#1 MEILLEUR PRÉVISIONNISTE GLOBAL – CANADA FOCUS ECONOMICS ANALYST FORECAST AWARDS 2022 #1 BEST OVERALL FORECASTER – CANADA

BUDGET ANALYSIS

Manitoba: Budget 2023

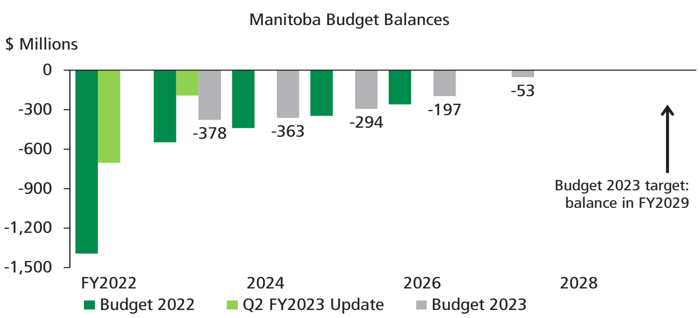
Tax Relief Now, Surplus Still Expected Much Later

By Marc Desormeaux, Principal Economist

HIGHLIGHTS

- Manitoba now projects deficits of $378M (0.4% of nominal GDP) in fiscal year 2022–23 (FY2023), $363M (0.4%) in FY2024, and $294M (0.3%) FY2025. Those figures represent incremental reductions in the size of the deficit versus last year's plan (graph 1). As in last year's fiscal blueprint, the province intends to return to balance in FY2029.
- Gross provincial borrowing requirement projections were revised slightly lower, to $4.5B in FY2024, $5.3B in FY2025, and $5.7B in FY2026. In FY2027, Manitoba expects to borrow $4.4B. Net of pre-funding, requirements in FY2024 are set at $4.8B.
- Manitoba forecasts that its net debt will rise from 33.5% of provincial output in FY2023 to 35% in FY2025, then ease in the ensuing two years.

GRAPH 1
Balances Largely Unchanged, Surplus Still Targeted for FY2029



Sources: Statistics Canada, Finance Canada, Manitoba Ministry of Finance, and Desjardins Economic Studies

- The signature new policy measure was an increase in the province's Basic Personal Amount, intended to ease cost of living pressures amid stretched affordability and decades-high inflation. Relative to last year's budget, program expenditures were lifted by a combined $4.3B over FY2024 to FY2026, eating into $5.2B in expected revenue gains versus Budget 2022 forecasts.
- Manitoba bond spreads were little changed after the budget's release; in the short-term, we expect them to continue to be driven by overall risk sentiment. To the extent that Manitoba is able to return to balance and bring its debt load down as planned in the coming years, that should support lower borrowing costs over time.

Our Takeaways

With outperforming revenues, better-than-average near-term economic prospects, and its longstanding reputation for stable growth, Manitoba opted to boost expenditures and offer tax relief in its 2023 budget. The signature new policy measure is somewhat targeted to lower- and middle-income individuals who tend to be most impacted by inflation. We would have preferred that the province keep its powder dry and target more significant reduction of its debt burden over time. That likely would have been well received by rating agencies and could support lower borrowing costs in the long run. However, Manitoba looks more insulated from the coming Canadian recession than most provinces, which should allow it to avoid more significant fiscal deterioration in the event of a severe downturn.

Balance and Debt Projections Largely Unchanged

Manitoba now projects deficits of $378M (0.4% of nominal GDP) in FY2023, $363M (0.4%) in FY2024, and $294M (0.3%) FY2025. That represents an increase of almost $200M versus the Q2 FY2023 update this fiscal year, and small reductions of $80M and over $50M versus Budget 2022 projections in FY2024 and FY2025, respectively. As in last year's fiscal blueprint, the province intends to return to balance in FY2029.

NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.
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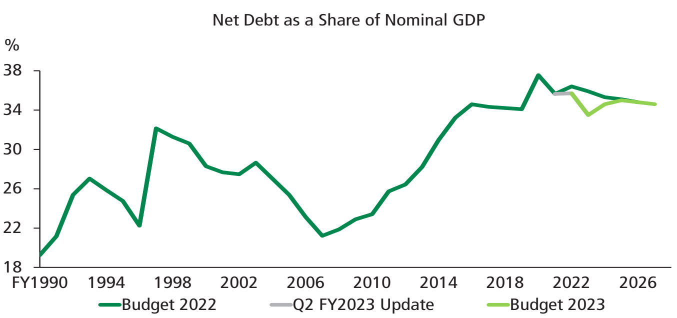
Manitoba forecasts that its net debt will rise from 33.5% of provincial output in FY2023 to 35% in FY2025, then ease in the ensuing two years. That path puts it on track to end the forecast horizon in line with the trajectory projected last year (graph 2). However, the terminal debt load anticipated in FY2027 would still be high relative to most of the province's history. At the moment, that net debt burden (as a share of the economy) exceeds those projected by every province except for Nova Scotia, Quebec, and Ontario. Alongside an eventual return to surplus, Manitoba intends to target a stable net debt-to-GDP ratio over time, and monitor debt charges and federal transfers as a share of revenue.

