

2017 MANITOBA BUDGET



TD Economics

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A LONG ROAD TO BALANCE

Highlights

- Manitoba's deficit is expected to fall slightly to \$840 million in FY 2017-18 from \$872 million in FY 2016-17. The government has yet to indicate when it expects the provincial budget to return to balance, with a deficit of \$549 million still expected in FY2019-20.
- Today's budget contained some tweaks to tax credits, but much of the focus was on spending restraint.
- With a budget gap expected to persist for some time, the debt burden will continue to grow. Net debt as a share of GDP is expected to reach 35.7% in the current fiscal year.

The Manitoba government tabled its budget for fiscal year (FY) 2017-18 today, highlighting the province's challenging fiscal position. While the deficit is expected to fall slightly to \$840 million this year, the path to balance will not be a short-one. Indeed, the government has yet to indicate when it expects the provincial budget to return to balance, with a deficit of \$549 million still expected in FY2019-20. Today's budget contained some tweaks to tax credits, but much of the focus was on reining in spending. With deficits expected to persist for the foreseeable future, the province's debt burden is expected to continue to grow as well. Net debt as a share of GDP is forecast to reach 35.7% of GDP in FY 2017-18 – an increase of over 10 percentage points since FY 2009-10 when the longstanding string of deficits began.

Deficit to shrink slowly

The deficit for FY2016-17 is estimated to have been \$872 million – slightly lower than the \$911 million gap expected in last year's budget. Higher-than-expected revenues from income taxes and fees as well as marginally lower healthcare expenditures underpinned the improvement.

For the current fiscal year, total provincial revenues are expected to grow by 2.9%, stemming largely from a 6.2% increase in income tax revenues. These projections are based on real GDP growth of 2.0% in 2017 and 2018, which is slightly more optimistic than our forecast.

Today's budget contained no new taxes or tax hikes; however, it did make a number of adjustments to tax credits. With respect to personal income taxes, the Tuition Fee Income Tax Rebate will be phased out and adjustments were made to the Primary Caregiver Tax Credit and Political Contributions Tax Credit. The Basic Personal Amount exemption will continue to be indexed to inflation as announced in last year's budget.

On the business tax front, a number of credits that had limited uptake or negligible impact on

TABLE 1: MANITOBA GOVERNMENT FISCAL POSITION				
[C\$ millions, unless otherwise indicated]				
	Estimate	Projection		
<i>Fiscal Year</i>	16-17	17-18	18-19	19-20
Revenues	15,643	16,101	16,584	17,081
% change	3.9	2.9	3.0	3.0
Expenditures	16,515	17,056	17,397	17,745
% change	3.9	3.3	2.0	2.0
In-Year Adjustments/Lapse*	-	-115	-115	-115
Summary Net Income	-872	-840	-698	-549
% of GDP	-1.3	-1.2	-	-
Summary Net Debt	23,111	24,772	-	-
% of GDP	34.5	35.7	-	-

Source: Manitoba Finance, Budget 2017, TD Economics.

fiscal balances were eliminated, while adjustments were made to more impactful ones, including the Research and Development Tax Credit and Manufacturing Investment Tax Credit. The total impact of adjustments to both the personal and business tax measures is expected to be an additional \$77 million in revenues during the current fiscal year.

Following a 3.9% increase last year, spending is expected rise by 3.3% in FY 2017-18. The government continues to focus spending in three key areas, with healthcare, education and families receiving the largest increases in funding this year. In line with its goal of restoring fiscal discipline, the government plans to restrain spending growth further in the two subsequent fiscal years, holding it to 2.0%. This would be an improvement relative to the average 3.5% pace seen since FY2013-14, but could prove to be a challenge nonetheless as it implies a decline after accounting for inflation and population growth.

All told, the government is projecting a deficit of \$840 million this year, with that shortfall expected to decline to \$549 million by FY2019-2020. The Budget Plan did not contain a timeline of when the government expects to return to balance.

Fiscal Responsibility and Taxpayer Protection Act

The Government of Manitoba is introducing The Fiscal Responsibility and Taxpayer Protection Act which will require it to show progress in reducing the deficit. The projected deficit for FY2017-18 will be used as a baseline, excluding net income (loss) from Manitoba Hydro which can be volatile. This progress report is intended to help keep the Province on track to lower the deficit, with cabinet ministers forgoing a portion of their salary in each year that a shortfall is projected. Meanwhile, the taxpayers' right to vote on major tax increases will be restored.

Net debt continues to rise

With consecutive fiscal deficits since FY2009-10, net debt in the province has been on the rise. As a share of GDP, net debt has risen by over 10 percentage points since then and is expected to average 35.7% this fiscal year. Debt servicing costs are expected to grow by 5.7% this year, totaling nearly \$1 billion. The government has acknowledged the need to rein in the debt burden, but noted that targets on debt reduction will be set once the provincial budget has returned to balance – a timeframe still unknown at this point.

That said, the government noted that capital investment at levels seen in recent years cannot continue, as it would lead to unsustainable growth in associated debt service costs. As such, it committed to spending at least \$1 billion per year on strategic infrastructure, with a focus on strategic projects that stimulate the economy. This year's funding of \$1.7B is roughly in line with that last year, although it is \$200 million lower than what had been projected in last year's budget plan. It includes reduced spending on transportation infrastructure – particularly highways – as well healthcare and housing infrastructure, while dollars earmarked for education and other provincial infrastructure – including municipal and local infrastructure, public service buildings and equipment – is higher.

Bottom Line

A balanced budgetary position remains a distant goal for Manitoba, with the government taking a slow and steady approach. A mix of tax credit adjustments and some spending restraint should help lower the deficit in the coming years. However, with a budget gap expected to persist for some time, the debt burden will continue to grow.

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