

2023 Manitoba Budget

Modest Deficits and Promised Support

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Highlights

- In today's budget, the Manitoba government has targeted a \$363 million deficit (-0.4% of GDP) for FY 2023/24, a razor thin \$15 million improvement from December's FY 2022/23 deficit projection of -\$378 million.
- Manitoba's net debt to-GDP for FY 2023/24 is projected to tick up to 34.6% from 33.5% forecast in the December update. Relative to the last year's Budget 2022, the trajectory of the debt ratio slightly improved, set to drop to 34.6% by FY 2026/27 vs 34.8%.
- The government has rolled out significant tax and affordability measures alongside record capital investments.

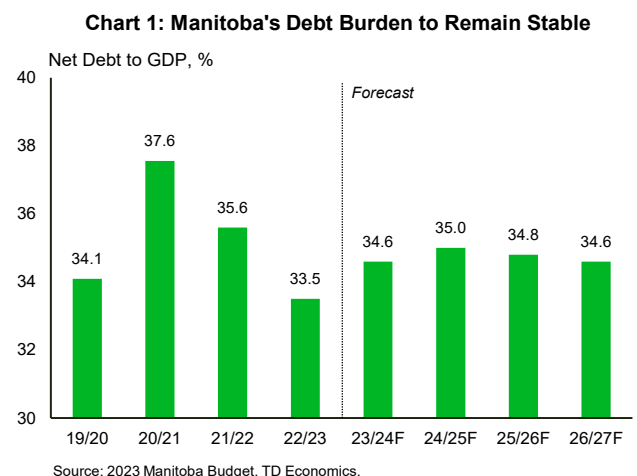
Manitoba's 2023 budget attempts to walk a fine line between delivering further support to residents while also managing to stay on the government's planned medium-term fiscal track. The budget deficit is still expected to gradually decline over the next four fiscal years, as the government holds firm on its commitment to a balanced budget by FY 2028/29. Growth in total spending for this coming fiscal year (+4.4% increase from FY 2022/23 December spending estimates) has been ramped up, reflecting increases in the priority areas such as health care, education, and community safety. But an upward revision to revenue gains (+4.5% relative to the same period), helped by new federal health care funding, allows for an offset of the key spending measures.

FY 2022/23 Deficit Narrowly Widens, But the Path to Balancing Improves

In FY 2022/23, the Province's deficit was revised down to \$378 million (0.4% of GDP), larger than the \$193 million deficit in December's fiscal update. A 0.5% increase in revenues was offset by a 1.3% increase in expenditures which drove the deficit revision over that time.

Enough Revenue to Offset Spending Plans

The bulk of the FY 2023/24 revenue increase is driven by a 16% percent jump in federal transfers focused on increases in equalization payments, new federal health-care funding and other major transfers and bi-lateral agreements. Tax revenues, which account for just shy of half of Manitoba's total intake, are slated to rise by just under one percent. Looking ahead, revenues are expected to moderate to a trend-like 3.5%, on average, over the next three years. Manitoba's economy, much like its provincial counterparts, is expected to enter a period of slowdown as restrictive policy conditions



Manitoba Government Fiscal Position [C\$ millions, unless otherwise indicated]		
<i>Fiscal Year</i>	Estimate	Projection
	22-23	23-24
Revenues	20,583	21,514
% change	10.1	11.2
Expenditures	20,961	21,877
% change	4.4	9.9
In-Year Adjustments/Lapse	-	-
Summary Net Income	-378	-363
% of GDP	-0.4	-0.4
Summary Net Debt	29,415	31,057
% of GDP	33.5	34.6

Source: Manitoba Finance, Budget 2023, TD Economics.

take hold. Nominal GDP projections outlined in the budget generally align with our own outlook at 2.2% in 2023 and 3.0% in 2024.

Getting Down to Brass Tax

A core focus of Budget 2023 is to provide support to Manitobans in “making ends meet”, with new tax policy at the forefront. Noteworthy tax announcements include the largest ever enhancement to the Basic Personal Amount (BPA), rising nearly 40% from \$10,885 to \$15,000 in 2023. This will match the current federal BPA and make it the fourth highest among all provinces. Tax bracket threshold increases in excess of annual indexation is estimated to result in \$160 million in tax savings. Increasing the School Tax Rebate to 50 per cent on farm and residential properties is expected to save the average homeowner \$774 this year. And lastly, the government plans to build upon the momentum of the previously introduced the Family Affordability Package and Carbon Tax Relief Fund.

Expenses Ramp Up in FY 2023/24

Spending growth is projected to increase by \$916 million, or 4.4% in FY 2023/24 compared to December estimates and nearly 10% when compared to Budget 2022. Expenses are then forecast to slow considerably to an annual average of 2.8% over the next three years. Expenditures totaling \$21.9 billion for this fiscal year represents a 24.4% share of expected provincial GDP, just below the 25% fiscal anchor outlined in Budget 2022. Outsized spending is focused in

the health care sector, education and early childhood learning, advanced education, and building stronger communities.

Capital Plan – A Five-Year Look-Ahead

Manitoba has expanded its capital plan from a three-year to five-year horizon, with ambitious investments totaling \$14 billion over the period, of which \$3 billion is planned for this fiscal year. Hefty capital spending would be consistent with the recently released capital spending survey pointing to a robust 11% gain in public sector capital investment in 2023. Major investments for FY 2023/24 include \$854 million earmarked for the development of roads, highways, bridges, and flood protection, \$350 million for the construction of new schools, \$291 million for health care, and \$654 million through Manitoba Hydro to provide safe, reliable energy and replace/improve existing infrastructure.

Debt-to-GDP Expected to Stall

With GDP growth expected to slow and the government planning to ramp up capital spending, the net debt-to-GDP ratio is expected to grow to 34.6% in FY 2023/24, representing an increase of 1.1 ppts relative to the December update. The ratio is forecasted to peak at 35% next year and only return to current levels by FY 2026/27. The debt trajectory only slightly improves on the forecasted path from the last budget, but the debt burden remains high relative to other provinces and against Manitoba’s own history. On the back of higher interest rates, debt servicing costs are projected to increase by \$263 million, totaling \$1.28 billion this year. This lifts debt servicing costs to 6 cents for every revenue dollar in FY 2023/34 from 5.4 cents on the dollar last year.

Borrowing requirements total \$4.7 billion in FY 2023/24 with new cash requirements to average \$1.7 billion/year over the next three years.

Bottom Line

As was widely expected, Budget 2023 delivered on its promise to introduce both significant tax initiatives and additional health spending while keeping the province’s medium-term fiscal plan well anchored. This will be the last tabled budget before the provincial election in October.

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