

Economic and Fiscal Update

Assessing the impact of COVID-19 in Manitoba

June 2020

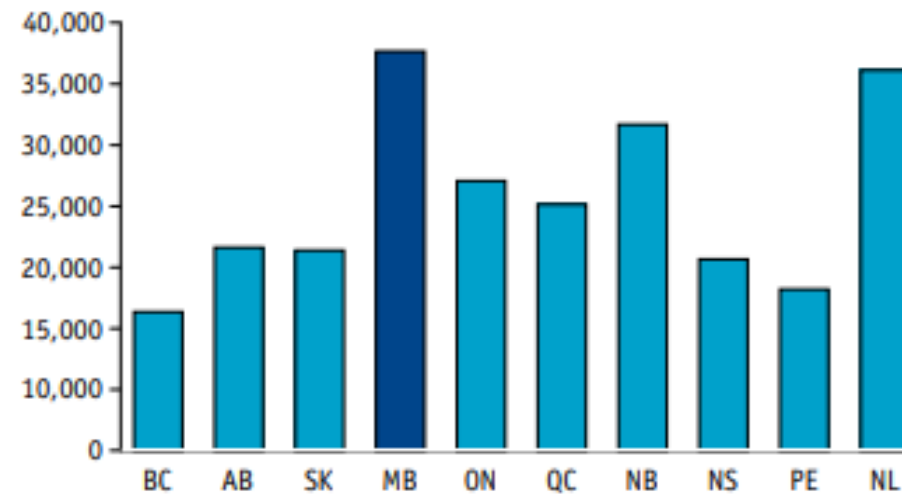
COVID-19 continues to impact Manitoba

- The COVID-19 pandemic generated historic public health and economic impacts in Manitoba, which are magnified by the global nature of this unprecedented event.
- This update provides significant revisions since the Budget 2020 COVID-19 Supplement.
- Information continues to evolve with actual data and forecast revisions pending for 2020/21 and 2021/2022.
- Further impact assessments will be made available to Manitobans in the future.

High debt to start

- Manitoba had high debt levels prior to COVID-19.
- COVID-19 spending and its impact on future economic growth will negatively affect the provincial fiscal outlook.

**Total Direct Debt Per Capita
2018/19 (Dollars)**

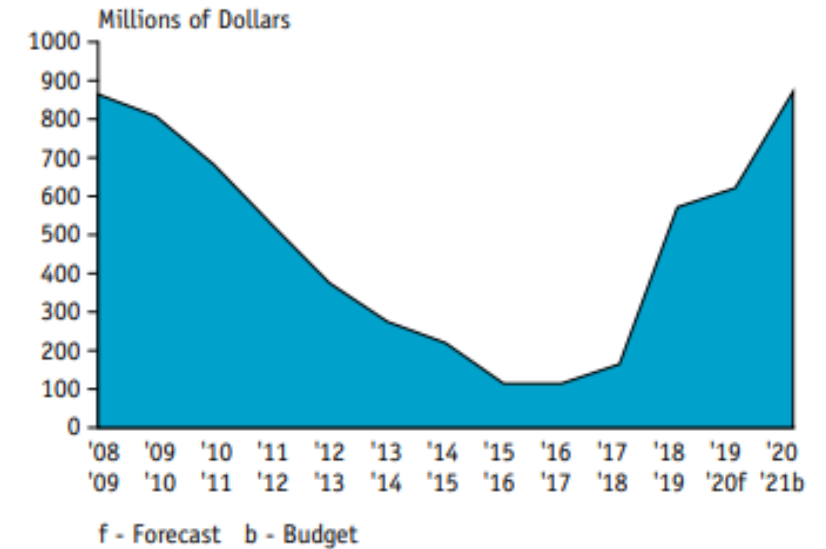


Source: Moody's Investor Services

Manitoba's fiscal reserves built up pre- COVID-19

- Since 2016, through prudent budgeting, we have avoided over \$10 billion of additional debt, saving over \$200 million annually in avoided debt servicing costs.
- The government's effective fiscal management and investments in emergency preparedness and the Rainy Day Fund prepared Manitoba to face COVID-19.
- But the fiscal impacts of the pandemic will take several years to address.

Rainy Day Fund Balance
2008/09-2020/21b



“Leading up to the current fiscal year, the government had laid out its plan to restore the province to fiscal balance and had demonstrated an ability to effectively manage its finances to meet or exceed its budget targets in the past several years.”

