Today, the government maintained the timetable laid out in last year’s budget to erase the deficit by fiscal 2016-17. In the meantime, the combination of an ongoing budget shortfall and borrowing associated with a newly-established infrastructure plan will continue to put upward pressure on the debt burden. Still, at just under 30% of GDP, the province’s net debt-to-GDP ratio remains in line with the all-province average of around 31%. Today’s budget featured no new tax increases, modest new spending initiatives and an overall rate of spending growth in line with that of the rate of inflation.

**Deficit for fiscal 2013-14 comes in better than earlier estimates**

At $432 million (0.7% of GDP), the deficit for the past year ending March 31 undershot the 2013 budget expectations by a lofty $82 million. This favourable surprise was achieved despite a $100 million unanticipated provision as a result of flooding damage in First Nations communities. Revenue coffers benefitted from higher-than-expected personal and corporate income taxes as well as proceeds from the sale of the Property Registry.

Looking ahead to the next two years, the continuation of steady economic growth and low interest rates will provide underlying support to the government’s deficit-elimination plan. Real GDP in
Manitoba is projected to advance by just over 2% per year – or just shy of the national average – which along with the expectation of a modest rise in GDP prices, is poised to yield a healthy increase in nominal GDP in the 2014-15 period. These projections are reasonable in our view.

At first glance, the province’s year-over-year revenue forecast of around 1% in fiscal 2014-15 – or considerably below that of nominal GDP – appears cautious. A closer look reveals that the government is assuming a $171 million decline in the net income of Government Business Enterprises (GBEs), while federal transfers are projected to decrease by 0.8%. Excluding these components, the overall revenue gain is closer to around 2.5%. Keep in mind that the government stayed its hand on any significant revenue-enhancing initiative in the 2014 budget.

After an estimated gain in total spending of around 4% in fiscal 2013-14 – which was partially lifted by the one-time disaster relief – annual outlays are expected to grow by a modest 1.6% on average over the next two fiscal years. Nine government departments will experience frozen budgets or cuts, while health and education – the two biggest pieces of the overall spending pie – are poised to be held to around 2-2.5% in the year ahead. Despite the overall focus on restraint and securing additional efficiencies, there was a smattering of new spending announcements. An existing tax credit offered to employers to take on new apprentices was enhanced. Support was announced for those with low income and seniors as well as for the creation of day care spaces. In addition, the government signaled that it would hike the minimum wage, the extent of which has yet to be announced.

**Capital plan is budget centrepiece**

The centrepiece of this year’s budget was a 5-year infrastructure plan that will divvy up a cumulative $5.5 billion across key strategic areas. Of this total amount, roughly $3.7 billion is expected to be earmarked for roads and bridges, $320-million for flood protection and $1.5-billion for mu-
An offshoot of the ambitious capital plan is that it will add to the province’s debt over the next several years. Net debt is forecast to climb above $18 billion in fiscal 2014-15, or about 29% of GDP. Gross borrowing requirements in the year ahead are estimated at about $4.8 billion of which $2.7 billion are new cash requirements.

**Bottom Line**

Today’s cautious budget contained no surprises. Even the budget’s cornerstone – the infrastructure plan – was announced the day prior.

A world-class infrastructure is an important driver of long-term growth and competitiveness. Another key ingredient to an economy’s prosperity is a sustainable government financial position. Going forward, it will be important for the government of Manitoba to make good on its deficit elimination commitment and arrest the upward trend in its debt-to-GDP ratio in order to ensure that it continues to enjoy fiscal flexibility over the longer term.

_Derek Burleton_  
VP & Deputy Chief Economist  
416-982-2514