



MANITOBA BUDGET 2010

March 24, 2010

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Second consecutive deficit

In yesterday's 2010 budget, Manitoba Finance Minister Rosann Wowchuk announced a deficit of \$545 million for the 2010/11 fiscal year, nearly equalling the \$555 million shortfall now projected for the year ending this month. Nonetheless, her government remains "committed to balancing summary net income over the longer-term", planning to return in the black to five years.

Overall, the budget offers little in the way of significant new measures, focusing on carrying those announced previously. In particular, the Province is continuing with its \$4.7 billion infrastructure stimulus plan introduced in last year's budget, with infrastructure spending to increase by 38.5% to \$1.8 billion in 2010/11.

The upcoming fiscal year will see total revenues increase by \$218 million (0.5%), led by increases to "Other Taxes" (\$137 million, mainly reflecting growth in retail sales tax), Individual Income Tax (\$25 million related to personal income growth) and tobacco tax (\$18 million increase stemming from a 2 cent per cigarette rate increase). Federal Transfers are expected to increase by \$54 million (1.3%).

On the other side of the ledger, expenditures are set to rise by \$208 million (1.6%) from the previous year. The rise is mainly related to increases in health (up \$234 million or 4.8%) and education (up \$180 million or 5.6%) spending. Providing a partial offset is a \$244 million decrease in "Justice and Other Expenditures" as one-time emergency expenditures (primarily emergency charges related to the H1N1 immunization campaign and last spring's flooding) last year are not repeated in 2010/11.

The 2010 Budget sets out a five-year fiscal ("economic") plan, with a return to balance projected for 2014/15. According to that plan, the deficit will fall from \$555 million in 2009/10 to \$545 million in 2010/11, \$448 million in 2011/12, \$345 million in 2012/13 and finally \$146 million in 2013/14, before showing a small surplus of \$185 million in 2014/15. During the projection period, total revenues are shown to rise by an annual average of 3.2% (from \$12.7 billion in 2010/11 to \$14.5 billion in 2014/15) while total expenditures are projected to increase by an average of only 1.9% annually (from \$13.3 billion in 2010/11 to \$14.3 billion in 2014/15). This will be much slower than the average of almost 8% in the past eight years.

The restraint on the expenditure side will be guided by "strategic management and prioritization of expenditures", and result in half of the government departments seeing a reduction in spending. The belt-tightening will include containing growth in government salaries, a 20% reduction in ministerial salary levels and a freeze on members of the Legislative Assembly, their staff and senior government officials during the next two years. In order to carry out this five-year plan, the province's balanced budget legislation will need to be amended. As it currently

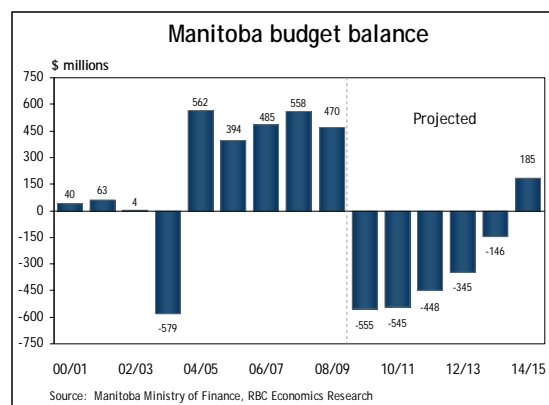
stands, this legislation requires that the budget be in balance, on average, over a four-year period.

The 2010 Budget assumes real GDP growth of 2.5% in 2010 and 3.0% in 2011, matching RBC's forecast this year but being more conservative than our 4.0% projected for next year.

The Fiscal Stabilization Account (the province's "rainy day fund" built up in previous years when the budget was in surplus) is projected to fall from \$864 million dollars at the end of March 2009 to \$804 million at March 31, 2010, and \$675 million at March 31, 2011, as funds are drawn to support wait-time reduction and other health-related programming, as well as ecoTrust projects. The five-year plan will use the FSA to pay down, during the next four years, principal and interest on the debt incurred during the economic downturn, representing a cumulative draw of \$600 million — virtually depleting the entire Account. The amount being drawn in 2010/11 for this purpose is \$96 million.

The budget documents also indicated that "the Debt Retirement Account will be collapsed in 2010/11, with the entire balance of \$145 million being utilized as part of Manitoba's five-year plan to repay general purpose debt".

Net debt as a percentage of GDP is projected to rise from 22.8% in 2008/09 to 24.4% in 2009/10 and 26.8% in 2010/11. This would still be lower than levels prevailing in the early 2000s in the province.



Manitoba's fiscal plan

\$ millions	Actual	Actual	Forecast	Estimate	Projection	Projection	Projection	Projection
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Revenue	12,496	12,915	12,502	12,720	13,119	13,411	13,897	14,451
Expense	11,938	12,445	13,057	13,265	13,567	13,756	14,043	14,266
Surplus/ (deficit)	558	470	-555	-545	-448	-345	-146	185

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