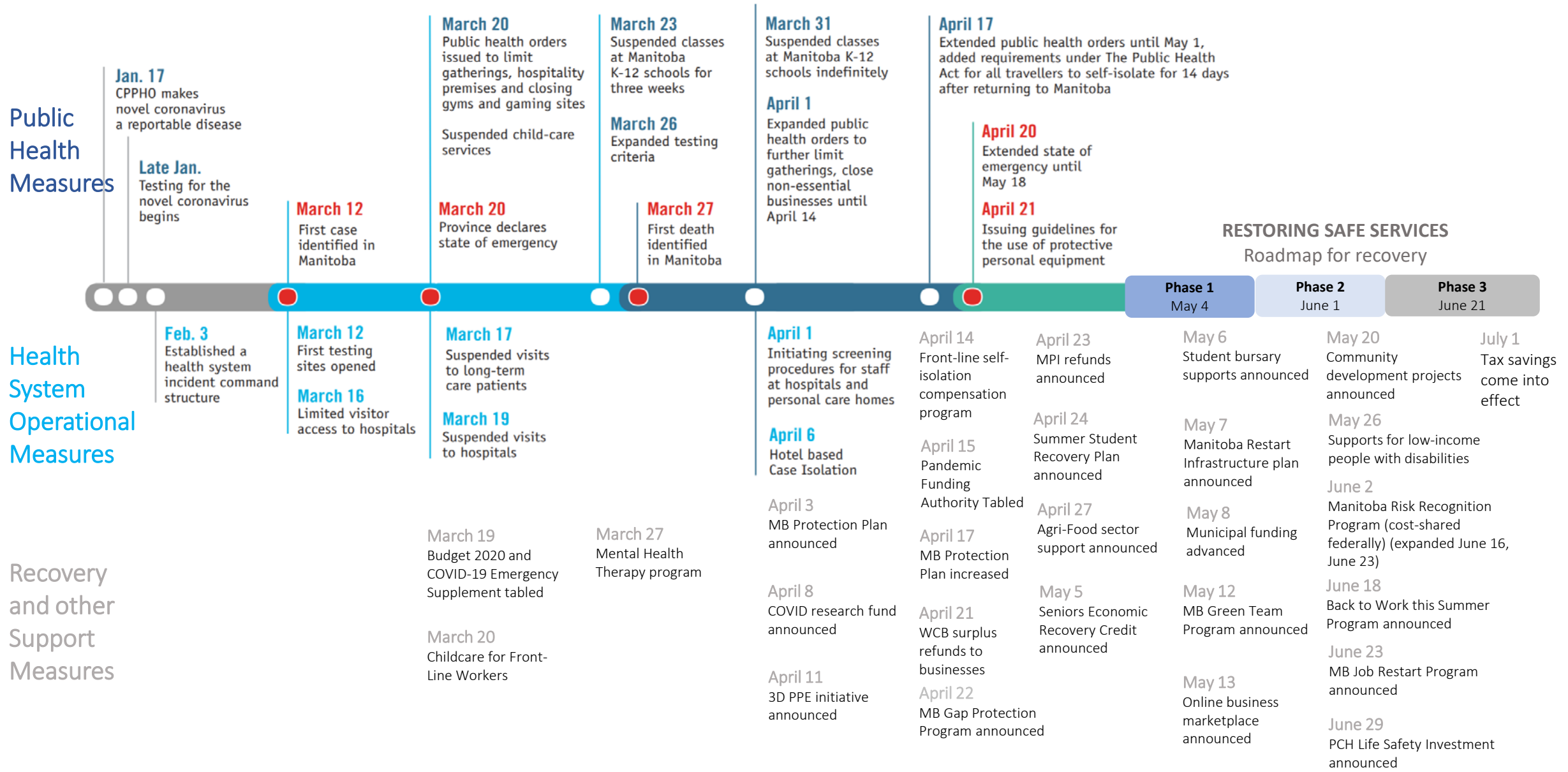
(S&P Credit Rating May 15 2020)



Manitoba's COVID-19 Response

Ensuring a rapid and effective public health response

Effective Response to Flatten the Curve



Comparison of Daily COVID-19 Case Loads

For Select provinces

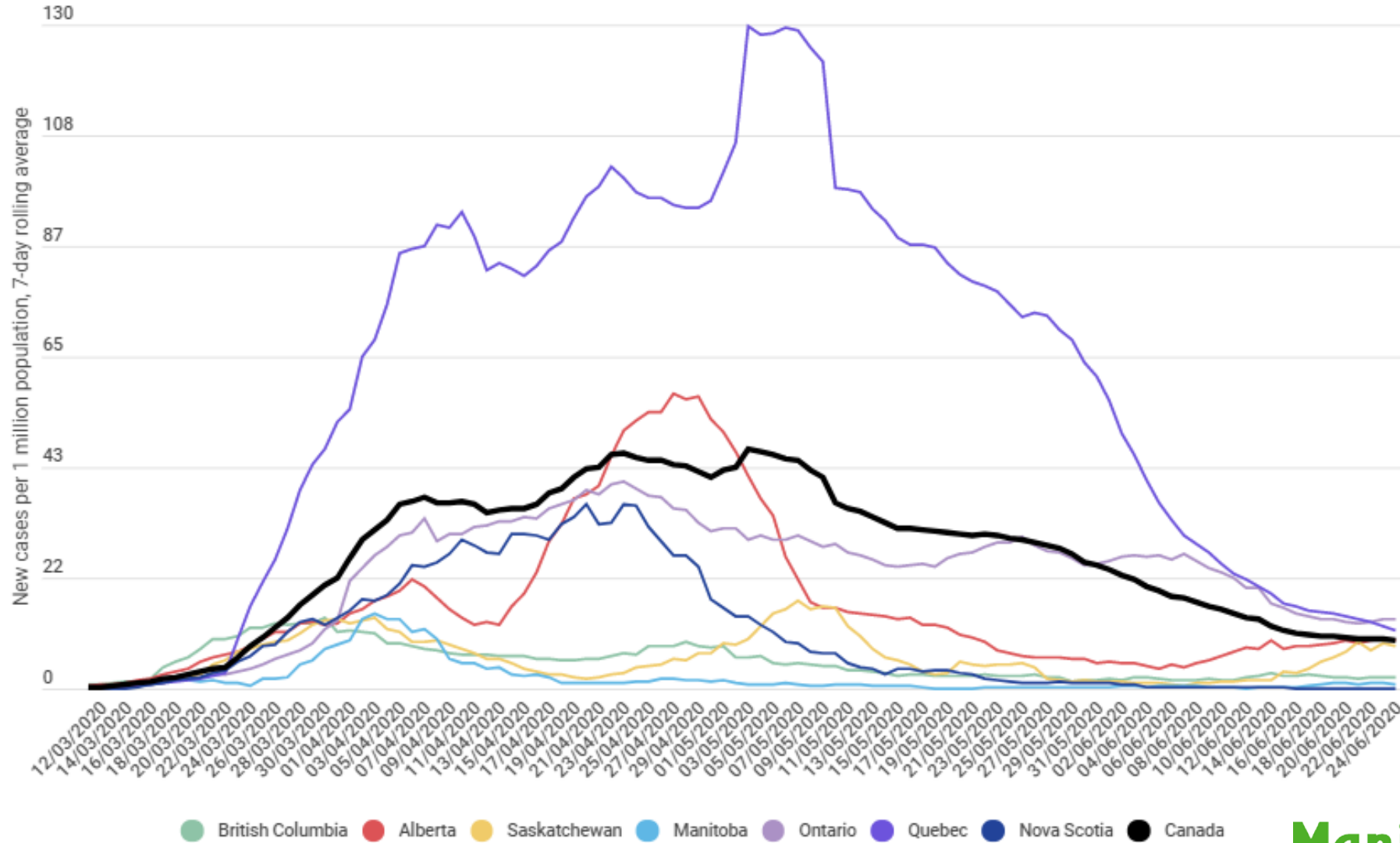


Chart source: COVID-19 Canada Open Data Working Group; Statistics Canada; Maclean's calculations





