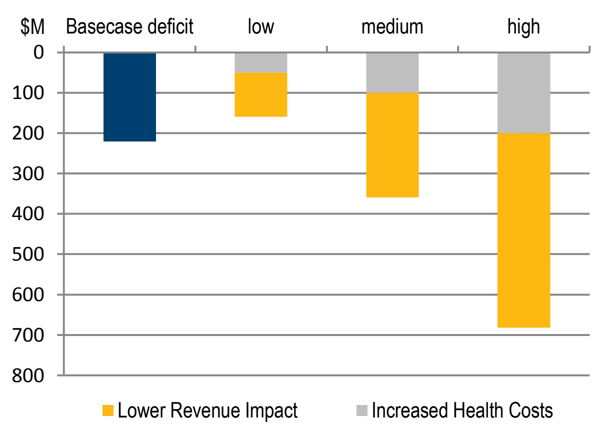
Laurentian Bank Securities
ECONOMIC RESEARCH AND STRATEGY

The 2020 Manitoba Budget – Lower taxes and rainy day fund to get through Covid-19

An early Covid-19 impact assessment

Unexpected events can sometimes alter carefully designed economic plans and fiscal trajectories. Within the fifth year of its plan to return to balance in FY 2022-23, the 2020 Manitoba Budget forecasts a base case $220M (0.3% of GDP) deficit for FY 2020-21. However, the rapidly evolving Covid-19 outbreak has led the Manitoba government to release an Emergency Supplement to its Budget. The supplement includes a revised economic outlook and the fiscal impact relative to Budget 2020 documents. Three scenarios, *low*, *medium*, and *high*, each representing various severity of the outbreak, are considered. Under a "medium" case scenario, real GDP growth for 2020 is revised down from 1.3% to 0.6%. Nominal GDP growth is cut by half, from 3.3% to 1.6%. A 1 percentage point reduction in nominal GDP growth is roughly equivalent to a $200M loss in revenue. The preliminary governmental GDP projection is based on a moderate contraction in 2020Q1, a lesser one in 2020Q2, followed by a quick recovery in 2020Q3 and 2020Q4. Considering the broad shutdown of industries announced lately, with more to come likely in April, second quarterly growth should be worse than expected. Also, despite that Manitoba only had 11 confirmed cases as of writing, the situation is evolving quickly. Consequently, we assign a higher probability of occurrence to the *high severity* scenario. Under this scenario, increased health care costs (+$200M), coupled to lower-than-expected revenues (-$482M) leads to a $680M revision to the government's bottom line (0.9% of GDP, chart 1). Importantly, those forecasts do not incorporate the additional federal support measures announced last week.



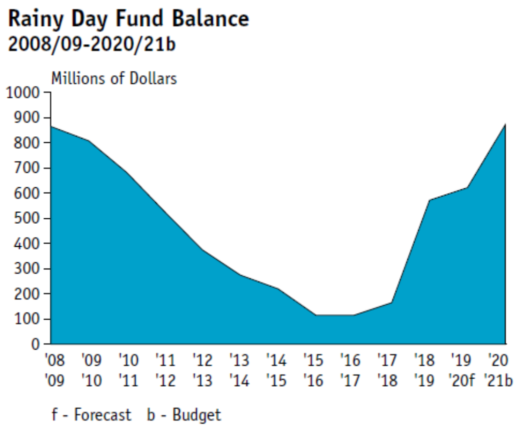
Source: Manitoba Government.

Lower taxes

Budget 2020 introduces some measures to improve households' finances. The Provincial Sales Tax (PST) will be decreased by 1 ppt for a second consecutive year. At 6% on July 1st 2020, it will be the lowest in Canada along with Saskatchewan (6%) and Alberta (0%). This year's reduction is expected to cost the Province $326M in FY 2021-22. It will also contribute to boost spending habits back to normal post-virus. Exemption thresholds for small and medium businesses education and health levy (payroll taxes) will also be increased.

The rainy day fund to ease the Covid-19 fiscal blow

As of March 31st 2019, Manitoba had accumulated $572M in its fiscal stabilization account, a "rainy day fund". The additional money set aside during the last three years will provide a cushion against the adverse economic impact of Covid-19. Hence, approximately 3.3% of revenues could be covered with this rainy day fund without incurring additional borrowing costs for the province. In the Budget, prior to the coronavirus outbreak, the government intended to deposit into the fund an additional $300M for FY 2019-20 and FY 2020-21 combined (chart 2).



Borrowing requirements for FY 2020-21 are pegged at $5.2B, of which $3.7B relates to refinancing purposes. Excluding the Covid-19 impact, this year's program program is moderately bigger than in FY 2019-20 ($4.4B). Last year, Manitoba completed 62% of its borrowing program in Canadian dollar debentures.

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