

## Manitoba: 2020–21 Economic and Fiscal Update

### PANDEMIC CREATES AN UNCERTAIN FISCAL FUTURE

#### SUMMARY

- Manitoba expects a significant economic and fiscal hit due to the COVID-19 pandemic—the fiscal year 2020–21 (FY21) deficit is now forecast to reach a post-FY87 record \$2.9 bn (4% of nominal GDP)
- Mirroring the wider fiscal shortfall, net debt is set to climb to \$29.2 bn; at 40.7% of projected nominal GDP, that would also be the largest recorded load since at least FY87.
- Acknowledging the possible long-term economic and fiscal impacts of the pandemic, Manitoba is offering generous policy support relative to other provinces.

#### OUR TAKE

Clearly, just as most elsewhere in the world, Manitoba faces far more challenging economic and fiscal prospects than before COVID-19. The record deficit and debt burden anticipated this fiscal year are testament to that fact. In this uncertain environment, we appreciate the Province's decision to provide some details of potential downside scenarios.

Still, Manitoba may be in a position to benefit from a stronger recovery than most jurisdictions in Canada. Relatively small virus case numbers bode well for further progress on reopening, and infrastructure stimulus, while costly, looks prudent in light of what will likely be a cautious growth rebound as lockdowns are eased. Efforts to support the health care system should also help to mitigate potential secondary virus waves—the principal downside risk at this time.

#### ECONOMIC OUTLOOK

The document presents three scenarios—a “V” shaped recovery in which growth rebounds reasonably quickly, a more delayed “U” shaped track, and an “L” shape with virtually no growth beyond Q2-2020. The “V” is in line with consensus and represents the base case, though the Province acknowledges that the fiscal outlook could be considerably worse in the event of a “U” or “L” pattern.

The base case 5% real economic contraction in 2020 would be the worst result recorded in Manitoba since at least 1982—the first year for which provincial GDP data are available (chart 1). That is in line with our most recent forecast. Recall that Manitoba's diversified economy lost just 0.2% in real output at the height of the 2008–09 recession. Implied nominal GDP is set to fall just over 4%—also a post-1981 record, but the smaller percentage decline than for real GDP is in line with projections in other provinces (see Quebec [here](#)). Despite the superlatives, the Province has revised its forecasts modestly higher since May following better-than-expected data releases as the economy reopened. A light caseload relative to other jurisdictions also bodes well for a swift growth rebound.

#### CONTACTS

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Table 1

#### Updated Fiscal Forecast

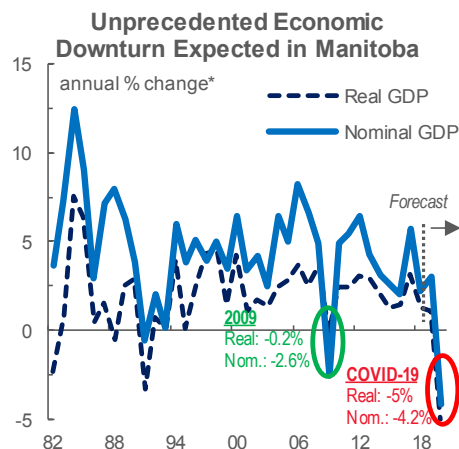
\$ millions except where noted

	FY21	
	Bud.	Update*
Total Revenue	17,737	16,240
Total Expenditure	17,957	19,160
<b>Budget Balance</b>	<b>-220</b>	<b>-2,900</b>
<b>Net Debt</b>	<b>26,436</b>	<b>29,199</b>
<b>Memo Items, % of GDP</b>		
Bud. Balance	-0.3	-4.0
<b>Net Debt</b>	<b>34.2</b>	<b>40.7</b>

\* Figures approximated based on available data.

Sources: Scotiabank Economics, Manitoba Finance.

Chart 1



\* Used Budget 2020 forecasts for 2019. Sources: Scotiabank Economics, Statistics Canada, Manitoba Finance.

