

#### Contributors

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#### Updated Fiscal Forecast

\$ millions except where noted

	FY22		FY23
	Dec. '21	Bud. '22	Bud. '22
Total Revenue	18,327	18,692	19,353
% change	4.9	4.9	3.5
Own-Source	12,412	12,597	13,103
Federal Transfers	5,915	6,095	6,250
Total Spending	19,450	20,085	19,901
% change	-0.5	0.7	-0.9
Program Spending	18,475	19,120	18,876
% change	-0.7	0.8	-1.3
COVID-19 Spending	1,180	1,280	630
Debt Service	975	965	1,025
% of Revenue	5.3	5.2	5.3
<b>Budget Balance</b>	<b>-1,123</b>	<b>-1,393</b>	<b>-548</b>
% of GDP	-1.4	-1.7	-0.6
<b>Net Debt</b>	<b>29,102</b>	<b>29,272</b>	<b>30,544</b>
% of GDP	36.1	36.4	35.9

Sources: Scotiabank Economics, Manitoba Finance.

## Manitoba: 2022–23 Budget

### SPENDING PLEDGES AND TAX CUTS TO KEEP DEFICITS TILL DECADE-END

- **Budget balance forecasts:** **-\$1.4 bn (-1.7% of nominal GDP) in FY2021–22 (FY22), -\$548 mn (-0.6%) in FY23, -\$440 mn (-0.5%) in FY24;** return to balance targeted for FY29 (chart 1).
- **Net debt:** expected to edge down from 36.4% of nominal GDP in FY22 to 34.8% by FY26—back to levels in years preceding the pandemic, yet remains historically elevated (chart 2).
- **Real GDP forecast:** **+3.6% in 2022—middle of the pack among provinces—followed by +2.8% real growth in 2023.** Nominal GDP growth assumptions were significantly raised to **+10.4% in 2021 (versus +5.5% in last budget), +5.8% in 2022 (versus +5.5% in last budget), and +4.4% in 2023.**
- **Borrowing requirements:** **\$4.7 bn in FY23, of which \$3.2 bn is associated with refinancing activity.** New borrowings are expected to average \$1.97 bn during FY24–26, while refinancing will average \$3.56 bn per year over the same period.
- **Additional spending and tax relief measures are expected to absorb revenue gains in the medium-term.** While the timeline for a balanced budget seems long, the budget outlined a stabilizing fiscal blueprint with narrowing deficits and shrinking debt burden. The contingencies and prudence baked in the budget leave room for upside.

### OUR TAKE

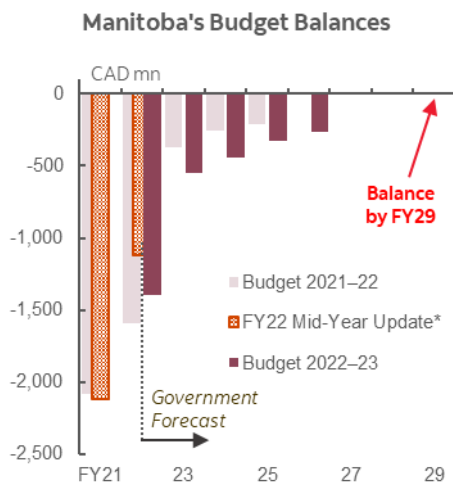
#### Manitoba's 2022–2023 budget establishes a recovery plan in the wake of the pandemic.

Budget projects slightly deeper deficits during FY23–26 than in the last budget as the province expects softening revenues and spending increases. Deficit in FY23 is pegged at \$548 mn—a sizable improvement from the \$1.4 bn expected for FY22—before shrinking further to \$260 mn by FY26.

#### Revenues are forecast to grow by +3.5% in FY23, driven by both own-source revenues and federal transfers, and partially offset by newly introduced tax relief measures and the \$200 mn planning contingency.