Manitoba's Protection Plan

Mitigating the impact of the pandemic on our people and economy

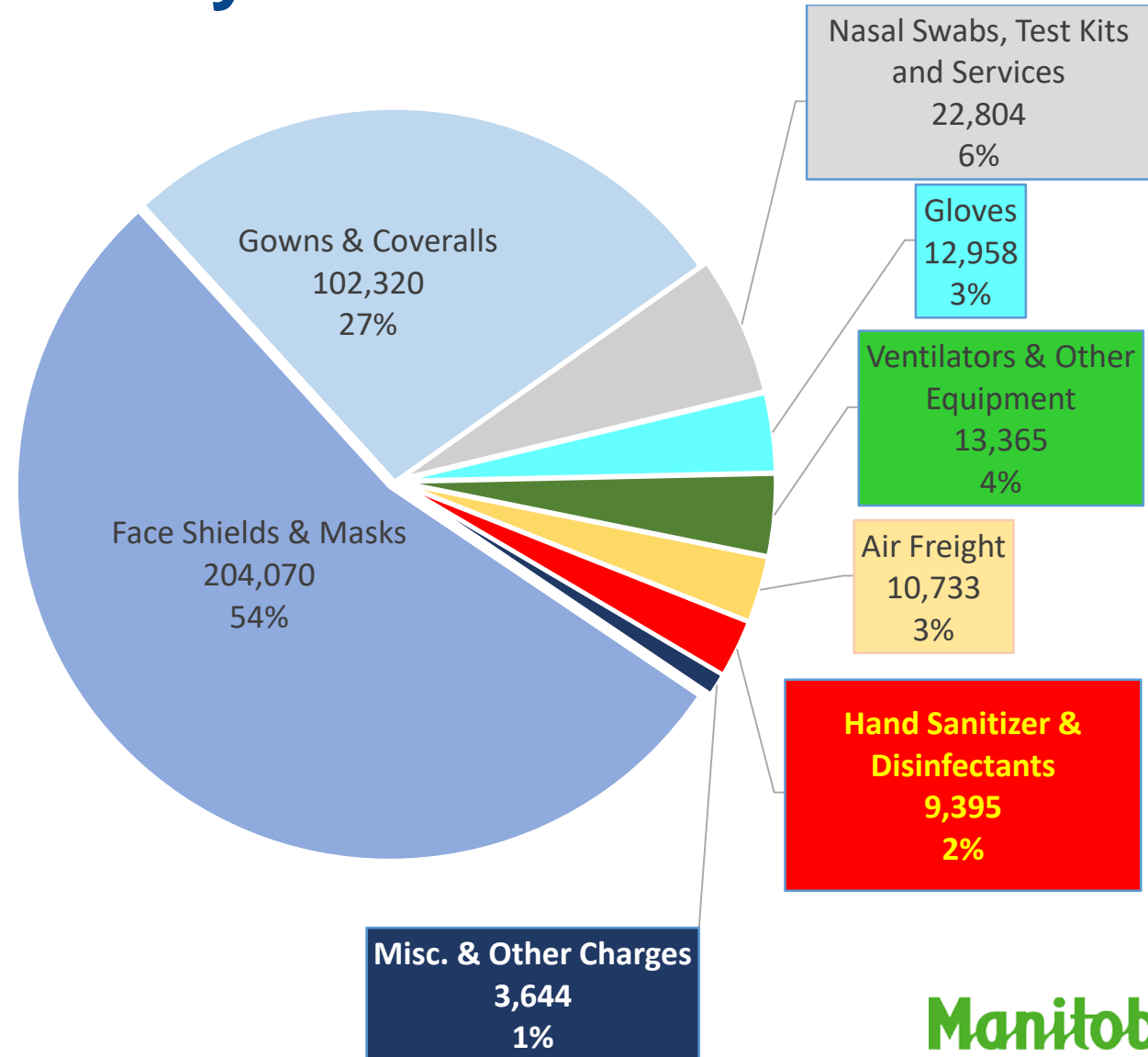
Protecting Manitobans

Health system investments and other significant support programs to address COVID-19 impact on Manitobans will exceed \$900 million

- Fast and large personal protective and medical equipment procurement
- Expanded COVID-19 testing capacity & contact tracing
- Investing in personal care homes, digital health, and health-care capital projects
- Announced mental health support program to address anxiety caused by COVID-19
- *HelpNextDoorMB* connects volunteers for those in need
- Prioritized childcare to healthcare workers
- Helping PCHs move to one worker policy
- Adding over 140 new shelter beds to support people affected by homelessness and physical distancing and investing in more homeless shelters
- Risk recognition payment for front-line essential workers
- One-time benefit for Manitobans with disabilities through the Disability Economic Support Program
- Home Nutrition and Learning Pilot Program to connect families with nutritious food and learning activities

Investing in the Health Care System and Prevention

- Nearly \$400M of PPE supplies have been ordered.
- These PPE orders are in various stages of fulfillment, and more details will be provided in our Q1 report.
- PPE usage is now increasing as elective surgeries start, and Manitoba is building up proper pandemic stockpile.



Investing in the Health Care System and Prevention

Investing \$358 million on personal care home upgrades, digital health initiatives, and health equipment upgrades to ensure safe, reliable care at Manitoba's health-care facilities.

The investment will be:

- \$280 million to safety upgrades to personal care homes;
- \$46 million to digital health initiatives; and
- \$32 million to equipment and infrastructure upgrades at health-care facilities.

Also investing in COVID-19 research through Research Manitoba.

