2019 Manitoba Budget

Fiscal Discipline with a Dash of Tax Relief

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Highlights

- Manitoba's budget for fiscal year (FY) 2019/20 showcased the province's on-going commitment to addressing its budgetary shortfall. The deficit is pegged at $360 million for this fiscal year, down from $470 million in FY 2018/19. The deficit is forecast be effectively eliminated by FY 2022/23.
- Revenue is projected to advance at a 2% rate this year, slightly faster than expense growth. Revenues are set to be boosted by rising personal income tax receipts. The newly announced 1 ppt cut in the PST will weigh on revenues, but will increase household purchasing power when implemented on July 1st of this year.
- The province's net debt-to-GDP ratio, while likely to remain elevated for the foreseeable future, is projected to fall. Such an outcome is partly contingent on continued spending discipline, which could prove challenging to maintain in the future.

The Manitoba government tabled its budget for fiscal year (FY) 2019-20, highlighting their continued commitment to deficit reduction. Indeed, the province's shortfall is projected to drop again this fiscal year as accelerating economic growth supports revenues. Going forward, significant headway is anticipated in trimming the province's shortfall, with budget balance effectively achieved by FY 2022-23. With shallower deficits, net debt as a share of GDP is pegged to level off at 34.7% this fiscal year, before heading lower thereafter.

In what is arguably their most attention-grabbing measure, the government is following through with their promise to reduce the PST by 1 ppt. This is happening a year earlier than anticipated and will be effective on July 1st of this year. This will leaved the combined GST/PST rate at 12%, lower than each province outside of Alberta, B.C. and Saskatchewan.

Shallower Deficits Envisioned Through the Fiscal Horizon

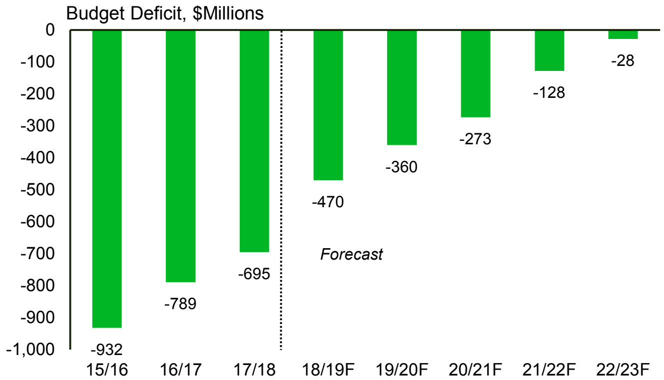
Last year's deficit was pegged at $470 million (0.6% of GDP) – smaller than the $521 million (0.7% of GDP) shortfall expected in last year's budget. The improvement largely came on the expense side of the ledger, mostly on the back of lower outlays on health, seniors and active living. Further progress is expected on this front during this fiscal year, with the deficit slated to fall to $360 million.

Manitoba Government Fiscal Position
[C$ millions, unless otherwise indicated]

	Estimate	Projection
Fiscal Year	**18-19**	**19-20**
Revenues	16,694	17,025
% change	3.1	2.0
Expenditures	17,164	17,480
% change	1.6	1.8
In-Year Adjustments/Lapse*	-	-95
Summary Net Income	-470	-360
% of GDP	-0.6	-
Summary Net Debt	25,211	26,113
% of GDP	34.7	34.7

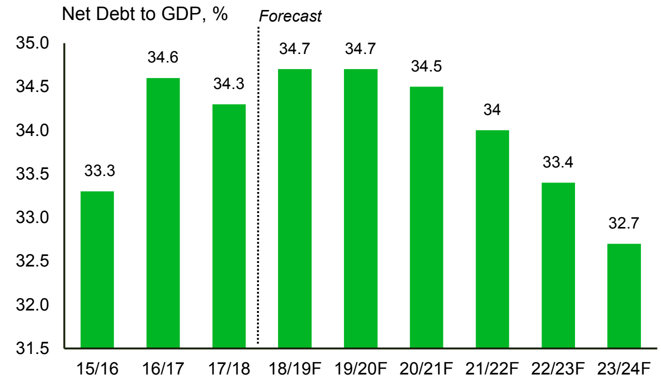
Source: Manitoba Finance, Budget 2019, TD Economics.

Chart 1: Shallower Deficits Expected Through the Projection Horizon



Source: 2019 Manitoba Budget, TD Economics

Chart 2: Net Debt to GDP Poised to Head Lower in Manitoba



Source: 2019 Manitoba Budget, TD Economics

Real GDP is projected to expand at a 1.7% rate this year – a touch higher than our own forecast – before easing to 1.5% in 2020. Amid this decent growth backdrop, revenues are forecast to expand at a 2.0% rate in FY 2019/20, lifted by healthy growth in personal income tax receipts. Yet another boost to the overall take should come from federal transfers, which are set to rise at a hefty 7% rate in FY 2019/20. In contrast, corporate income tax revenues are forecast to drop, partly reflecting accelerated depreciation allowances announced in November 2018. Meanwhile, the 1 ppt reduction in the PST is expected to cost the government $237 million in terms of annual foregone revenue. However, households and businesses are forecast to save about $310 million by FY 2020/21 from this new policy. Tax credits applied to film and video production, small businesses, cultural industries and book publishers will also be extended, at a relatively small cost to the government.

On the opposite side of the ledger, total spending growth is forecast at a subdued 1.8% rate this fiscal year (i.e. negative in real per capita terms given inflation and strong, but slowing, population growth). A reasonably healthy 3.0% gain in education and training spending is expected to be offset by restraint elsewhere.

The province expects the deficit to fall from $360 million this fiscal year to near zero ($28 million) by FY 2022/2023 (Chart 1). How the government will get there remains a bit of a mystery considering the absence of medium term revenue and spending forecasts, although further spending restraint will almost certainly be required.

Net Debt to GDP to Head Lower

The province continues to carry its fair share of debt. Indeed, net debt as a share of GDP is projected to come in at 34.7% in FY 2019/20 – matching last year's elevated level. In comparison, this metric was running below 25% coming out of the global financial crisis. As a result, debt servicing costs are projected to rise by 7% this fiscal year, topping $1 billion (about 1.5% of GDP). However, deficit reduction is expected to result in the ratio falling to 32.7% by FY 2023/24 (Chart 2).

Capital spending on strategic infrastructure is projected at $1.5 billion in FY 2019/20, almost in line with last year. Outlays will be nearly equally split between roads, highways, bridges and flood protection and health, education and housing.

Bottom Line

The province has made progress on the deficit reduction front, which should be received warmly by credit markets. Yet, despite this progress, Manitoba's fiscal position remains challenging. And, given a softer growth backdrop, continued spending discipline is likely a prerequisite to hit their deficit reduction goals. However, an aging population, rising consumer prices, and continued population growth adds difficulty to this task.