

MANITOBA BUDGET 2016

May 31, 2016

High deficits for now... and in no rush to return to balance

- Manitoba's new government projects a deficit of \$911 million in FY16/17, down from \$1.0 billion in FY15/16.
- The government commits to return its budget to balance in eight years or five years later than projected in Budget 2015.
- A detailed fiscal plan was not provided beyond FY16/17.
- The government will repeal its Balanced Budget, Fiscal Management Accountability Act and replace it with new legislation in Budget 2017.
- Net debt is projected to rise to 33.8% of GDP at the end of FY16/17 from 32.5% in FY15/16 and 25.7% five years ago.

A bigger task...

Manitoba's new Finance Minister Cameron Friesen let the first bad news out of the bag two weeks ago: tackling the provincial deficit will be a much bigger task than earlier believed because the size of the deficit in FY15/16—\$1.0 billion—has more than doubled since the original projection (\$422 million) in Budget 2015. It is even significantly higher than the last estimate of \$666 million that the previous government provided as recently as early March of this year.

...that will require a longer time to complete

With today's release of Budget 2016 came the second disappointing news: it will take eight years for the new Manitoba government to return to balance. However, we will have to wait for another budget for a detailed fiscal plan because the newly-elected government presented a slimmed-down document focusing primarily on the current fiscal year. Budget 2016 is more of a mission statement for anything beyond FY16/17, outlining the new government's priorities and approach to fiscal management—which emphasizes rigour and the elimination of waste and duplication.

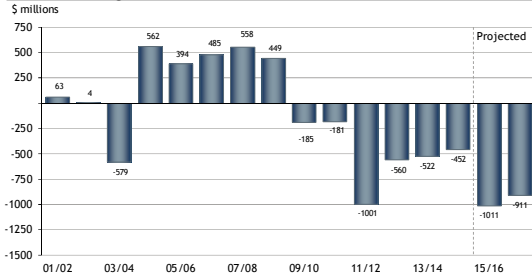
Changing the legislative setting

In order to accommodate this go-slow approach toward balancing its books, the new government will repeal the current Balanced Budget, Fiscal Management and Taxpayer Accountability Act and replace it in Budget 2017 with new legislation that, among other things, will give Manitobans a more direct say on tax increases.

Deficit projected to decline

On the positive side, Budget 2016 projects the provincial deficit to decline by \$100 million to \$911 million in FY16/17. Consolidated revenues are forecasted to rise by 3.1% to \$15.2 billion, with positive contribution from most revenue sources (except government business enterprises). Program expenses also are projected to increase by 3.1% to \$15.4 billion, led by a 4.0% increase in health care spending. Debt service costs are slated to rise by 5.3% to \$874 million. The government will not dip into its Fiscal Stabilization Account (valued at \$115 million).

Manitoba budget balance



Source: Manitoba Ministry of Finance, RBC Economics Research

Budget assumptions

	2015	2016	2017
Real GDP growth (%)			
Budget 2016 planning assumption	1.6	2.2	2.4
RBC	2.3	2.3	2.5
Nominal GDP growth (%)			
Budget 2016 planning assumption	2.7	3.8	4.4
RBC	3.6	3.9	4.8

Source: Manitoba Finance, RBC Economics Research

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Light in terms of new measures

As for new measures, Budget 2016 proposes only a few modest initiatives. The largest one, dollar-wise, is the reduction of the seniors' school tax rebate (affecting seniors with income exceeding \$40,000), which will generate \$44.5 million in added revenues for the province. Also, the budget announced the indexing to inflation of personal income tax brackets and the basic personal amount effective January 1, 2017, a measure that will cost an estimated \$6.1 million in lost revenues in FY16/17 (or \$24.4 million on a full-year basis). There are no new taxes or changes to existing taxes.

Net debt on the rise...

The large projected deficit in FY16/17, and continued commitment to invest in the province's public infrastructure will cause Manitoba's net debt to rise further by \$1.7 billion to \$23.1 billion at the end of FY16/17, or 33.8% as a share of GDP. The provincial net debt-to-GDP has risen steadily over the past many years. It was 25.7% at the end of FY11/12.

...and so are financing requirements

Budget 2016 estimates Manitoba's borrowing requirements (including both general and self-sustaining borrowings) at \$6.5 billion in FY16/17, of which \$2.2 billion will be for refinancing purposes. In last year's budget the provincial government expected its total borrowing requirements to be \$4.7 billion in FY15/16 with \$2.0 billion needed for refinancing.

Stay tuned

Only six weeks into its mandate, it was not realistic to expect the new Manitoba government to provide a full-blown fiscal plan detailing how it will "restore" the provincial finances. What it offered instead—and unsurprisingly—feels more like a place-holder that will allow the government to articulate its vision hopefully by next year's budget. So we anticipate Budget 2017 to be a much more comprehensive exercise. Nonetheless, it is disappointing to see that the new government's initial stab at a timeline for returning to balance being so delayed. With very little in the way of concrete measures to gauge the government's determination in addressing this issue in today's budget, a commitment to balance to books in eight years—that is, well beyond its current mandate—leaves the impression that this issue is not a high priority. Contrary to other provinces, Manitoba's economy is in reasonably good shape (the province forecasts growth at 2.2% in 2016 and 2.4% in 2017) and does not require the government to run large budget deficits and provide fiscal stimulus. The longer it takes to tackle these structural imbalances, the more difficult the solutions will be and the higher the provincial debt becomes.

Manitoba's fiscal plan

\$ millions	Actual	Actual	Forecast	Budget	Projection
	2013-14	2014-15	2015-16	2015-16	2016-17
Revenue	14,214	14,739	14,769	14,963	15,230
Expense	14,736	15,191	15,780	15,535	16,291
Program expenses	13,915	14,350	14,950	14,693	15,417
Debt servicing costs	821	841	830	842	874
In-year adjustments/lapse	-	-	-	(150)	(150)
Surplus/ (deficit)	(522)	(452)	(1,011)	(422)	(911)
Net debt	17,272	18,963	21,395	20,426	23,149
Net debt to GDP (%)	27.8	29.5	32.5	30.9	33.8

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