Protecting Livelihoods

Manitoba is investing nearly \$480 million to mitigate the impact of COVID-19 on our people and businesses

- Supporting child care providers and parents in need of child care
- Freezing residential rent increases between April 1 and September 30
- Accelerating removal of \$75 million of annual PST from property insurance, effective July 1
- Giving employers more flexibility for employees furloughed as a result of COVID-19
- Manitoba Gap Protection Plan gives \$6,000 to businesses that do not qualify under federal programs
- Manitoba Economic Support Centre helps businesses, non-profits and charities connect with programs
- Extended Manitoba tax filing deadlines through September
- Not charging interest or penalties for MB Hydro, Centra Gas, WCB, MPI, MBLL; flexibility to defer property taxes
- Moratorium on evictions
- Not disconnecting customers of MB Hydro and relaxing renewals and collections policies at MPI
- MPI COVID-19 rebates issued to policy holders
- Seniors Economic Recovery Credit assists seniors with additional costs



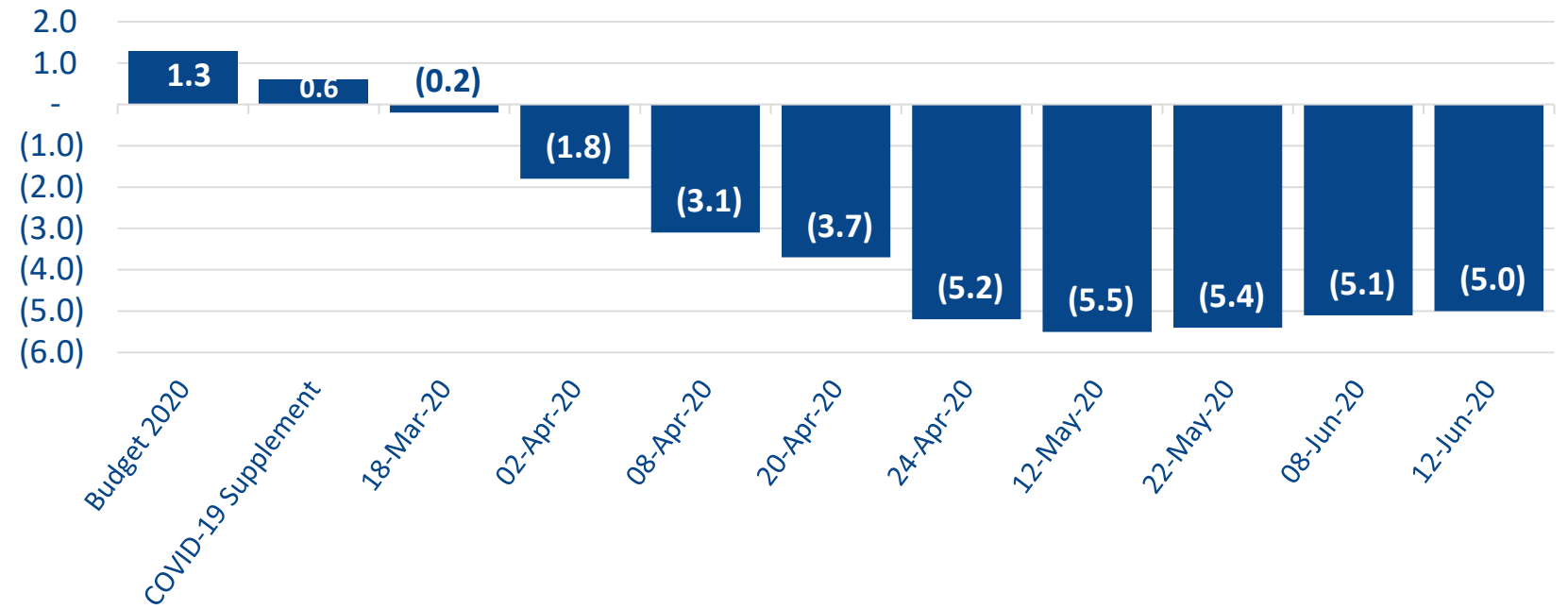
Economic and Fiscal Update

Forecasting in a chaotic and unprecedented economy

Unprecedented global economic crisis

Economists, rating agencies, and Manitoba Finance continue to adapt forecasts in the face of global and national uncertainty

Manitoba Finance Real GDP Forecast For 2020



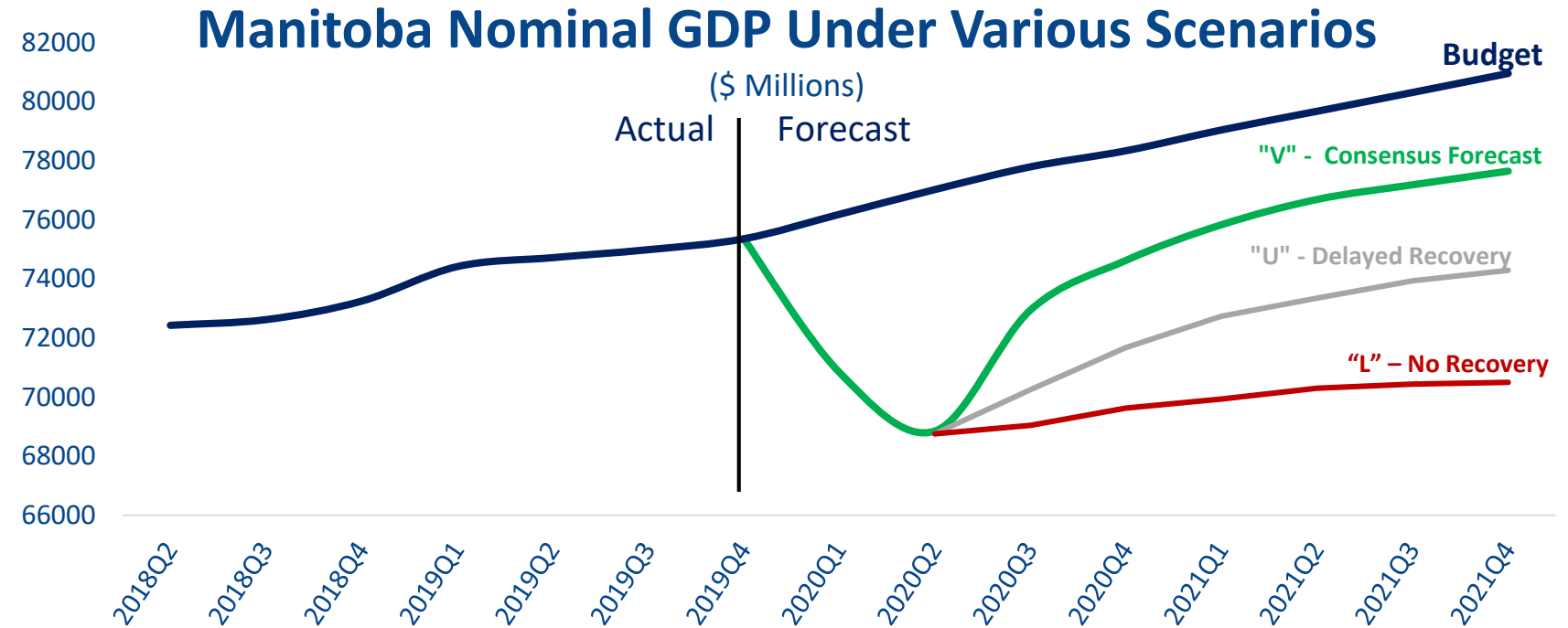
- COVID-19 triggered simultaneous demand and supply shocks causing the economic outlook to deteriorate rapidly since the March 2020 budget.
- Manitoba's real GDP forecast for 2020 now stands at -5.0%
- Revisions to Manitoba's real GDP forecast average since Budget 2020 reflects the unprecedented dynamic nature of the underlying economic data.
- Significant risks remain in the ongoing COVID-19 crisis that could still fundamentally change the current outlook.

