

Deficit elimination by 2014-15

Highlights

- **Manitoba's deficit for the fiscal year just ending is estimated at \$555 million or 4.4% of revenue.**
- **The budgeted deficit for 2010-11 is \$545 million, declining to zero in 2014-15 as spending growth is held to an average 1.8% annually and revenue grows 3.2% annually.**
- **Real GDP is assumed to have contracted 0.9% in 2009 and is projected to grow 2.5% in 2010 and 3.0% in 2011.**
- **Elimination of small-business income tax and general corporation capital tax is confirmed for the end of 2010. The reduction of the general corporate income tax rate to 11% and tax relief measures for individuals are deferred.**
- **Summary net debt is budgeted to rise from 24.4% of GDP at the end of the current fiscal year to 26.8% at the end of the coming fiscal year.**
- **The borrowing requirement for 2010-11 is budgeted at \$3.4 billion, including \$1.3 billion in refinancing.**

Commentary

With a deficit in 2009-10, today's budget from Finance Minister Rosann Wowchuk sets out a five-year plan beginning in 2010-11 to achieve a balanced budget. In the first year, expenditure is budgeted to increase 1.6% overall, with a rise of 5.1% for health and education offset by a decrease of 4.1% (\$206 million) in all other spending. It should be noted that 2009-10 expenditures included \$150 million in non-recurring emergency expenditure on flood relief and H1N1 flu. Also, 90% of new spending in the year ahead will go to priorities in health, education, training, family services and justice. Notably, in half of all government departments, spending will be cut.

In subsequent years, spending growth is to be held to an average 1.8% annually. The budget introduces a 20% pay cut for government ministers and proposes a pay freeze for MLAs, their political staff and senior government officials. For other public-sector workers, the Minister proposes to negotiate a pause in pay raises.

After the elimination in 2010-11 of income tax on small businesses and the general corporation capital tax, revenues are projected to grow an average 3.2% annually. Universities will be able to raise tuition fees by up to 5% and colleges by up to \$150 a year. Revenue growth combined with spending restraint is deemed sufficient to eliminate the deficit in 2014-15.

Infrastructure investment is budgeted at \$1.8 billion for 2010-11. The combination of capital spending and budget deficit is projected to increase Manitoba's summary net debt to 26.8% of GDP at the end of 2010-11. This still compares favourably to the 32.9% of 1999. The share of revenues required to service the debt will be 6% in 2010-11 compared to 13% in 1999. The budget allocates a \$96-million draw from the Fiscal Stabilization Account to start paying down principal and interest on debt incurred to stimulate the economy. A total of \$600 million is to be drawn from the Account for this purpose over the

ECONOMIC AND STRATEGY GROUP – 514.879.2529

Stéfane Marion, Chief Economist and Strategist

General: National Bank Financial (NBF) is an indirect wholly owned subsidiary of National Bank of Canada. National Bank of Canada is a public company listed on Canadian stock exchanges. ♦ The particulars contained herein were obtained from sources which we believe to be reliable but are not guaranteed by us and may be incomplete. The opinions expressed are based upon our analysis and interpretation of these particulars and are not to be construed as a solicitation or offer to buy or sell the securities mentioned herein. ♦ Canadian Residents: In respect of the distribution of this report in Canada, NBF accepts responsibility for its contents. To make further inquiry related to this report or effect any transaction, Canadian residents should contact their NBF Investment advisor. ♦ U.S. Residents: NBF Securities (USA) Corp., an affiliate of NBF, accepts responsibility for the contents of this report, subject to any terms set out above. Any U.S. person wishing to effect transactions in any security discussed herein should do so only through NBF Securities (USA) Corp. UK Residents: In respect of the distribution of this report to UK residents, NBF has approved this financial promotion for the purposes of Section 21(1) of the Financial Services and Markets Act 2000. NBF and/or its parent and/or any companies within or affiliates of the National Bank of Canada group and/or any of their directors, officers and employees may have or may have had interests or long or short positions in, and may at any time make purchases and/or sales as principal or agent, or may act or may have acted as market maker in the relevant securities or related financial instruments discussed in this report, or may act or have acted as investment and/or commercial banker with respect thereto. The value of investments can go down as well as up. Past performance will not necessarily be repeated in the future. The investments contained in this report are not available to private customers. This report does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for the securities described herein nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever. This information is only for distribution to non-private customers in the United Kingdom within the meaning of the rules of the Regulated by the Financial Services Authority. ♦ Copyright: This report may not be reproduced in whole or in part, or further distributed or published or referred to in any manner whatsoever, nor may the information, opinions or conclusions contained in it be referred to without in each case the prior express written consent of National Bank Financial.

following four years. Another \$145 million accumulated in a Debt Retirement Account will be used for the same purpose this year.

Marc Pinsonneault

Manitoba

\$000,000

Budget	Forecast	Budget	Plan			
2009/10	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15

SUMMARY BUDGET

	12,644	12,502	12,720	13,119	13,411	13,897	14,451
Revenues							
Income taxes	2,689	2,654	2,667				
Other taxes	3,197	3,248	3,385				
Fees and other revenues	1,593	1,621	1,635				
Federal transfers	4,103	4,072	4,126				
Net income (loss), government business enterprises	816	687	699				
Sinking funds and other earnings	246	220	208				
Expenditures	12,596	13,057	13,265	13,567	13,756	14,043	14,266
Health	4,731	4,851	5,085				
Education	3,228	3,240	3,420				
Family services and consumer affairs	1,235	1,321	1,326				
Community, economic and resource development	1,765	1,834	1,819				
Other program expenses	871	1,072	848				
Debt servicing	766	739	767				
Summary net income	48	(555)	(545)	(448)	(345)	(146)	185
Debt servicing as a % of revenues	6.1%	5.9%	6.0%				

SUMMARY NET DEBT

Beginning balance		12,253
Net investment in tangible capital assets		1,197
Less: Summary net income		(545)
Ending balance	12,253	13,995
GDP	50,200	52,158
Ending balance as a % of GDP	24.4%	26.8%

BORROWING REQUIREMENTS (\$ million)

Refinancing	1,287
Other new cash requirements	2,457
Less: Repayments	338
Total	3,406

Source: Budget documents from the Ministry of Finance, Manitoba.