Debt servicing costs	855	938	991	-	-
In-year adjustments/lapse	-	-	(115)	(115)	(115)
Surplus/ (deficit)	(846)	(872)	(840)	(698)	(549)
Net debt	21,433	23,111	24,772	-	-
Net debt to GDP (%)	32.6	34.5	35.7	-	-

Source: Manitoba Finance, RBC Economics Research