L, U or V?

A V-shaped recovery for Manitoba would see a rebound in the second half of 2020 and is the consensus position of forecasters

Although we have limited visibility regarding the timing and shape of Manitoba's full fiscal recovery, we believe it will depend on the length and depth of the pandemic, including potential secondary and tertiary outbreaks, the efficacy of government support policies aimed at preserving productive capacity, and the pace at which fiscal support is gradually withdrawn post-pandemic.

(S&P Credit Rating May 15 2020)



- Current consensus forecast anticipates a “V” shaped recession/recovery in Manitoba illustrated by the current rapid decline in economic activity followed by a rebound in the second half of 2020.
- However, there are significant downside risks that could set back the recovery, changing a “V” shaped recovery to a “U” or a “L” shaped recovery.

Economic recovery not yet guaranteed

Numerous factors could accelerate or slow the recovery

Factors that would contribute to a **more positive recovery** include:

- Global and national economic recovery begins soon and continues.
- Consumer spending increases as confidence in the economy returns.
- Private business investment picks up.
- Public health restrictions on travel and trade around the world are lifted.
- Canada's largest trading partner, the United States, contains the virus and is able to maintain its economic reopening.

Factors that would contribute to a **delayed recovery** include:

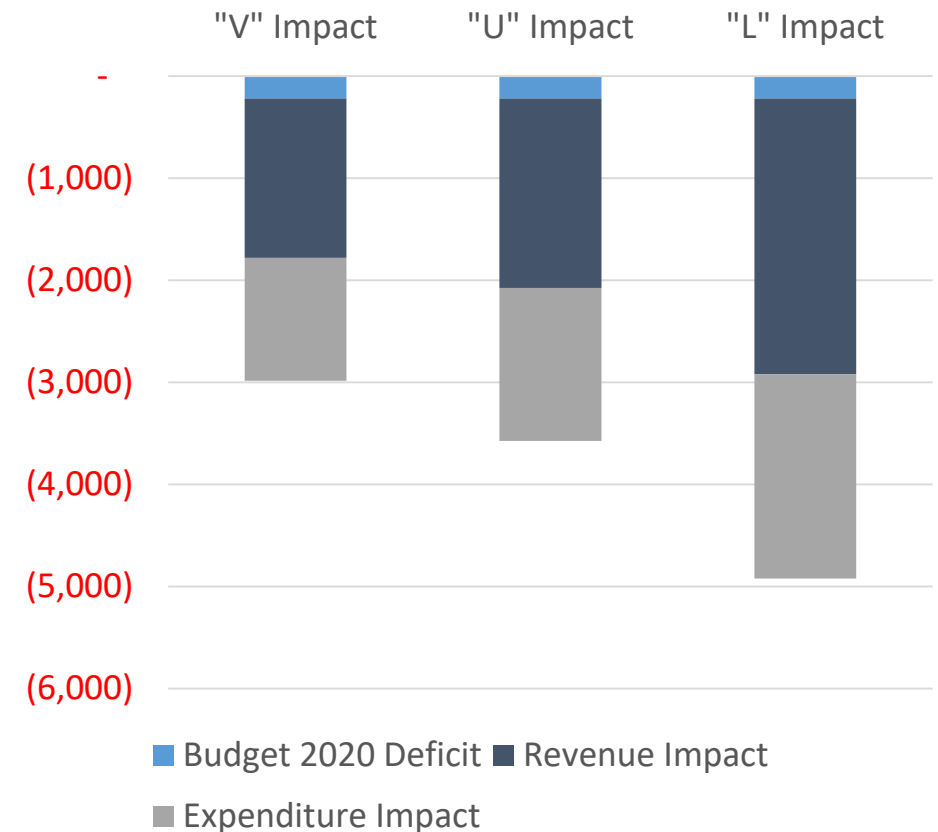
- Viral resurgence through future waves mute the economic recovery.
- Delay of an effective vaccine impacts consumer and business confidence.
- Delayed recovery delays return to balance, increasing Manitoba's debt load and debt-servicing.
- Global supply-chain challenges lead to production delays and longer period for job losses.
- Trading partners enacting new trade barriers that "thicken" our borders.

Long-term negative impact on Manitoba's finances

Lost revenue in the range of \$1.5 billion to \$3 billion, and additional expenditures of \$1.2 billion to \$2 billion

- COVID-19 is substantially increasing expenditures and lowering revenues.
- Current estimates suggest a \$1.5 billion decline in Summary revenue from Budget for 2020/21.
- Downside risks could further reduce revenues by nearly \$3.0 billion in 2020/21, as illustrated by the “U” and “L” scenarios.
- Expenses range from \$1.2 billion under the “V” impact to \$2 billion under the “L” impact scenarios*.

