



MANITOBA BUDGET 2014

March 7, 2014

Plain vanilla...with a cherry on top

There were no surprises in the Manitoba 2014 Budget, released yesterday, as the government stuck to the current script with a limited number of initiatives sprinkled in. The cherry on top was an earlier announced core infrastructure building plan that seeks to boost infrastructure investment in the province by a cumulative \$5.5 billion by 2018/19. To fund the plan, the government is allocating the incremental tax revenues derived from the one percentage point increase in the provincial sales tax that was announced in Budget 2013 and came into effect in July 2013. Other initiatives focused on enhancing and extending existing tax credits to incentivize, for example, the hiring of apprentices by the province's businesses as well as supporting investment by extending the Manufacturing and Investment tax credit to 2017. Collectively, these budget proposals did not significantly impact the province's spending through the projection period.

In fact, the deficit profile presented in last year's budget was largely maintained in Budget 2014 with the cumulative budget deficit projected to come in by a slightly improved \$30 million through to 2016/17. The profile for in-year adjustments remained unchanged, with \$150 million annually in unforeseen department budget savings and/or upward revenue surprises expected to support the province's return to budget surplus (of \$39 million) in 2016/17. The addition of 2017/18 to the profile brings the province's expected balance to a larger surplus of \$262 million in that year.

Lower deficit in 2013/14 despite flood charge

The deficit for the 2013/14 fiscal year is estimated to come in at \$432 million, unchanged from the third quarter update released earlier this year. This represents a notable improvement from the initial Budget 2013 deficit estimate of \$518 million. Stronger income tax revenues are helping to offset a modest decline in 'other taxes' with total revenues expected to come in 1.8% higher (to \$14.5 billion) than the initial Budget 2013 estimate. On the other side of the ledger, an unexpected \$100 million charge for First Nations Flood Contingency is contributing to provincial expenditures estimated to come in 0.2% above the initial Budget 2013 estimate (to \$14.9 billion). In the absence of this one-time spend, expenditures would be tracking slightly below the earlier budget estimate. An additional \$17 million in savings through yet-to-be identified increases in revenues and/or expenditure savings in the remaining weeks are expected to further support the overall improvement to the province's bottom line in 2013/14.

Deficit projection for 2014/15

The anticipated better-than-expected outcome in the current fiscal year provides an improved starting point for the upcoming 2014/15 fiscal year. Some of the improvement is expected to be absorbed, however, with expenditures projected to rise at a higher rate than revenues. As a result, the deficit is projected to be \$357 million, a slight upward revision from the \$365 million deficit projected in Budget 2013.

Following the introduction of tax increases in 2013 that provided a boost to revenues, revenue growth is slated to ease in 2014/15, rising by 1.1% to \$14.6 billion. Taxation revenues are still expected to post solid gains in 2014/15 as earlier announced tax changes come into effect, however, will be partially offset by anticipated declines in Federal Transfers (-0.8%) and Fees and Other Revenues (-3.8%).

Taking into account a higher starting point for expenditures as a result of the 2013/14 flood charge, total expenditures are expected to rise by a subdued 1.5% to \$15.1 billion. (In the

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absence of this one-time charge, expenses would rise by a moderately stronger 2.2% in 2014/15). The absolute rise of \$324 million in spending largely reflects increases in Health spending (\$108 million to \$5.8 billion) and Community, Economic and Resource development expenditures (\$136 to \$2.5 billion). A 4.3% increase in debt servicing costs is also adding to the rise following a 0.4% drop in this component in 2013/14.

Medium-term plan: A return to surplus still scheduled for 2015/16

Beyond 2014/15, additional expenditure savings are expected to only partially offset a softer revenue profile. As a result, the near-term deficit improvement is not expected to be carried into the back end of the budget profile. The downward revision to revenue growth is most evident in 2015/16 as the deficit is projected to come in at \$218 million, \$54 million higher than the Budget 2013 projection for the year. Lower expenditure growth the following year will help to make up for the deterioration and leave the return to surplus in 2015/16 intact. That said, the budget balance is expected to come in slightly lower at \$39 million compared to \$49 million projected in last year’s budget. The addition of 2017/18 to the budget timeline sees the surplus rising to \$262 million as growth in revenues is expected to outpace that of expenditures.

