

ECONOMIC RESEARCH AND STRATEGY



LAURENTIAN BANK
SECURITIES

April 14, 2022

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Manitoba Budget 2022: Near-term Deficit Improvement

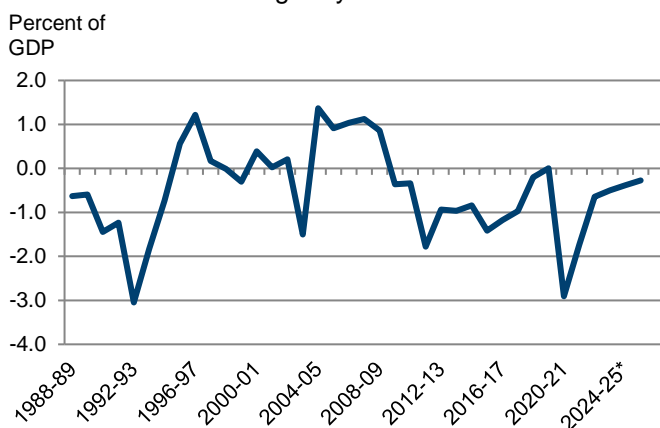
After taking over the PC leadership following the resignation of former Premier Pallister last fall, Premier Heather Stefanson delivered yesterday her government's first budget. Centered around cost-of-living assistance and improvement to the health care system, Budget 2022 stays on a multi-year track to balance by FY 2028-29.

Smaller deficit this year, but climate and geopolitical risks subsist

First, stronger-than-expected expenditures relative to the December Mid-Year Update offset positive own-source revenue and federal transfer surprises, leading the government to revise up its FY 2021-22 deficit estimate by nearly \$300M, at \$1.4B (1.7% of GDP, chart 1). Nonetheless, as of the third quarter, Manitoba's deficit tallied slightly below the forecast in Budget 2021. For FY 2022-23, the government continues to project a sizeable improvement to the bottom line, now estimated at \$548M (0.6% of GDP).

Own-source revenue are projected to grow 4.6% and reach \$19B, supported by moderate economic growth in 2022. Strong momentum in Manitoba's diversified manufacturing industries is expected to continue. The economic reopening should also support growth. Budget 2022 appropriately flags climate as a key risk to the economic and fiscal outlook, especially with regard to the agriculture industry, representing 6% of Manitoba's real GDP versus 1.3% in Ontario, for example. Last year, severe droughts cut Manitoba's wheat production by 30% to the lowest level in seven years. They also led Manitoba Hydro to post a \$221M loss instead of the \$190M profit expected in Budget 2021. For now, sufficient snow this Winter could support a strong rebound in crop yield this year. However, the Russian invasion of Ukraine has pushed up the prices for fertilizers and fuel, likely to prevent farmers from scaling up production despite elevated food prices.

Chart 1: Manitoba Budgetary Balance



Source: Manitoba Government, LBS Econ. Res. and Strategy calculations.



Tax credits, healthcare funding

Base program expenditures rise to \$19.3B in FY 2022-23, including an additional \$110M to address surgical and diagnostic backlogs in the province. The national childcare program, a shared cost with the government of Canada, set aside \$267M to lower daycare fees starting this year. The government also increases the education property tax rebate, a \$71M net measure.

Contingencies against COVID-19 and other risks

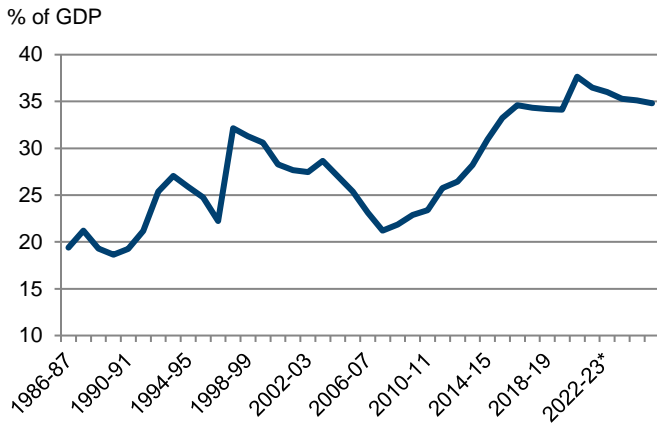
Budget 2022 remains prudent, including built up contingencies of \$630M in FY 2022-23 for potential COVID-19 related expenses, compared to \$1.3B in FY 2021-22. No deposits have been made to the Fiscal Stabilization Account in FY 2021-22. Its balance stood at \$585M as of March 31st 2022 (3% of revenue), following a \$215M drawdown in FY 2020-21.

Similar borrowing program and new fiscal anchors

Manitoba completed FY 2021-22 with a \$4.6B borrowing program, driven by COVID-19 spending and \$1.5B in pre-funding. In FY 2022-23, the province estimates its financing needs at \$4.7B, including a preliminary estimate of \$1.6B in pre-financing for FY 2023-24. Over the next four years, declining deficits and the past completion of important projects such as Bipole III transmission line and the Keeyask generation station will lead to declining cash requirements. The government also intends to reduce its on-hand cash liquidity from an extraordinary 6-month to a pre-pandemic 3-month cash need-equivalent. Nonetheless, increasing refinancing needs will offset these savings, ultimately leading to somewhat higher borrowing requirements over the medium term (chart 3).

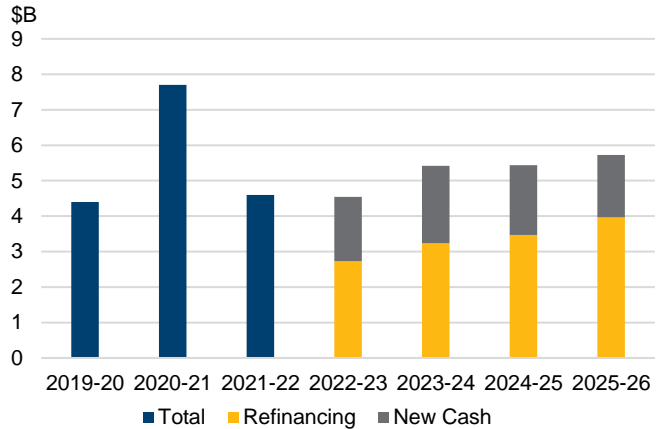
Altogether, the ministry of Finance forecasts net debt-to-GDP to remain broadly stable at 36% in FY 2022-23 and 35% in FY 2025-26 (chart 2). One fiscal anchor for the government consists of keeping that ratio in line with the weighted average of provinces currently estimated at around 34%. Moreover, the government formerly introduces several other fiscal anchors: keeping total expenditure-to-GDP below 25% (currently at 23%) and making sure interest on debt-to-revenue currently at 5.3% stays below the provincial average (around 6.0%).

Chart 2: Manitoba Net Debt



Source: Manitoba Government, LBS Econ. Res. and Strategy calculations.

Chart 3: Manitoba Borrowing Requirements



Note: Including pre-funding.

Source: Manitoba Government and LBS Econ. Res. and Strategy.

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