GRAPH 2
Manitoba's Debt Load to Rise Towards Previous Targets



Sources: Statistics Canada, Finance Canada, Manitoba Ministry of Finance, and Desjardins Economic Studies

Borrowing Plans Also Largely Unchanged

In line with modest changes to the deficit outlook, gross provincial borrowing requirement projections were revised slightly lower, to $4.5B in FY2024, $5.3B in FY2025, and $5.7B in FY2026. In FY2027, Manitoba expects to borrow $4.4B (table 1).

TABLE 1
Updated Manitoba Projections

$ MILLIONS (UNLESS INDICATED)	2022–23*	2023–24	2024–25	2025–26	2026–27
Gross Borrowing Requirements					
Budget 2022	4,540	5,417	5,438	5,725	—
Q2 FY2023 Update	—	—	—	—	—
Budget 2023	—	**4,543**	**5,254**	**5,659**	**4,420**
of which: Refinancing					
Budget 2022	2,726	3,236	3,473	3,965	—
Q2 FY2023 Update	—	—	—	—	—
Budget 2023	—	—	**3,373**	**3,965**	**3,000**
Real GDP Growth (%)					
Budget 2022	3.6	2.8	—	—	—
Q2 FY2023 Update	3.7	1.4	—	—	—
Budget 2023	**3.6**	**0.7**	**1.1**	—	—
Nominal GDP Growth (%)					
Budget 2022	5.8	4.4	—	—	—
Q2 FY2023 Update	9.6	3.2	—	—	—
Budget 2023	**9.9**	**2.2**	**3.0**	—	—

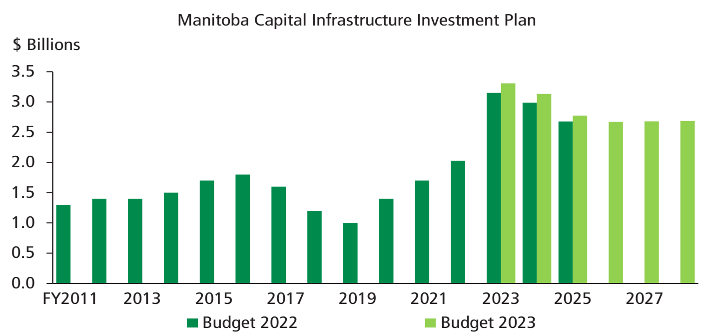
* For economic growth rates, FY2023 corresponds to calendar year 2022 and so on
Sources: Statistics Canada, Finance Canada, Manitoba Ministry of Finance, and Desjardins Economic Studies

The $4.5B total for FY2024 does not include pre-funding. Net of $1.8B pre-borrowed in FY2023 and $2.1B in pre-funding in FY2024, the net total is $4.8B. Refinancing accounts for over nearly two-thirds of borrowing plans from FY2025 to FY2027; the rest reflects new cash requirements. As of February 17, 2023, $3.9B had been raised, of which over 90% was sourced from domestic markets. Fifteen percent of the total was in Canadian medium-term notes.

The government stated that going forward, "domestic as well as international capital markets will be accessed to complete [the provincial borrowing] program." However, it will only borrow in international markets if costs are deemed to be competitive with those of domestic opportunities. Manitoba's forecast average interest rate for term borrowings during FY2024 is 4.3%, higher than the 3.25% estimated last year.

The province increased capital spending projections by between $100M and $160M per year from FY2023 to FY2025 (graph 3). The largest individual contributors to the plan are foundational road and bridge construction projects, healthcare facilities and schools, and Manitoba Hydro-related outlays.

GRAPH 3
Infrastructure Plan Boosted Incrementally



Sources: Manitoba Ministry of Finance and Desjardins Economic Studies

Economic Forecasts Trimmed, but There's Some Upside

In its economic outlook section, Manitoba projected a softer expansion this year and next than it did in Budget 2022. The revisions primarily reflect the effects of sharply higher interest rates, while a deteriorating global expansion is also a contributor. Yet, consistent with [Desjardins Provincial Outlook](), Manitoba expects modest exposure to higher borrowing costs versus other provinces. And contributions from across its broad economic base should protect it from the worst of the coming downturn.

The plan includes two modest forms of prudence. First, FY2024 includes a $200M contingency that can be used to absorb unexpected costs. Planned contingencies gradually ease thereafter, eventually reaching just $50M in FY2027. Second, the province maintains its Fiscal Stabilization Account (rainy day fund), which had a balance of $585M at the end of FY2022. Details of withdrawals and/or deposits in FY2023 or FY2024 will be provided by year-end.

In an upside scenario in which growth outperforms the baseline forecast, balance would be attained in FY2024 and maintained until at least FY2027. A more pessimistic scenario would mean deficits of more than $900M from FY2024 until at least FY2027.

New Spending, Tax Relief

On the grounds that support is needed during a period of stretched affordability and decades-high inflation, Manitoba offered a suite of new measures targeting cost of living concerns. Tax and fee relief was one plank of its plan. Key measures included an increase in Manitoba's Basic Personal Amount—expected to shave just over $300M off the bottom line in FY2024—and boosts to provincial income tax bracket thresholds.

