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Manitoba 2023 Budget – Large Tax Relief Proposal, Modest Deficits Projected

Ahead of the October elections, the PC government proposes a large tax relief to individuals, plans to dedicate additional funding to public services delivery. Public finances are expected to remain fundamentally solid.

A $300M overrun in spending is the main factor widening the FY 2022-23 deficit to a modest $378M (0.4% of NGDP), compared to the very tiny $193M shortfall expected three months ago according to the mid-year update. Crown corporation Manitoba Hydro notably benefited from above-average water levels and improving export prices to generate a net income of $651M, a stellar performance unlikely to occur again in the near term.

The FY 2023-24 deficit is projected to stay in the same range at $363M, reflecting a moderate 4.3% lift in both spending and revenues. The province will benefit from a large $1B jump in transfers from Ottawa, bringing federal transfers as % share of total revenues to an all-time high of 34%. The tax relief offered in FY 2023-24 mostly takes the form of the largest enhancement of the basic personal amount, from $10.9K to $15K. It will shave slightly more than $300M in fiscal revenues. The government also proposes to raise all tax bracket thresholds in 2024. The average two-income household will save a sizeable $1K this year and close to $1.3K next year. The breakdown of spending reveals a widespread bump across ministries.

Compared to the small projected deficit of $363M, the $1.3B jump in capital expenditures buffing infrastructure assets stands out in FY 2023-24. Both lead to a $1.6B nonnegligible rise in net debt to $31B, pushing up the net debt-to-GDP ratio from 33.5% in FY 2022-23 to 34.6%, close to where it stood before the pandemic hit. A public debt burden below the 35% is a very solid, manageable situation at the subnational level. The balance of the rainy-day fund, called the fiscal stabilization account, stands close to $585M and represents 2.7% of revenues.

Altogether, the combination of the operational deficit and funding for capital expenditures translates into borrowing requirements of $4.7B in FY 2023-24. This amount includes $2.1B of pre-financing for FY 2024-25. In comparison, funding needs were virtually the same last year at $4.6B and lower in FY 2021-22 at $3.8B. More than 90% of borrowing requirements during FY 2022-23 were done on the domestic market. The issuer is open to tap both domestic and foreign markets during FY 2023-24. Most of funding activity involved benchmark issues in the 10yr and 30yr sectors in the recent past. The government also intends to evaluate the prospects relative to the development of a sustainable bond framework. Sustainable bond issuance reached US$166B globally in 2022 according to Climate Bonds Initiative calculations. Debt servicing expressed as a % share of own-source revenues are poised to increase to a 8-year high of 6% in FY 2023-24.

In summary, total revenues, total spending and net debt expressed as a % share of NGDP are back where they stood prior to the pandemic. Manitoba is home of solid public finances, supported by sound economic developments. In our latest Provincial Outlook released a few weeks ago, we noted progress made about the possible construction phase of a green hydrogen plant in the small city of Selkirk. The budget document also cites progress relative to mining exploration, notably for lithium crucial for the global energy transition. Potash production is about to begin, a big step in an already good mix of mining and agriculture activities suitable with global energy and food access challenges.

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