Manitoba: 2019–20 Budget

SUMMARY

- **The Province of Manitoba's 2019 Budget (*Budget*) presented improved deficit projections of $470 mn[1] for fiscal year 2018–19 (FY19) and $360 mn for FY20.**
- **Red ink is still expected to be maintained through FY23, with budgetary shortfalls forecast to narrow in each successive fiscal year** (chart 1, p.2), **and the Province will now target a declining net debt-to-GDP ratio.**
- **A largely expected reduction in the province's general retail sales tax rate was *Budget*'s signature policy announcement, and came alongside a range of modest pocketbook relief and business tax measures.**

ECONOMIC CONDITIONS

After a 3.2% expansion in 2017—the strongest since 2008—the Province forecasts real economic growth of just 1% in 2018—far weaker than the 1.8% anticipated as of the Q2-FY19 fiscal update. Factors contributing to the slowdown included more moderate job creation, consumer spending, investment in building construction and population gains, a contraction in exports to non-US markets, and diminished mining sector activity.

Advances of 1.7% and 1.5% are forecast for 2019 and 2020, respectively—in line with prior expectations. Work is progressing on a number of large- and medium-sized projects that will enhance capacity in the key food processing sector, and new trade agreements are expected to generate additional export opportunities. Still, the Province notes the dampening effects of rising interest rates on household consumption and expectations of moderating economic growth across Canada.

NEW POLICY MEASURES

Budget's headline policy measure was the long-awaited reduction in the Provincial Sales Tax (PST) to 7% from 8%, a touchstone pledge of the 2016 election that the Government promised to enact within its first term. The cut will take effect as of July 1st, 2019; beyond 2019, it is projected to offer savings of $180 and $500 to individuals and families of four, respectively. Additional consumer savings are expected to come via lower prices as firms benefit from reduced business costs.

In respect of pocketbook relief, the Province also moved to further reduce maximum ambulance fees from $340 to $250, and will continue to index income tax brackets and the Basic Personal Amount to inflation.

For businesses, *Budget* extended four tax credits that had been set to expire on December 31st, 2019. The Film and Video Production Tax Credit was made permanent with no fixed expiry date. Credits for small business venture capital, cultural industries printing, and book publishing were extended by three, one, and five years beyond the prior expiration date, respectively.

[1] Figures reported in Canadian dollars unless otherwise stated.

CONTACTS

Marc Desormeaux, Provincial Economist
416.866.4733
Scotiabank Economics
marc.desormeaux@scotiabank.com

Rebekah Young
Director, Fiscal & Provincial Economics
416.862.3876
Scotiabank Economics
rebekah.young@scotiabank.com

Updated Fiscal Forecast

$ millions except where noted

	FY19		FY20
	Q2	Bud.	Bud.
Tax Revenue	8,783	8,754	8,800
Gov't Enterprise Net Income	887	868	806
Other Own-Source Revenue	2,625	2,581	2,604
Own-Source Revenue	**12,295**	**12,203**	**12,210**
Federal Transfers	4,503	4,491	4,815
Total Revenue	**16,798**	**16,694**	**17,025**
Health	6,702	6,533	6,651
Education	4,461	4,425	4,560
Family Services	2,174	2,197	2,174
Other Program Spending	2,953	2,988	3,007
Program Spending	**16,290**	**16,143**	**16,392**
Debt Service	1,026	1,021	1,088
Total Expenditures	**17,316**	**17,164**	**17,480**
In-Year Adjustments/Lapse	0	0	-95
Summary Net Income	**-518**	**-470**	**-360**
Net Debt	**25,376**	**25,211**	**26,113**
Memo Items, %			
Summary Net Income / GDP	-0.7	-0.6	-0.5
Own-Source Revenue / GDP	16.7	16.0	15.5
Program Spending / GDP	22.1	21.2	20.8
Net Debt / GDP	34.5	33.2	33.2
Annual Change, %			
Tax Revenue	*2.4*	*2.1*	*0.5*
Total Own-Source Revenue	***2.5***	***1.7***	***0.1***
Federal Transfers	*7.2*	*6.9*	*7.2*
Total Revenue	***3.7***	***3.1***	***2.0***
Program Spending	***2.2***	***1.3***	***1.5***
Total Expenditures	***2.5***	***1.6***	***1.8***

*Figures may not sum do to rounding. ** Restated to reflect the removal of Workers Compensation Board equity from the Government Reporting Entity. Source: Manitoba Finance; nominal GDP forecasts: Scotiabank Economics.

For carbon pricing, the Province affirmed its opposition to the federal plan. Recall that Manitoba opted out of the Federal Carbon Tax program late last year, citing inadequate recognition for its environmental and green energy programs, and thereby forewent $143 mn in FY19 revenues. It will further exempt consumers from PST payments on any federal carbon taxes levied.

REVENUE AND EXPENDITURE DETAILS

Expenditure restraint is a key tenet of this fiscal discipline with a consistent underspend in budget execution. An expenditure increase of 0.3% is projected for FY20 from last year's budget, supported in a large part progressive reductions in the public sector wage bill which is on target to achieve an 8% reduction by 2019 (from 2016).

Headline revenue growth at 1.4% is solid despite the 1% cut to the retail sales tax. Net foregone revenues of the cut are estimated in the order of $170 mn, with an expectation that it will generate an additional $97 mn in GDP growth. The cancellation of the carbon tax also reduces revenue forecasts by another $110 mn. These measures are offset by strong revenue growth in personal income tax, expected to increase by 8%, albeit likely a temporary phenomenon following last year's federal changes to personal income tax.