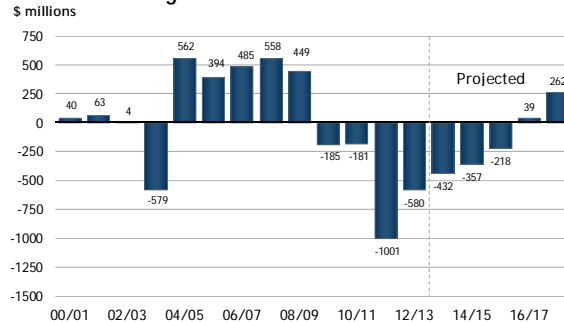
The government maintained the \$150 million in annual yet-to-be identified savings through the projection period. In the absence of these upside surprises, the deficit profile would be sizeably larger. To the government’s credit, however, expenditure savings and higher-than-expected revenues in 2013/14 are helping to offset the \$100 million flood contingency expense indicating that there is potential for the government to deliver additional savings through the projection period. That being said, the lack of a contingency buffer does leave the risk that unforeseen expenses could contribute to a deterioration in the budget balance profile. While positive revenue surprises from stronger-than-forecasted economic growth are possible, the province’s average forecasted real GDP growth of 2.3% through to 2015 appears reasonable and is the same as RBC’s forecasted 2.3% average annual growth.

5-year core infrastructure plan

The keystone of Budget 2014 was a core infrastructure plan that was announced ahead of the budget release. A \$5.5 billion investment spread out over five years is planned for the building of roads, highways and bridges (\$3.7 billion), the development of municipal infrastructure (\$1.5 billion) and to provide \$320 million for flood protection. Following a 20% jump (to \$1.0 billion) in planned investment in the first year of the plan, 2014/15, the annual investment increases are set to moderate, at an average of 4.1% each year.

To fund the investment plan, the government intends to maintain its 2012/13 core infrastructure spending through each of the five years, equal to \$729 million annually for a total of \$3.6 billion. Revenues from the one percentage point increase in the provincial sales tax that came into effect in July 2013 will also be allocated towards funding the plan, providing an estimated \$1.5 billion through 2018/19. Collectively, however, these funding initiatives are expected to result in a \$420 million cumulative shortfall. An over commitment of \$71 million in funding for 2013/14 will help to offset the difference, however, and the plan will be reviewed and rebased each year to recognize any variance in the PST revenues and investments.

Manitoba budget balance



Source: Manitoba Ministry of Finance, RBC Economics Research



Net debt to rise

The 5-year capital plan is expected to contribute to an increase in net debt, which is set to rise by \$1.3 billion to a balance of \$18.6 billion by March 31, 2015. The government remains committed to maintaining a net debt-to-GDP ratio that is in line with the average for the provinces, and is expected to rise to 29.8% in 2014/15 from 28.7% in 2013/14.

Financing requirements:

Total borrowing requirements are expected to be \$4.8 billion with \$2.4 billion needed for refinancing in 2014/15.

Fiscal Stabilization Account

A \$55 million payment is planned to retire a portion of borrowings of core government in 2014/15, building upon a \$100 million contribution in 2013/14. As a result, the balance of the account is expected to be \$220 million at the end of the upcoming fiscal year.

Manitoba's fiscal plan

\$ millions	Actual	Forecast	Budget	Projection		
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Revenue	13,786	14,464	14,630	15,028	15,576	16,114
Expense	14,366	14,913	15,137	15,396	15,687	16,002
In-year adjustments/lapse	-	-17	-150	-150	-150	-150
Surplus/ (deficit)	-580	-432	-357	-218	39	262

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