



HIGHLIGHTS

- **FY 2010/11 deficit \$545 million, (1% of GDP) after a \$555 million deficit in FY 2009/10**
- **Debt-to-GDP projected at 26.8% in FY 2010/11, with servicing costs at 6 cents per revenue dollar**
- **5-year plan to restore balance by FY 2014/15 (surplus of \$185 million)**
- **60% of new spending to health care, 90% to vital services (health care, education, family services, and justice)**
- **\$1.8 billion infrastructure capital investment program maintained**
- **Planned reduction in corporate income tax rate to 11% delayed, but elimination of small business tax and general business capital tax to go ahead as planned (effective this year)**
- **Tobacco tax increases by 2 cents per cigarette (+\$18 million in revenue)**
- **\$600 million of the \$800 million balance in the Fiscal Stabilization Account to be used for paying down debt over the next four years**

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FIVE YEARS TO BALANCE

Manitoba is on track for a second consecutive deficit of around a half billion dollars in this upcoming (2010/11) fiscal year. As a share of the economy, these deficits represent a modest 1% of GDP. The Manitoba economy has not been immune to the Great Recession, but has fared comparably well vis-à-vis other jurisdictions. This is most notable with respect to employment, which was already above pre-recession levels as of February 2010. The province's unemployment rate remains low and net in-migration into the province is expected to continue at a good clip. Given that the recovery is still in the early days of a global recovery, the government held fast to a \$1.8 billion infrastructure capital spending program, \$600 million of which is allocated towards improving roads and bridges.

The government's budget balance legislation – which was put in place to ensure deficits would not become a permanent state of affairs in a province otherwise used to recording modest surpluses – will need to be amended to reflect the gradual path of deficit elimination. In restoring balance within that time frame, the government has chosen to protect vital public services (education, health care, family services, and justice), towards which it directs 90% of all new spending is being allocated.

The deficit for fiscal 2011/12 is reduced by a modest \$100 million to \$448 million but the bottom line eventually tilts into the black by fiscal 2014/15 as revenues consistently outpace expenditures past fiscal 2010/11. Over the four years spanning fiscal 2011/12 to 2014/15, general revenues are projected to increase by an annual average of 3.2% while expenditure growth is compressed to an annual average 1.8%.

In the near-term for fiscal 2010/11, expenditures on health (+4.8%, which alone garners 60% of all new spending) and education (+5.6%) are allowed to grow while most other areas are flat-lined or see a drop as one-time emergency spending falls out (H1N1 and flooding remediation combined for a total unexpected \$150 million in fiscal 2009/10).

Looking out further, compressing spending growth below 2% represents a significant challenge, like in most jurisdictions, when compared to the average 6% pace set in the province over the last four years. Among other measures and like many of its peers, the government will negotiate for a pause in public sector wages.

On the other side of the ledger, economic growth and resulting revenue assumptions appear prudent. The few new tax measures included in this Budget do not modify the outlook substantially. An increase in the tobacco tax of 2 cents per cigarette is expected to raise an additional \$18 million. For students, a 5% advance on the Tuition Fee Income Tax rebate will be made available. On the flipside, tuition costs at colleges and universities will be allowed to rise modestly (average of \$150). With the current general corporate income tax rate at 12%, the government has chosen to postpone a planned reduction to 11% until “the economy strengthens”. However, the planned elimination of the small business income tax and general corporation capital tax will take effect this year as previously planned.



MANITOBA GOVERNMENT FISCAL POSITION

[C\$ millions, unless otherwise indicated]

Fiscal Year	Actual			Est.	Budget				
	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15
Revenues	11,385	12,437	12,779	12,502	12,720	13,119	13,411	13,897	14,451
% change	6.2	9.2	2.7	-2.2	1.7	3.1	2.2	3.6	4.0
Expenditures	10,900	11,861	12,455	13,057	13,265	13,567	13,756	14,043	14,266
% change	5.3	8.8	5.0	4.8	1.6	2.3	1.4	2.1	1.6
Summary Net Income	485	576	316	-555	-545	-448	-345	-146	185
% of GDP	1.1	1.2	0.6	-1.1	-1.0	-0.8	n/a	n/a	n/a
Net Debt	10,857	10,599	11,498	12,253	13,995	n/a	n/a	n/a	n/a
% of GDP	24.1	21.8	22.8	24.4	26.8	n/a	n/a	n/a	n/a

Source: Manitoba Finance, Budget 2010

Bottom Line

Manitoba is not facing the same economic and fiscal pressures as most of its provincial counterparts. Still, like other provincial governments, it has chosen to follow a gradual path of deficit elimination. Annual deficits remain within a narrow and manageable percentage of GDP. Meanwhile, the Fiscal Stabilization Account (FSA) balance of \$800 million will be drawn down to make debt repayments worth a total \$600 million over the next four years. This should allow the province to repay about a third of the principal and interest from the additional debt taken on as a result of

the economic downturn. The province's net debt-to-GDP ratio is projected to be slightly below 27% in fiscal 2010/11, while debt-servicing costs eat up a modest 6 cents of each revenue dollar.

Like elsewhere, general revenues will pick up and do some of the heavy lifting as the global recovery gains further, but this by itself is not expected to expunge the deficit. As a result, the challenge will lie mostly on the expenditure side, and with the government's ability to compress spending growth below 2% per annum.

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