Solid revenue growth particularly from personal income tax looks favourable with tight labour markets, wage pressures (with CPI at 2.5% in 2018), and solid immigration flows. Furthermore, corporate tax rates remain highly competitive both within Canada and with key US trading regions.

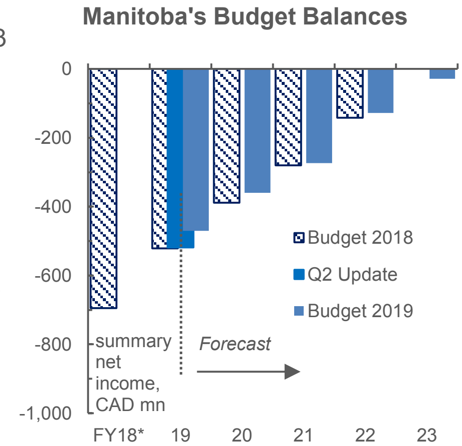
Substantial rises in transfer payments are also expected to pad provincial coffers. In FY20, payments from the federal government are slated to spike by more than $300 mn versus FY19, more than half of which are expected to come via equalization.

DEBT AND BORROWING

Borrowing requirements of $6.7 bn are planned in FY20, of which approximately $1.5 bn have already been pre-funded. Some $3.0 bn is expected to be used for refinancing. For new cash requirements (net of repayments), Manitoba Hydro-Electric Board borrowing needs account for nearly 60% of the $3.7 bn total anticipated this fiscal year.

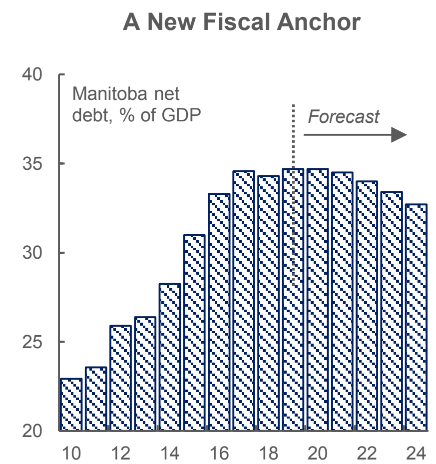
With respect to debt, the key development was a move to provide long-run net debt-to-GDP ratio targets throughout the planning horizon in lieu of outer-year revenue and expenditure estimates. Net debt is expected to rise to $26.1 bn in FY20, with its share of output forecast to hold steady near 35% in both FY19 and FY20, with a steady decline towards a rate just shy of 33% by FY23 thereafter (chart 2).

Chart 1



* Final result. Sources: Scotiabank Economics, Manitoba Finance.

Chart 2



Source: Scotiabank Economics, Manitoba Finance.

Consistent with past commitments to invest at least $1 bn annually in strategic infrastructure, the Province outlined infrastructure outlays of nearly $1.5 bn in FY20. This figure, while slightly lower than the total estimated in last year's budget, represents a $376 mn increase relative to the current FY19 plan. The bulk of the planned spending remains concentrated in outlays related to highways, health and education.

OUR TAKE

Absent more detail on long-run revenue and expenditure plans, it is difficult to assess whether the Province is on track to meet its deficit reduction targets. Prior fiscal blueprints relied heavily on outer-year expenditure restraint—deficit reduction plans in the 2018 budget, for instance, outlined annual increases in total spending that averaged just 1.4% per year during FY19–22. However, given the more muted revenue profile that can be inferred from *Budget* and similar deficit forecasts, one must assume that expenditure management remains a key plank of the fiscal plan.

That said, we see some potential for more robust revenue gains in FY19 given that our most recent forecast calls for real economic growth of 1.8% in Manitoba in calendar year 2018. Should the rate of expansion surprise on the upside as we anticipate at this time, the resulting windfall could narrow the fiscal shortfall relative to Provincial projections.

In our view, the government has taken a gamble with the discretionary tax cut. Manitoba is known for stable economic growth in light of its diversification across sectors and export markets—a trend we expect to continue over the forecast horizon. Nevertheless, the Province faces persistent structural deficits, and we estimate that if the move does not translate into growth as forecast, it could add as many as 0.5 ppts to the net debt-to-GDP path. Ultimately, long-term growth and fiscal balance will require sustained investments in the province's productive capacity.

Borrowing Requirements
$ millions

	Refinancing	New Cash Req.'s	Est. Repayments	Gross Borr. Req.'s	Pre-Funding	Borr. Req.'s
Government Business Enterprises						
MB Hydro-Electric Board	937	2,166	-	**3,103**	-	3,103
MB Liquor and Lotteries Corp.	80	84	53	**111**	-	111
Subtotal	1,017	2,250	53	**3,214**	-	3,214
Other Borrowings				**-**		
General Purpose Borrowings	980	388	-	**1,368**	737	631
Capital Investment Assets	335	640	287	**688**	400	288
Health Facilities	20	255	114	**161**	-	161
Public Schools Finance Board		202	12	**190**	405	190
Other Crowns and Org.'s	430	579	197	**812**	-	657
Civil Service Superannuation Plan	250			**250**	-	
Subtotal	2,015	2,064	610	**3,469**	1,542	1,927
Total Borrowing Requirements	**3,032**	**4,314**	**663**	**6,683**	1,542	5,141

Source: Manitoba Finance.

Summary Net Debt
$ millions

2018–19 Summary Net Debt (Forecast)	**25,211**
Net Investment in Capital Assets	
Core Government	542
Other Reporting Entities	
	542
Plus: Projected (Income) Loss for Year	
Core Government	360
Other Reporting Entities	
	360
Change in Net Debt	902
2019–20 Summary Net Debt (Budget)	**26,113**

Source: Manitoba Finance.