



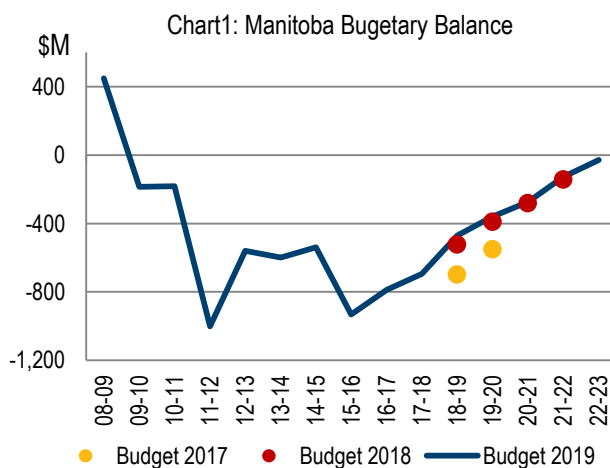
Laurentian Bank Securities ECONOMIC RESEARCH AND STRATEGY

The 2019 Manitoba Budget – Reduction in the deficit and the PST rate

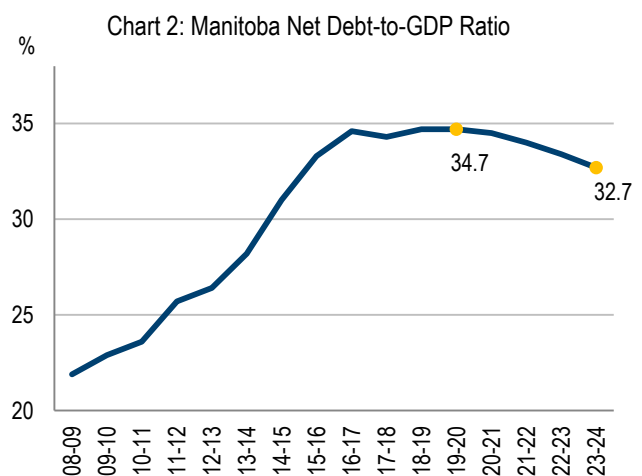
Currently in the third year of its term, the Progressive Conservative government released its [2019 budget](#) yesterday. The government continues to steadily improve the Province’s fiscal situation. The FY 2018-19 is almost over and the deficit is estimated at \$470M (0.6% of GDP), \$51M lower than forecasted in Budget 2018 (chart 1). For FY 2019-20, the projected deficit is \$360M (0.5% of GDP), \$88M lower than anticipated a year ago and the smallest as a share of the economy since FY 2010-11. As specified a year ago, the plan is still to virtually eliminate the deficit in FY 2022-23 (a very small \$28M shortfall is projected, 0.0% of GDP).

Yesterday’s biggest announcement is undoubtedly the government’s intention to cut the provincial sales tax rate (PST), as promised during the 2016 electoral campaign. The PST rate will be reduced from 8% to 7% on July 1st, 2019. This PST cut is estimated to reduce fiscal revenues by \$237M in FY 2019-20 and by about \$325M on a full year basis. As a comparison, the indexation of the personal income tax basic personal amount, the second largest tax measure in this budget, is expected to trim revenues by \$36M in FY 2019-20. Altogether, the tax measures proposed and the nominal GDP growth acceleration from 2.3% in 2018 to 3.6% in 2019 are projected to increase total revenues by 3.1% this fiscal year. The Province’s total fiscal revenues will also get a \$218M boost in federal equalization payments, representing an 11% increase from a year ago. This federal transfer will reach \$2.3B in FY 2019-20, compared to the \$1.8B annual payment received on average between 2013 and 2017.

On the spending side, the government intends to keep expenditures growth below 2% for a second consecutive year, half the average growth registered between 2013 and 2016. In-year adjustments/lapses, i.e. targeted efficiencies or positive revenue surprises - are expected at \$95M in FY 2019-20. While announcing targeted investments in the health care sector, the limited number of new spending measures in this Budget is consistent with this government’s track record of long-term fiscal prudence. On this topic, investors will take note that the Province’s fiscal stabilization account, a reserve fund that would provide a cushion in case of an unexpected economic downturn, should increase by \$50M to \$265M (1.6% of revenues) in FY 2019-20.



Source: Manitoba Budget 2019.



Source: Manitoba Government.

After an abrupt 13.3 ppts cumulative increase between FY 2007-08 and FY 2016-17, the net debt-to-GDP ratio stabilized during the last two years. It is now projected to edge down from an all-time high of 34.7% in FY 2018-19 to 34.5% in FY 2020-21. The government targets a 32.7% net debt-to-GDP ratio by FY 2023-24 (chart 2).

Borrowing requirements to decline

After \$7.4B in realized financing as of March 8th for FY 2018-19, total borrowing requirements is expected to decline to \$5.1B in FY 2019-20. The decline in borrowing requirements partly reflects \$1.5B in pre-funding for both operating expenditures and investment in capital assets during FY 2018-19. Manitoba Hydro still represents, with \$3.1B in financing needs, the largest consolidated borrowing entity.

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Summary Budget Outlook (\$M)			
	2017-18	2018-19	2019-20
Revenues	16,195	16,694	17,025
% Change (% Y/Y)	3.4%	3.1%	2.0%
Expenditures	16,890	17,164	17,480
% Change (% Y/Y)	2.6%	1.6%	1.8%
<i>In-Year Adjustments/Lapse</i>			-95
Budgetary Balance	-695	-470	-360
% of GDP	1.0%	0.6%	0.5%
Net Debt	24,365	25,211	26,113
% of GDP	34.4	34.7	34.7
Borrowing Requirements	5,848	7,360	5,141

Source: Manitoba Budget 2019 and Laurentian Bank Securities

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