Beyond FY23, revenues are expected to grow at an average rate of +3.3% per year. The tax relief measures introduced to assist with higher costs of living—though permanent—have a limited fiscal impact of -\$84 mn

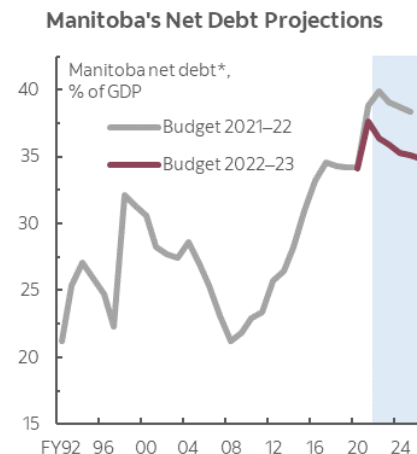
Chart 1



\* FY21 figure is final result.

Sources: Scotiabank Economics, Manitoba Finance.

Chart 2



\* Per Finance Canada Fiscal Reference Tables.

Sources: Scotiabank Economics, Finance Canada, MB Finance.

estimated for FY23 (under 1% of total revenue on a full-year basis). These mainly include an increased Education Property Tax Rebate (-\$32.7 mn) and a reduction in vehicle registration fees (-\$11 mn).

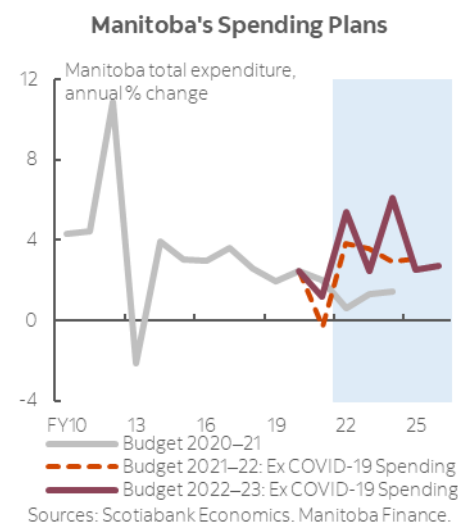
**The new budget foresees spending pressures over the medium term.** Excluding expenses planned to respond to COVID-19, spending growth is projected at about 2.5% in FY23, and is forecast to pick up slightly to an annual average of 3.9% in the next three years (chart 3). In total, FY23 spending is estimated to be \$466 mn (+2.4%) higher than previously planned in the last budget. Aside from the \$268 mn federal-supported Education and Early Childhood Learning program, a hefty \$105 mn is designated for healthcare, together with an additional \$54 mn to strengthen the long-term care system. The *fiscal anchor* highlighted in this budget aims to keep the total expenditure below 25% as a share of provincial GDP.

**The budget pencilled in sizable contingencies and prudence to account for uncertainties, leaving room for upside.** The updated forecast is based off reasonable growth assumptions: the +3.6% real growth this year and +2.8% in 2023 are very close to our latest projection of +3.5% and +3.2%, respectively. The province continued to budget in COVID contingencies worth \$630 mn (3% of total spending) in FY23, on top of a \$200 mn forecast contingency on the revenue side of the ledger. Another fiscal buffer is the province's Fiscal Stabilization Account (the rainy day fund), which maintains a balance of \$585 mn at the end of FY22. Any plan to deposit or withdraw from the rainy day fund in FY23 could be expected closer to year-end.

**The expectation of robust nominal growth helps reduce projected net debt burden as a share of output.** In the province's baseline scenario, net debt will gradually return to the pre-pandemic level as a share of nominal GDP by FY26, just below 35%, whereas a more optimistic scenario points to a sharper reduction to around 30% of GDP by FY26. The *fiscal anchor* requires the province to keep its net debt-to-GDP ratio in line with the weighted average for Canadian provinces (about 33% in FY22).

**Manitoba projects gross borrowing requirements of \$4.7 bn in FY23.** Of that amount, about \$2.7 bn relates to refinancing, and at budget time, \$1.5 bn of pre-financing had been completed. Looking ahead, the outer-year borrowing plan sees financing requirement remain elevated during FY24–26 at an average of \$5.5 bn each year, with increasing demand for refinancing.

Chart 3



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