These are broad-based initiatives that carry some risk of stimulating aggregate consumer demand and exacerbating price pressures. But they could reasonably be expected to generate the greatest benefits for lower-income Manitobans most affected by elevated inflation. Budget 2023 also incrementally reduced some business tax rates and an extension of the existing Mineral Exploration Tax Credit.

Spending plans were also increased. Relative to last year's budget, program expenditure forecasts were lifted by $4.3B over FY2024 to FY2026. Revenue projections were raised by $5.2B over the same period. Spending increases reflect new funding to expand the capacity of the provincial health care system, as well as a range of supports for education and skills development. The effects of new health care spending on budget balances will presumably be partly offset by higher transfer payments from the federal government.

Other initiatives in the plan include new venture capital funding, supports for the agriculture and agri-food sector, and various efforts to enhance Manitoba's trade corridors.

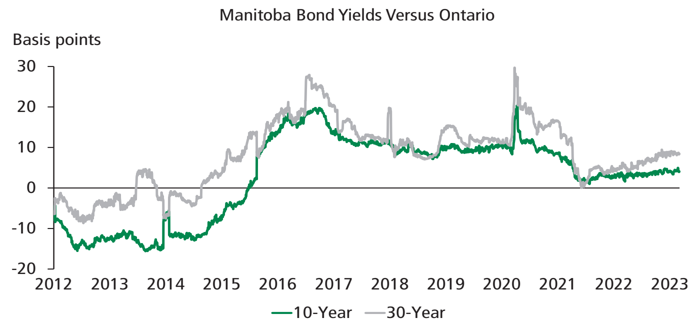
Spreads Unchanged After Budget Release

Manitoba bond spreads were largely unchanged after the plan's release; in the short-term, we expect them to continue to be driven by overall risk sentiment. Like many other provinces, longer-dated bond spreads have tightened incrementally over the past couple of months as better-than-expected economic data drove some risk-on buying. Further interest rate rises or negative economic news could undermine those gains.

Fiscal performance will play a more significant role over time. To the extent that Manitoba is able to return to balance and bring its debt load down as planned in the coming years, that should support lower borrowing costs over time. The province's long bonds have traded back of those of Ontario since the mid-2010s, following a period of successive deficits in which net debt plateaued near 35% of GDP (graph 4).

The author thanks Farjad Khan of Desjardins Economic Studies for his contributions to this report.

GRAPH 4
Manitoba Bonds Have Traded Back of Ontario Since Mid-2010s



Sources: Bloomberg and Desjardins Economic Studies

TABLE 2

Summary of Fiscal Forecasts

	2021–2022	2022–2023		2023–2024		2024–2025		2025–2026		2026–2027
IN $B (EXCEPT IF INDICATED)	**Actual**	**Q2 FY2023**	**Bud. 2023**	**Bud. 2022**	**Bud. 2023**	**Bud. 2022**	**Bud. 2023**	**Bud. 2022**	**Bud. 2023**	**Bud. 2023**
Total revenues	19.1	20.5	20.6	20.0	21.7	20.6	22.3	21.3	23.1	23.8
% change	*7.7*	*7.2*	*7.7*	*2.4*	*5.5*	*3.0*	*2.9*	*3.2*	*3.3*	*3.2*
Own-Source Revenues	12.8	14.2	14.3	—	14.4	—	—	—	—	—
% change	*8.4*	*10.6*	*11.5*	—	*0.6*	—	—	—	—	—
Federal Transfers	6.3	6.3	6.3	—	7.3	—	—	—	—	—
Total expense	19.8	20.7	21.0	20.4	21.9	21.0	22.5	21.5	23.2	23.8
% change	*-0.3*	*4.4*	*5.8*	*2.7*	*4.4*	*2.5*	*3.0*	*2.7*	*2.9*	*10.6*
Program spending	19.1	19.6	19.8	19.4	20.6	19.7	21.2	20.1	21.7	22.2
% change	*1.2*	*2.3*	*3.8*	*2.6*	*3.7*	*2.0*	—	*1.9*	—	—
Debt charges	1.0	1.1	1.1	1.1	1.3	1.2	1.3	1.4	1.5	1.6
% of total revenues	*5.1*	*5.5*	*5.4*	*5.4*	*5.9*	*5.9*	*5.9*	*6.6*	*6.5*	*6.9*
Forecast allowance	—	0.2		—	0.2	—	0.1	—	0.1	0.1
Budget balance	**-0.7**	**-0.4**	**-0.4**	**-0.4**	**-0.4**	**-0.3**	**-0.3**	**-0.3**	**-0.2**	**-0.1**
% of GDP	*-0.9*	*-0.4*	*-0.4*	*-0.5*	*-0.4*	—	*-0.3*	—	—	—
Net Debt, % of GDP	*35.7*	*33.5*	*33.5*	*35.3*	*34.6*	*35.1*	*35.0*	*34.8*	*34.8*	*34.6*

Sources: Manitoba Ministry of Finance and Desjardins Economic Studies