

Economics

PROVINCIAL BUDGET BRIEFS

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Manitoba budget 2023

The province of Manitoba projects a modest \$363mn deficit (0.4% GDP) for the upcoming 2023/24 fiscal year, which is in-line with the updated forecast for fiscal 2022/23. This year's projections include tax relief that will cost \$357mn in the current fiscal year, and would rise to \$495mn on a full year basis, with some changes to tax brackets only effective in early 2024 following this year's provincial election. A \$200mn contingency is once again included in this year's deficit projection due to the uncertain economic outlook. Borrowing requirements are pegged at \$4.8bn for fiscal 2023/24, which would be roughly \$900mn higher than the outgoing fiscal year.

Table 1: Summary of fiscal position: (C\$millions)

Fiscal measure	2021/22 Actual	2022/23 22 Budget	2022/23 23 Budget	2022/23 Change	2023/24 23 Budget	2024/25 23 Budget	2025/26 23 Budget	2026/27 23 Budget
Revenue	19,107	19,353	20,583	1,230	21,714	22,337	23,067	23,796
Own source	12,844	13,303	14,326	1,023	14,415			
• % change	8.4	5.6	11.5	5.9	0.6			
Federal transfers	6,263	6,250	6,257	7	7,299			
Expenditures	19,811	19,901	20,961	1,060	21,877	22,531	23,189	23,799
Program spending	18,844	18,876	19,848	972	20,589	21,214	21,693	22,168
• % change	13.5	-1.3	5.3	6.6	3.7	3.0	2.3	2.2
Public debt charges	967	1,025	1,113	88	1,288	1,317	1,496	1,631
Budget balance ex reserve	-704	-348	-378	-30	-163	-194	-122	-3
Planning contingencies	0	200	0	-200	200	100	75	50
Summary budget balance	-704	-548	-378	170	-363	-294	-197	-53

Manitoba economy to narrowly avoid recession

The Manitoba economy was much stronger in 2022 than had been expected at the time of last year's budget, with estimates in Budget 2023 suggesting that real GDP rose by 3.6% and nominal GDP by 9.9% last year. However, Manitoba isn't expected to be immune from the slowing in the wider Canadian economy stemming from last year's brisk rise in interest rates. Even though households in Manitoba don't hold as much debt as those in other areas of the country, and the province is expected to avoid a recession, growth is anticipated to be very subdued this year and next. Real GDP is expected to rise by 0.7% in 2023 and 1.1% in 2024, with nominal growth at 2.2% and 3.0% respectively. The muted pace of GDP increases will mean that employment growth lags that of the working age population, seeing the unemployment rate climb to 5.9% by 2024.

Table 2: Key assumptions (Y/Y % chg)

Economic assumptions	2022	2023	2024
Real GDP	3.6	0.7	1.1
Nominal GDP	9.9	2.2	3.0
Employment	3.2	0.4	0.8
Unemployment rate (%)	4.6	5.4	5.9

Modest deficit to remain

New estimates for the outgoing 2022/23 fiscal year now peg the deficit at \$378mn, which is a \$170mn improvement relative to Budget 2022 but worse than the \$193mn expected at the time of the mid-year update. Due to the strength of the economy, and in particular nominal GDP and the labour market, own source revenues are set to be well above what was planned during last year's budget. More than half of the \$1.02bn improvement comes from higher income tax receipts. However, spending has increased by almost the same amount as revenues, with the overall deficit improvement relative to Budget 2022 broadly reflecting a dropping of the prior \$200mn contingency.

For the upcoming 2023/24 fiscal year, the deficit is expected to remain roughly unchanged at \$363mn (0.4% GDP), albeit including a \$200mn contingency to protect against forecast errors in the still uncertain economic environment. Tax changes introduced in today's budget are expected to cost \$357mn in the current fiscal year (\$495mn on a full year basis), with these changes contributing to a broadly flat expectation for own source income in fiscal 2023/24. An increase to the Basic Personal Amount to \$15K is well above what would have occurred due to indexation, and cost \$315mn. Other changes to income tax brackets were also announced, although these won't go into effect until after this year's provincial election. These changes would only cost \$40mn in the current fiscal year, but \$160mn on a full-year basis.

Helping to offset these tax changes within total revenue, transfers from the Federal Government are expected to be more than \$1bn higher compared to fiscal 2022/23, reflecting increases in equalization, new federal healthcare funding and other transfers. On the expenditure side, total program spending is expected to increase by roughly 4%, including a large increase for health. Higher interest rates and rising debt levels are expected to see public debt charges rise to \$1.29bn in 2023/24, and by \$1.63bn by 2026/27.

Medium term projections show stronger own source revenue increases, combined with more modest spending increases and shrinking contingencies, narrowing the deficit gradually to reach \$53mn by fiscal 2026/27. That would be broadly balanced excluding a \$50mn contingency for that year.