2020/21 COVID Deficit Scenarios
(in millions)

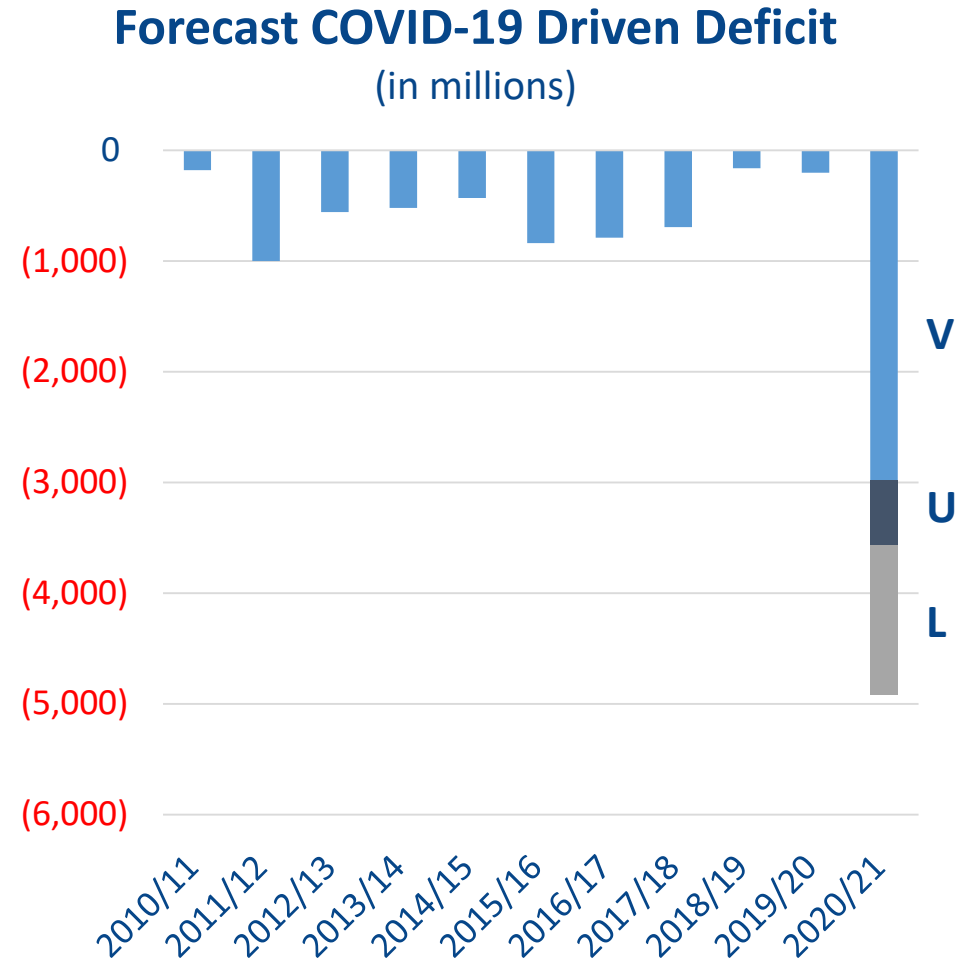


* Does not directly align to \$2.1 billion of cash investments as some are capital expenditures and some expenses will be incurred in future years.

Unprecedented deficit expected

Under a “V” scenario, our deficit will be at least triple our previous record deficit

- The 2020/21 deficit is currently estimated at \$2.9 billion with a downside risk approaching \$5 billion.
- Government has approved an additional \$5 billion in borrowing authority to help meet pressures caused by the COVID-19 response.
- The borrowing program has increased significantly as a result from \$5.9 billion in 2019/20 to over \$9.5 billion in 2020/21.



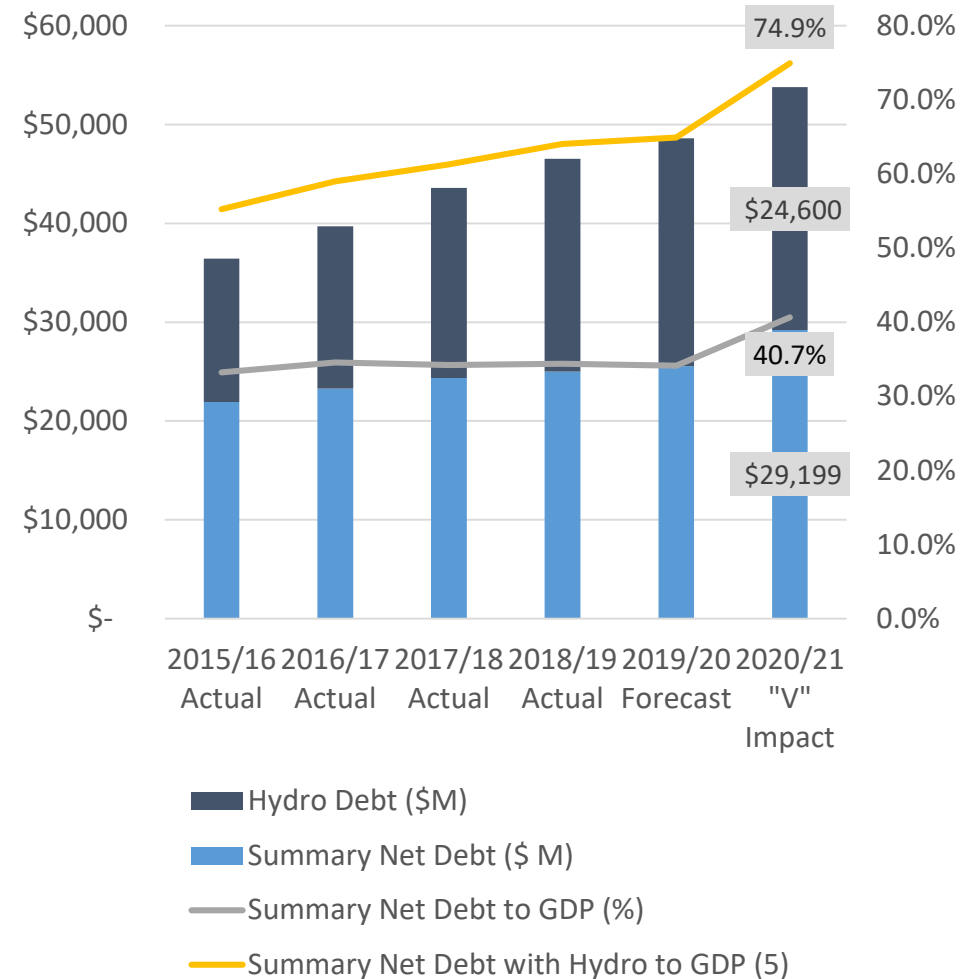
Previous debt levels made worse by COVID-19

Debt accrued during the COVID-19 response will have ongoing costs

A negative [credit] rating action could result from the government's failure to reduce budget deficits and stabilize the debt-to-GDP ratio over the medium term. A positive rating action is not contemplated in the current environment.

