



MANITOBA BUDGET 2011

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Deficit reduction on track, restraint to come

The 2011/12 Manitoba Budget, released yesterday, provided an update to the provincial government's 5-year plan to balance its books. The 2011/12 deficit is expected to be \$438 million, in line with last year's forecast (\$448 million), and the budget still projects a return to surplus by 2014/15. However, the plan involves restraining expenditure growth substantially, which the government's recent track record suggests is more easily said than done.

The main theme in yesterday's budget was indeed expenditure restraint: program expenditure growth will be limited to just 2.3%, which would be the slowest pace of growth in 15 years. Total expenditure growth will average 2.0% during the remainder of the 5-year plan, which constitutes by far the tightest fiscal stance in Manitoba since the mid-1990's. The government plans to achieve its target by negotiating a two-year civil service salary freeze, maintaining the salary freeze on legislative assembly members and their staff, and through public sector efficiencies. It is worth noting that the government made similar commitments in the 2010 budget, when it planned for 2.0% expenditure growth but delivered a 6.6% rise in the face of greater-than-expected revenues. This casts some doubt on the government's ability to make good on this year's promises in the absence of another upside surprise to revenues.

The government introduced a number of new initiatives in the 2011/12 budget. The basic personal exemption will increase by \$1000 over 4 years, and several new tax credits and exemptions were introduced or increased. The full-year impact of these measures is expected to total approximately \$123 million. On the expenditure side, the government will provide a 5% increase in university funding in each of the next 3 years (according to our calculations, this will cost approximately \$30 million in 2011/12) and increase transfers to municipalities by the equivalent of 1 percentage point of PST help cities cope with ongoing infrastructure deficits.

The budget also provided an update to the 2010/11 budget figures. The deficit is now expected to be \$467 million, \$78 million lower than projected in the 2010 budget. This is due to upward revisions to both revenues (\$333 million) and expenditures (\$249 million.) This is subject to finding a further \$70 million in savings or increased revenues, yet to be identified.

Highlights

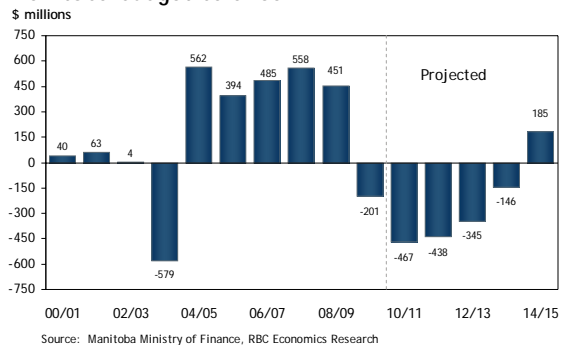
Program expenditures are expected to rise to \$13.2 billion in 2011/12. This is the result of moderate increases in health and education (up 5.1% and 4.5%, respectively) combined with a decrease in all other spending. Total expenditures will rise 2.5%, to \$14.0 billion, as debt charges will increase by a four-year high of 5.9%. **Revenues** are projected to increase by 2.2%, to \$13.4 billion. This is driven by strong increases in own-source revenues (including an 8% expected increase in personal tax revenues), offset by a 3.5% decline in federal revenues due to the end of stimulus funding. This follows a 4.1% increase in 2010/11.

The government's GDP growth assumptions are relatively conservative: the budget forecasts GDP growth of 2.7% in both 2011 and 2012, which is well below our own forecasts of 3.5% and 3.2%, respectively. However, as has been the case in past budgets in the province, the government did not set aside any amount for unforeseen events that might undermine the targeted budget balance. In fact, the budget increased its allocation for "in-year adjustments/lapses" (a catch-all item accounting for unspent department budgets and upward revenue surprises) to \$145 million in each of the next four years. This is more than double the amount budgeted in recent years and creates additional pressure for the government's expenditure management initiatives to pay off.

The province will continue to draw on the Fiscal Stabilization Account (the province's "rainy day fund" built up in previous years when the budget was in surplus) to support healthcare and environmental initiatives and to reduce its gross debt. The account balance is expected to fall from \$667 million at the end of March 2011 to \$507 million by March 2012, due mainly to \$124 in debt repayment. This is in line with the province's five-year plan, which dedicated \$600 million from the account to be put towards the debt.

Net debt-to-GDP is expected to rise to 26.2% in 2011/12, from 25.3% in 2010/11. Borrowing requirements will be \$3.8 billion, up from \$3.4 billion in the 2010 budget.

Manitoba budget balance



Manitoba's fiscal plan

\$ millions	Actual	Forecast	Budget	Projection		
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Revenue	12,647	13,130	13,421	13,716	14,259	14,891
Expense	12,848	13,667	14,004	14,206	14,550	14,851
In-year adjustments/lapse	-	-70	-145	-145	-145	-145
Surplus/ (deficit)	-201	-467	-438	-345	-146	185

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