Total borrowing set to increase year-over-year

For the current fiscal year ending later this month, Manitoba has tapped the domestic market for \$3.7bn through 11 transactions. As well, the province has accessed the EUR market with three transactions totalling just under €200mn. That places total issuance around C\$3.9bn, of which just under 10% was completed internationally, significantly lower than last year's total of around 45%. The province stated that it again intends to access both domestic and international capital markets to complete its program.

When you compare overall borrowing to prior years, this outgoing year's amount is lower than the prior year's \$4.6bn and the lowest we've seen in the past few years. Included in this outgoing year's funding was \$1.8bn of pre-borrowing for the new fiscal year starting next month. That is consistent with the present practice of staying six months ahead of cash needs.

As for this upcoming year, borrowing plans show \$2.198bn needed for refinancing purposes, \$3.073bn for new cash requirements and \$818mn of estimated repayments. That places gross borrowings net of repayments at \$4.453bn. When incorporating that \$1.797bn of pre-funding already completed, that brings total borrowing requirements down to \$2.656bn. However, continuing with the present practice mentioned above, the province plans to pre-borrow \$2.1bn for the next fiscal year (i.e. 2024/25), projecting total borrowing at \$4.756bn for 2023/24.

Table 3: Borrowing requirements (C\$millions)

Borrowing requirements	Refinancing	New cash req.	Repayments	Gross borrowing repayments	Pre-borrow Mar 31/23	Pre-borrow Mar 31/24	Borrowing req.
General purpose borrowings	1,100	655	0	1,755	1,159	930	1,526
Capital investment assets	200	1,013	334	879	388	920	1,411
Other	498	1,315	427	1,386	250	250	1,386
Subtotal	1,798	2,983	761	4,020	1,797	2,100	4,323
GBEs	400	90	57	433	0	0	433
Total borrowing requirements	2,198	3,073	818	4,453	1,797	2,100	4,756

When compared to last year's budget forecast for this upcoming year, that borrowing amount is lower than the estimated \$5.4bn. The main reason for that is refinancing was previously projected to be \$3.2bn, whereas now the budget shows \$2.2bn. The province has a \$3.05bn CAD bond maturing in June of this year and a \$200mn AUD bond maturing in

September, which explains the \$3.2bn previously forecasted. However, due to the pre-borrowing already completed, that partly helps reduce refinancing needs.

Included in the budget documents were borrowing estimates over the medium-term. For 2024/25, new cash requirements showed \$1.9bn while refinancing needs were \$3.4bn. That places borrowing requirements at \$5.3bn for the next fiscal year, compared to the \$4.8bn this year (2023/24). Looking further ahead, borrowing requirements are expected to be \$5.7bn in 2025/26 and \$4.4bn in 2026/27.

Net debt as a percentage of GDP is forecast to increase over the next two years

Net debt is forecasted to be \$29.4bn as at March 31, 2023, which is some \$1.1bn improvement from the prior budget estimate. That is due to a better starting position, the improved deficit forecast as well as slightly lower acquisition of capital assets. That translates into a net debt-to-GDP ratio of 33.5% vs. the 35.9% in the previous budget. That is also down from the recent high in 2020/21 which was 37.6%, and down from 35.6% last year (2021/22).

For this new fiscal year, net debt is projected to increase to \$31.1bn as at March 31, 2024 due to funding the deficit of \$363mn and \$1,279mn of net capital assets. That increase sees the net debt as a percentage of GDP increasing to 34.6%, which places the province roughly in the middle of the pack amongst its provincial counterparts. Projections over the medium-term show that ratio slightly increasing to 35.0% in 2024/25, before declining by 0.2% in each of the following two years and getting to 34.6% by 2026/27.

Manitoba introduces five-year capital plan

Building on the three-year capital plan that was introduced last year, the 2023 Budget expands the multi-year capital plan to five years. The new plan increases investments to a record \$3.0bn in 2023/24. Over the next five years, the province will be investing a record \$14.0bn through various departments.

For this upcoming year, \$3.1bn is planned in capital spending which is split between Departments and Other Reporting Entities (\$2.3bn) and Crown corporations (\$0.8bn). For the remaining years throughout the forecast horizon, the plan averages around \$2.8bn per year and is split \$2.0bn and \$0.8bn, respectively. Of the total amount forecasted over the five-years, roughly \$3.4bn of that will be investment by Manitoba Hydro.

The province stated that the values reported only include projects that are known of at this time and that is why planned investments in 2024/25 and beyond show slight declines in total strategic infrastructure investments. It was also stated that another reason for the downward trend by 2027/28 is that the commitment to build 20 new schools in 10 years will be completed by that point. The province went on to say that it also should not be interpreted as a downward commitment from the government as new projects will be added to the five-year capital plan as future years are budgeted.

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