## POLICY INITIATIVES

Thus far, Manitoba's policy response to COVID-19 is among the largest of any Canadian province (table 2). Measures announced to date total \$2.1 bn (3.4% of nominal GDP), and fall into three categories. The Province's "rainy day fund" for contingencies—whose reserves had been expected to reach almost \$900 mn by end-FY21 from only about \$114 mn in FY16—will help to absorb these costs. Still, benefits and costs of these initiatives will be felt beyond FY21.

The first category of policy supports consists of almost \$932 mn in funding that largely aims to safeguard the province against COVID-19's adverse health impacts. Nearly 70% of the total will go to the procurement of personal protective equipment and safety upgrades in long-term care (LTC) homes. Numerous COVID-19 outbreaks across Canada have originated at LTC facilities. Additional funds were allocated to research, assistance for seniors, persons with disabilities, and the homeless population.

The second class of policy initiatives, expected to total nearly \$477 mn in FY21, attempts to minimize the immediate economic damage associated with the pandemic and efforts to contain it. This includes Manitoba's previously announced \$120 mn Gap Protection Program offering forgivable loans to small businesses, the Province's share of the federal Commercial Rent Assistance Program, and miscellaneous tax and fee relief.

The third category of support provides stimulus for the provincial economy as it reopens, and comes with a price tag of almost \$774 mn. Provincial funding for infrastructure spending accounts for the largest single component, at \$600 mn, with \$120 mn for an already outlined wage subsidy program for post-secondary students.

## FISCAL PLAN DETAILS

Owing to a considerably weaker economic outlook, revenues are forecast to come in \$1.5 bn lower than estimated as of the March 2020 budget. Relative to the total revenue expected in FY20 as of the budget, the new projection represents a 6% annual decline, which, like provincial GDP and the budget balance, would represent the steepest yearly drop ever recorded. In the event of an "L-shaped" recovery, total receipts could fall by as much as \$3 bn versus budget this fiscal year.

Total expenditures are expected to rise \$1.2 bn higher than anticipated in March as a result of new spending plans. The total does not match the estimated cost of new programs and policies because some expenses and capital expenditures are expected to be incurred beyond FY21. Should the economy underperform expectations, spending could rise by a further \$0.8 bn.

In the base case economic scenario, Manitoba's budget deficit is forecast to reach a post-FY87 record \$2.9 bn (4% of nominal GDP). This figure could balloon to almost \$5 bn under the most pessimistic economic growth trajectory.

With deeper red ink, net debt is expected to shift significantly higher. The Province noted that it entered the pandemic with an elevated per-capita debt load relative to other jurisdictions. The \$29.2 bn (40.7% of projected nominal GDP) in FY21 would also be the largest debt amount and output share recorded in Manitoba since at least FY87 (chart 3). Presumably, those figures would be even larger under a more pessimistic economic scenario.

The wider fiscal shortfall means that Manitoba's FY21 borrowing requirements are expected to exceed \$9.5 bn—considerably higher than the \$5.6 bn forecast at budget time and the \$5.9 bn in FY20.

Table 2

### Policy Responses to COVID-19

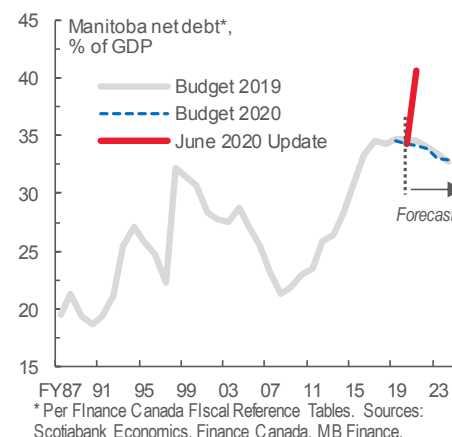
As of May 31, 2020

	CAD bn	% 2018 GDP
Quebec	28.7	6.5
<b>Manitoba</b>	<b>2.1</b>	<b>3.4</b>
Alberta	9.3	2.7
Saskatchewan	1.8	2.3
Ontario	17.5	2.0
Nova Scotia	0.9	2.0
BC	5.4	1.8
PEI	0.1	1.4
NL	0.4	1.1
New Brunswick	0.1	0.2
Total	66.6	3

Sources: Scotiabank Economics, Parl. Budget Officer, MB Finance.

Chart 2

### Net Debt Burden to Reach Record High



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