(DBRS Morningstar May 28 2020)

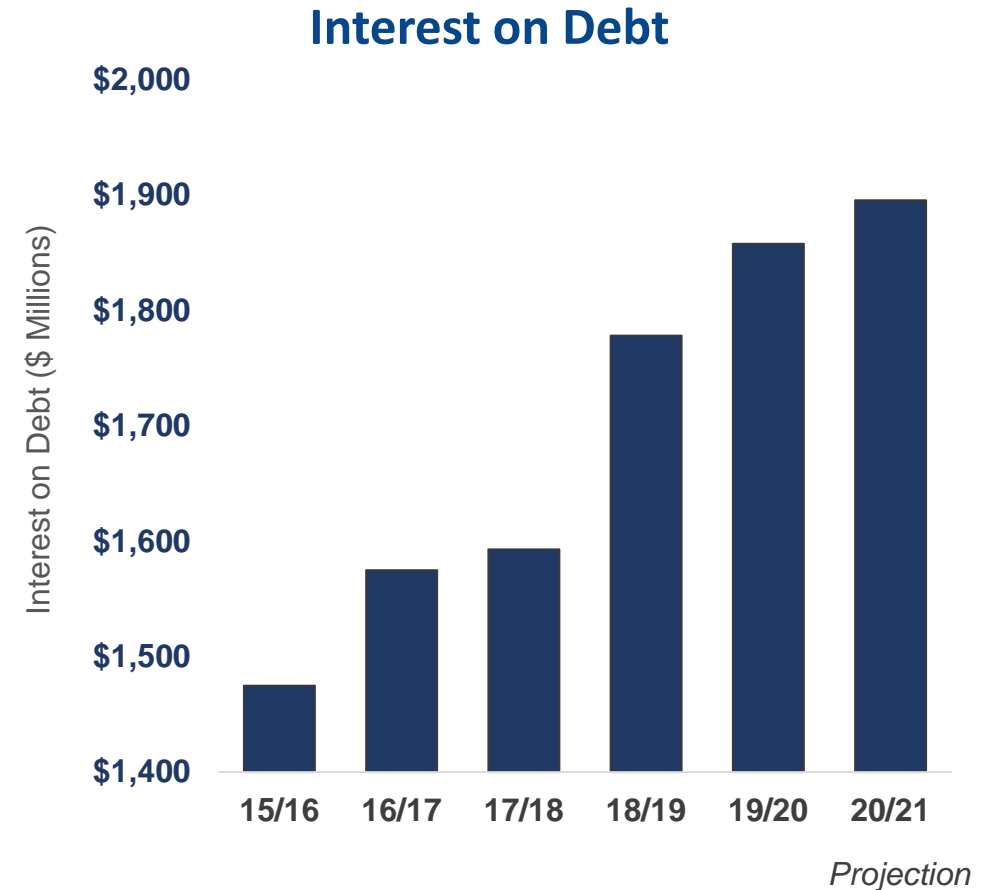
- Manitoba’s high debt levels will worsen due to COVID-19.
- Under the “V” impact scenario, 2020/21 total debt will approach 75% of GDP (including Manitoba Hydro’s debt).
- Under the “L” scenario, this could rise to over 80% of GDP.



Higher COVID-19 debt means higher interest costs on that debt

Manitoba will pay about \$70 million more each and every year

- The annual interest costs on the additional COVID-19 debt (under the “V” impact scenario) will cost Manitoba approximately \$70 million more per year, which is equivalent to the average cost of building three new schools per year.
- This excludes any costs to pay down the debt.





The fiscal impact of the COVID-19 pandemic is expected to stretch into 2021/22 as household, business and government finances are restored.

There is only one way out of this economic challenge: grow the economy.



#RESTARTMB

Manitoba's Road to Recovery

#RestartMB

Two strategies to restart our economy:

Investing in public health preparedness

Investing in jobs and growth

Investing in Public Health Preparedness

Preparing for COVID resurgence through:

- Expanded Health System capacity
- Managing low acuity patient overflow
- Surveillance and Modelling
- Contact Tracing and Volunteer Apps
- Workplace preventive measures
- Supports to minimize outbreak risks
- Avoiding risks of importation of cases
- Ongoing communication of transmission events

