

Contributors

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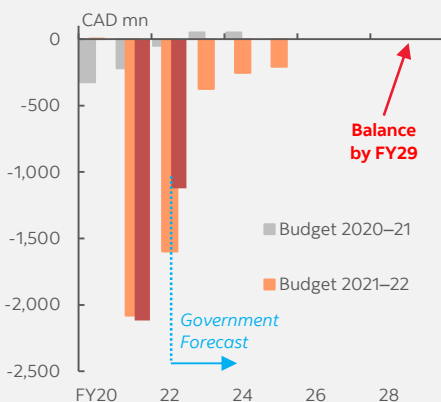
Updated Fiscal Forecast \$ millions except where noted

	FY21		FY22	
	Apr.'21	Final	Apr.'21	Dec.'21
Total Revenue	17,477	17,819	17,838	18,327
% change	-0.9	1.0	2.1	4.9
Own-Source	11,610	11,883	12,198	12,412
Federal Transfers	5,867	5,936	5,640	5,915
Total Spending	19,557	19,936	19,435	19,450
% change	10.9	13.0	-0.6	-0.5
Program Spending	18,605	18,967	18,441	18,475
% change	12.1	14.3	-0.9	-0.7
COVID-19 Spending	1,977	2,096	1,180	1,180
Debt Service	952	969	994	975
% of Revenue	5.4	5.4	5.6	5.3
Budget Balance	-2,080	-2,117	-1,597	-1,123
% of GDP	-2.9	-2.9	-2.1	-1.4
Net Debt	27,635	27,424	29,998	29,102
% of GDP	38.8	37.6	39.9	36.1

Sources: Scotiabank Economics, Manitoba Finance.

Chart 1

Manitoba's Budget Balances



* FY21 figure is final result.

Sources: Scotiabank Economics, Manitoba Finance.

Manitoba: 2021-22 Mid-Year Update

REVENUE WINDFALL TO OFFSET DROUGHT-INDUCED HYDRO LOSSES

- **Budget balance forecasts: -\$1.1 bn (-1.4% of nominal GDP) in FY22, an improvement of \$474 mn versus Budget 2021 (-\$2.1 bn, -2.9%)** (chart 1).
- **Net debt forecast: lowered by \$896 mn to \$29.1 bn (36.1% of GDP)** (chart 2) for FY22, down from the record high of 39.9% projected in Budget 2021, helped by smaller deficits and stronger GDP growth forecast.
- **Real GDP growth forecast: raised from 4.1% to 4.6% in calendar year 2021; nominal GDP projected to grow by 10.1%.**
- **Despite the unforeseen drought conditions affecting Government Business Enterprises (GBE) income, the lower-than-anticipated deficit level speaks to a robust economic rebound and positive outlook in the province.**

OUR TAKE

The Update projects a sizable reduction (\$474 mn) of the FY22 deficit from the previous estimate in the 2021 Budget, driven by robust economic recovery. Most of the upward revision to FY22's total revenue forecasts were attributable to the province's own-sources income, which was lifted by \$483 mn versus the Budget, and is set to grow by 5.7% from the fiscal year prior. Federal transfer payments contributed to the rest of revenue gains with a \$275 mn improvement pencilled in versus Budget 2021. On the downside, own-source revenue windfalls are expected to be eroded by a hit to Government Business Enterprises (GBE) incomes, namely a decline in export revenues of Manitoba Hydro due to drought conditions.

Expenditure forecasts were largely in line with what was laid out in the 2021 Budget, with minor increases in program spending on areas such as family, health and senior care. The government committed \$1.18 bn to COVID-19 efforts at the time of the 2021 Budget, 1/3 of which were left unallocated after the third wave and would provide contingencies for the rest of the fiscal year. In addition, Manitoba's Rainy Day Fund stood at \$585 mn after a withdrawal of \$215 mn at the end of FY21 in order to save debt servicing costs.

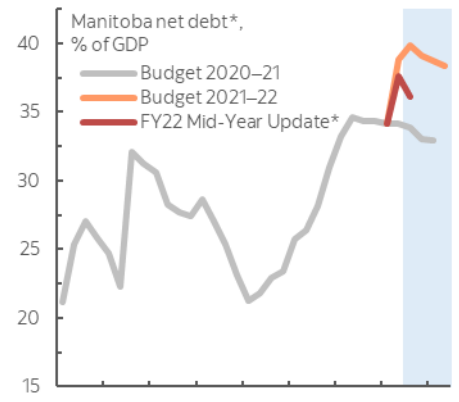
A smaller deficit in FY22 helped bring down Manitoba's net debt burden as a share of GDP to 36.1%, a slight improvement from 37.6% in FY21. Albeit still elevated by historical standards, the province expects the ratio to taper off in the coming years. A narrower fiscal shortfall implies lower borrowing requirements than the \$ 5.7 bn forecast for FY22 at Budget time. Unexpected drought costs, though seemingly transitory at this point, should add to liabilities taken on by MB Hydro. The Crown Corporation's borrowing accounts for 1/4 of provincial requirements in FY22 and 43% of total outstanding debt.

Nevertheless, the improved fiscal projection for FY22 is a positive step that puts the province on track to balance the budget before the FY29 target outlined in Budget 2021. This also speaks to the scale of the economic rebound in the province. Manitoba experienced a lower-than-national average contraction in 2020, as well as strong job gains. The Update showed confidence in projecting solid growth in real and nominal GDP of 4.6% and 10.1%, respectively, representing the largest increase in nearly four decades.

That said, volatilities remain for the rest of the fiscal year, particularly in light of the continued battle with COVID-19's further variants as well as extreme climate events. The Update has taken a more conservative stand since the Q1 Update by lowering the economic forecast slightly, highlighting risks around supply chain issues and the pandemic.

Chart 2

Manitoba's Net Debt Projections



* Per Finance Canada Fiscal Reference Tables. Sources: Scotiabank Economics, Finance Canada, MB Finance.

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