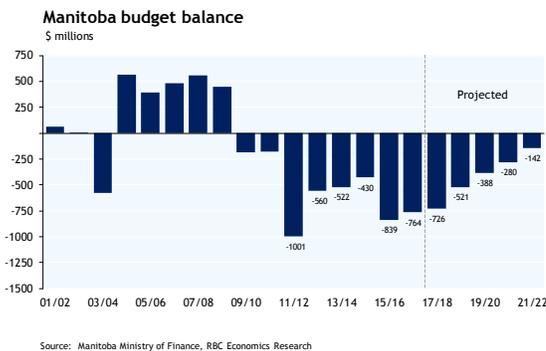


MANITOBA BUDGET 2018

March 13, 2018

Progress on deficit reduction though details absent



- The Manitoba government is projecting that the FY18/19 deficit will drop to \$521 million from the \$726 million projected for FY17/18.
- The deficit continues to trend lower through the medium term to \$142 million by FY21/22. The government is maintaining its commitment to a return to balance though delaying such until its “second term” which implies a likely post 2021 closure.
- The sustained improvement is achieved despite a number of tax reductions for both individuals and small businesses contained in Budget 2018.
- The proposed tax reductions are largely funded by a sharp slowing in expenditure growth in the out years of the forecast. Unfortunately there is little detail provided in Budget 2018 as to how these savings will be achieved.

Overview

The Manitoba Budget 2018 released March 12 indicates an improved fiscal position with a faster downward trend in the deficit through the medium term relative to what was projected in Budget 2017. Unfortunately the province is still showing a deficit in FY21/22 with the government only promising to return to a balanced budget in its second term that implies an elimination of the deficit sometime beyond calendar 2021. The government is able to achieve a lower deficit profile despite promising a number of tax cuts in Budget 2018. The basic personal tax deduction will be lowered in both 2019 and 2020 and the small business tax deduction will be lowered at the start of next year. This is achieved in large part via expenditure growth slowing sharply from 3.4% in FY18/19 to less than 1.0%, on average, over the following three fiscal years through FY21/22. Unfortunately Budget 2018 does not provide details as to how this expenditure restraint is going to be achieved. As well, with the economic cycle in its late stages both nationally and provincially, it is disappointing that the government is not committing to returning to fiscal balance sooner. The lowering of personal deductions was defended as an attempt to remain competitive with Manitoba’s neighbouring provinces. However, a faster return to balance provides greater protection to the province economically in dealing with a potential negative economic shock such as aggressively protectionist trade policies emerging in the U.S. at a time when Manitoba’s manufacturing sector is just starting to gain traction.

Budget assumptions

	2017	2018f	2019f
Real GDP growth (%)			
Budget 2018 planning assumption	2.2	2.0	1.6
RBC	2.5	2.0	1.6
Nominal GDP growth (%)			
Budget 2018 planning assumption	4.3	3.8	3.5
RBC	5.0	4.2	3.1

Deficit Profile

The budget deficit for FY17/18 is projected to be \$726 million which is down from FY16/17’s deficit of \$764 million. It also represents an improvement from the \$840 million projected for FY17/18 in last year’s budget. The improved fiscal performance extends for the next two fiscal years with the deficit projections for FY18/19 of \$521 million (\$698 mil-



lion previously) and for FY19/20 of \$388 million (\$549 million). The cumulative improvement over these last three fiscal years of \$452 million was achieved despite slightly lower average annual revenue growth of 2.8% versus 2.9% projected in last year's budget as it was more than offset by expenditure growth being cut to 2.2% from a previously projected 2.4%. A big factor in the lower growth in expenditures was in FY19/20 which indicates projected growth of only 1.0%. The government's first public announcement of deficit figures for FY20/21 and FY21/22 show a continued downward trend to \$280 million and \$142 million, respectively. The improvement in FY20/21 is achieved despite revenue growth dropping to only 0.9%, which in part reflects the drop in personal income tax revenues from the increase in the Basis Personal Amount at the start of 2020, as expenditure growth was cut to a minimal 0.2%. Budget 2018 does not indicate specific areas where the expenditure restraint is coming from.

Revenues

Over the five fiscal years ending in FY21/22, revenues show an average annual increase of 2.3%. This reflects a slow-down from the comparable rate over the period ending in FY18/91 of 3.1%. The reduction in this growth rate is in part due to the tax measures introduced in Budget 2018. This included increasing the basic personal deduction by \$1,010 at the start of 2019 and by a similar amount at the start of 2020. The slowing in revenue growth over the medium term also reflected the Small Business tax deduction being raised to \$500,000 from \$450,000 at the start of 2019. The Manitoba government remains committed to lowering the provincial sales tax in its "first term" (the current government was elected in 2016) though there is no indication that this initiative has started to be reflected in the revenue projections.

Expenditures

The growth in expenditures over the five fiscal years ending FY21/22 is essentially halved to 1.6% from the 3.1% recorded over the five year period ending FY18/19. The slowing is most pronounced between FY19/20 and FY21/22 where the average annual increase is cut to only 0.8%. Unfortunately Budget 2018 does not specify where this restraint is coming from and thus how likely it is to be met with success. It is this expenditure restraint that allows the Manitoba government to announce the various tax reductions but still project an improving fiscal deficit over the medium term.

Net Debt

The persistence of deficits in the near term results in the net debt being projected to rise 4.6% in FY18/19 to \$25.0B from \$24.0B in FY17/18. With debt rising faster than Manitoba's nominal GDP growth (projected by the Manitoba government to rise by 3.8% in 2018), the net debt-to-GDP ratio rises to 34.3% in FY18/19 from 34.0% the previous year. This ratio has now increased for eleven consecutive fiscal years and provides another reason for the Manitoba government to expedite its return to fiscal balance.

Manitoba's fiscal plan

\$ millions	Actual	Forecast	Budget	Projection		
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Revenue	15,723	16,128	16,787	17,095	17,243	17,593
Expense	16,487	16,854	17,423	17,598	17,638	17,850
Program expenses	15,557	15,890	16,389	-	-	-
Debt servicing costs	930	964	1,034	-	-	-
Contingency for Writedown	-	50	-	-	-	-
In-year adjustments/lapse	-	-	(115)	(115)	(115)	(115)
Surplus/ (deficit)	(764)	(726)	(521)	(388)	(280)	(142)
Net debt	22,693	23,952	25,044	-	-	-
Net debt to GDP (%)	33.6	34.0	34.3	-	-	-

Source: Manitoba Finance, RBC Economics Research