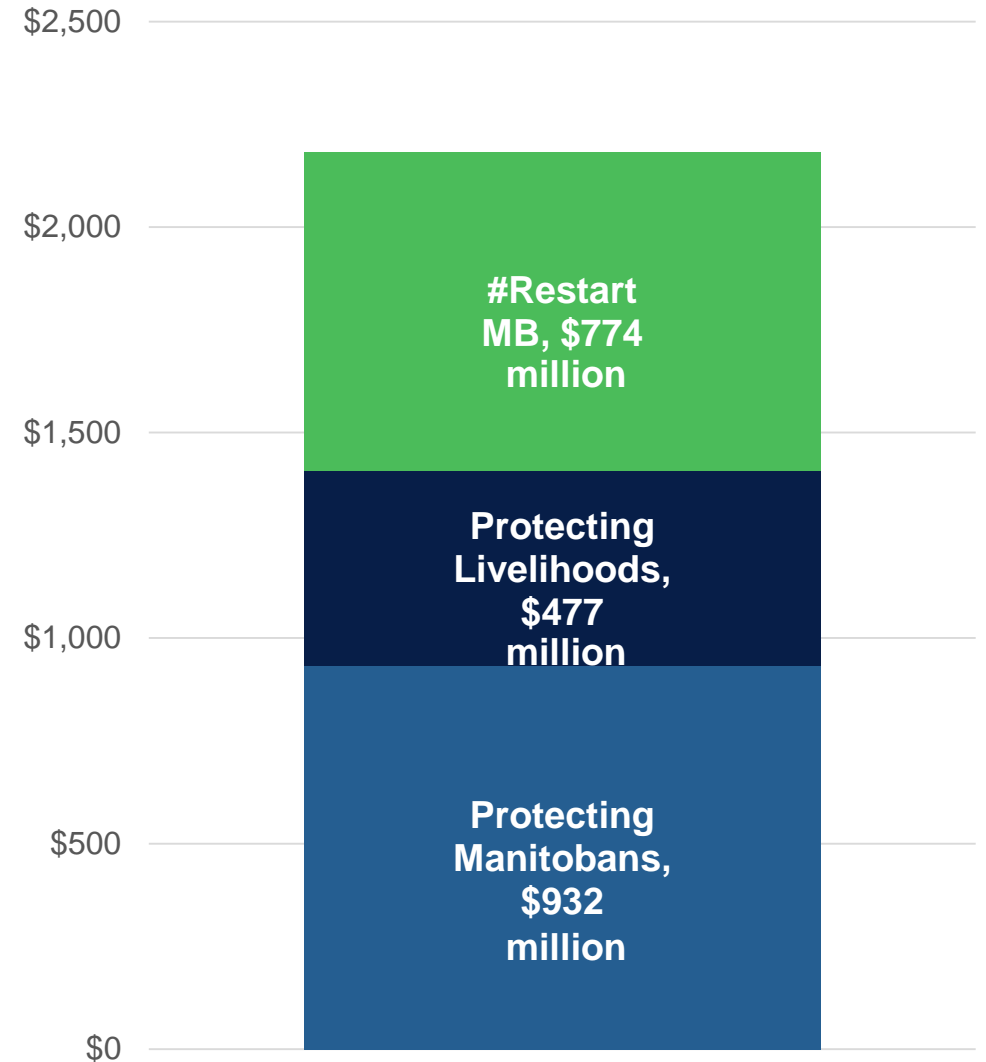
Investing in Jobs and Growth

- Announced Restoring Safe Services Roadmap in 3 phases between May and June
- Announced \$600 million ramp up in infrastructure to jump start the economy
- Announced Manitoba Job Restart Program
- Student Jobs Manitoba connects students and employers
- Summer Student Wage Subsidy program supports employers to hire high school and post secondary students

We are investing over \$2.1 billion to protect Manitobans, their livelihoods, and to restart our economy

- Support measures include health system investments, direct payments to individuals and businesses, savings from taxes and fees, as well as multi-year infrastructure commitments.
- These measures impact the 2020/21 and 2021/22 fiscal years, and to a lesser extent outer years (e.g., personal care homes).

Manitoba Investments to Address COVID-19
(\$ millions)



Protecting Manitobans & Livelihoods and Restarting our Economy

Manitoba's COVID-19 expenditures were second-highest in Canada as share of GDP

- Manitoba invested immediately and throughout the COVID-19 crisis in supports for people and businesses.
- Manitoba's support programs are designed to:
 - Provide direct financial assistance to vulnerable populations like seniors and disabled Manitobans
 - Assist people getting back to work
 - Fill gaps in federal support programming

COVID-response Spending by Province \$ billion and % of GDP (2018)

1. Quebec (\$28.7, 6.5%)
2. **Manitoba (\$2.1, 2.9%)**
3. Alberta (\$9.3, 2.7%)
4. Saskatchewan (\$1.8, 2.3%)
5. Ontario (\$17.5, 2.0%)
6. Nova Scotia (\$0.9, 2.0%)
7. British Columbia (\$5.4, 1.8%)
8. Prince Edward Island (\$0.1, 1.4%)
9. Newfoundland (\$0.4, 1.1%)
10. New Brunswick (\$0.1, 0.2%)

Sources: Parliamentary Budget Officer (June 25, 2020 report) for provinces other than Manitoba, which uses own figure. Manitoba spend of \$2.1B is lower than PBO estimate of \$2.5B.

#RESTARTMB

Manitoba's Roadmap for Recovery

Manitoba Protection Plan

PPE & COVID-19 Procurement

HelpNextDoorMB

Emergency Child Care

Online Learning Investments

Expanded Shelter Capacity

COVID-19 Research Funding

Tax and Fee Deferrals

Manitoba Gap Protection Plan

Seniors Economic Recovery Credit

Disability Economic Support Program

#RestartMB

Manitoba Economic Support Center

**Premier's Economic Opportunities
Advisory Board**

Manitoba Risk Recognition Program

B2B Manitoba

Student Wage Subsidy

Manitoba Back to Work Program

Manitoba Job Restart Program

Appendix

Summary of investments: Protecting Manitobans

Protecting Manitobans	\$000
PPE Procurement	359,789
Safety Upgrades in Personal Care Homes	280,000
Risk Recognition Program	120,000
Digital Health Initiatives	46,000
Seniors Economic Recovery Credit	45,000
Equipment and Infrastructure Upgrades in Health-Care Facilities	32,000
PPE Production Competition RFP	15,000
Research Manitoba	12,113
Home Nutrition, Learning Program and Food Insecurity support	10,160
Disability Economic Support Program	4,600
Mental Health AbilitiCBT	4,500
Homeless Shelter Response Plan	1,179
Homeless Shelter Response Plan - additional funding	930
Help Next Door MB App	10
Other	432
Subtotal	931,713

Appendix

Summary of investments: Protecting Livelihoods #RestartMB

Protecting Livelihoods	\$000
Manitoba Gap Protection Program	120,000
Tax and fee relief, call centre, and other	118,446
MPI COVID-19 Rebates	110,000
Elimination of PST on property insurance	75,000
WCB Financial Relief	37,000
Canada Emergency Commercial Rent Assistance Program (Manitoba share)	15,900
B2B Manitoba	422
Subtotal	476,768

#RestartMB	\$000
Manitoba Restart Capital	600,000
Back to Work This Summer Initiative, Summer Student Recovery Jobs Program	120,000
Transitional Support for Post-Secondary Institutions	25,600
Manitoba Scholarship and Bursary Initiative	5,000
Hometown Green Team Program	4,756
Building Sustainable Communities Program	2,000
Manitoba Bursary Program	1,800
Expansion of Summer School Program	300
Other	14,460
Subtotal	773,916