Moody's
International Public Finance
Regional and Local Governments

Credit Analysis

December 2009

Manitoba, Province of

Canada

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This Credit Analysis provides an in-depth discussion of credit ratings for the Province of Manitoba and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on Moody's website. Click here to link.

Summary Rating Rationale

The Province of Manitoba's Aa1 rating reflects the province's sound fiscal plan, which has produced generally balanced fiscal outcomes in recent years. While modest cash requirements have increased the province's stock of debt, additions to debt have been roughly in line with economic and revenue growth, keeping the province's debt burden relatively stable. The province's fiscal flexibility is high and the proportion of revenue consumed by interest payments remains low at an estimated 6.0% in 2009-10. The Aa1 rating is also supported by the province's diversified economy, which tends to underperform the Canadian average in boom years, but outperform in years of weak economic conditions, providing a measure of stability.

National and International Peer Comparisons

The Province of Manitoba is rated in the mid-range of Canadian provinces, whose ratings remain in a narrow range of Aaa-Aa2. Manitoba's debt burden, while higher than that of some of its Western Canadian peers, remains below the Canadian median. Moreover, the province's diversified economy positions the province well relative to Canadian peers. On an international basis of comparison, Manitoba benefits from a higher degree of fiscal flexibility than many of its international sub-sovereign peers—including the highly-rated Australian states and German Länder—owing to the high degree of fiscal flexibility inherent in the way Canadian provinces operate, supporting the high investment-grade rating.

Rating Outlook

The outlook is stable.

Moody's Investors Service

Key Rating Considerations

Financial Position and Performance

Strong and Stable Fiscal Results in Recent Years

Manitoba recorded a series of positive consolidated fiscal outcomes in recent years, owing to the province's containment of expense growth below revenue growth in most years. Between 2004-05 and 2007-08, consolidated surpluses averaged 4.5% of revenue, or 1.1% of GDP. As such, Manitoba's record of strong fiscal performance positioned the province well as the Canadian economy entered recession in 2008.

Manitoba's economic outperformance in 2008 relative to Canada (discussed below) was reflected in the province's 2008-09 fiscal results. Year-on-year revenue growth slowed to 3.8%, as strong growth in personal and corporate income tax receipts (7.4% and 5.2% growth respectively) was partially offset by lower net income from government business enterprises. The combination of modest revenue growth and year-on-year expense growth of 4.9%—driven essentially by health care expenses (growth of 8.6%) and partially offset by a lower rate of increase (1.8%) for debt service as well as an absolute decline in education expenses[1]—generated a consolidated surplus of C$470 million, equivalent to 3.6% of revenue, or 0.9% of GDP. This financial performance is in stark contrast with that of other Canadian provincial governments whose finances were hit harder by the impacts of the global economic downturn. On a cash basis of accounting, the consolidated surplus translated to a financing requirement of C$440 million, or 3.4% of revenue (0.9% of GDP). This reflects primarily the accrual accounting presentation and the difference between amortization and cash outlays required for capital expenditures.

Some Deterioration Expected in 2009-10 Amid Economic Weakness

Manitoba's 2009-10 budget reiterated the government's intention to balance its fiscal outcomes on a consolidated basis while maintaining funding for priority programs such as health care. The budget called for a 1.4% year-on-year contraction in consolidated revenues, reflecting the impacts of the economic slowdown on personal and corporate income tax receipts (projected declines of 4.6% and 10.2% respectively), balanced by growth in transfers from the federal government.

In late December 2009, the province released its second quarter (unaudited) financial report, which included updated projections for 2009-10, incorporating results for the first six months of the financial year. Updated projections for 2009-10 as a whole point to an expected deterioration in the operating balance with both lower revenues (partly due to lower than expected federal transfers) and higher expenditures expected compared to budget. A consolidated deficit of $592 million (roughly 5% of revenues) is now projected, compared to a roughly balanced consolidated outcome previously budgeted. Borrowing requirements, including refinancing, have increased slightly from $3.3 billion to $3.5 billion in 2009-10, though debt servicing costs will nevertheless be aided by the current low interest rate environment.

Manitoba, like other Canadian provinces, has experienced fiscal pressures with the economic downturn; however, the magnitude of the fiscal deterioration in Manitoba is low relative to most other provinces. The Province of Manitoba has a strong track record of fiscal prudence and is expected to continue with these fiscal management practices. This fiscal prudence, combined with the strong provincial economic performance relative to the rest of the country, ensures strong debt servicing ability, supporting the province's high investment-grade rating.

Debt Profile

Debt Ratios Stable

While the province's net direct and indirect debt increased from roughly C$10 billion at March 31, 2005 to approximately C$13 billion at March 31, 2009, absolute increases in the stock of debt were roughly matched, proportionally, by growth in nominal GDP and provincial revenues. As a percentage of GDP, net direct and

[1] These figures, however, reflect the consolidation of school boards in 2007-08.

indirect debt remained stable at roughly 25% between 2004-05 and 2009-10, while this measure of debt as a percentage of revenue remained in the 100% range over this period. These debt ratios are considered manageable for Manitoba given the high degree of fiscal flexibility inherent in the institutional framework governing the way Canadian provinces operate.

Foreign currency exposure has been eliminated on the province's debt portfolio for all but debt associated with Manitoba Hydro (discussed below). Manitoba Hydro, by virtue of its exports of hydroelectric power to the United States, has a natural hedge against USD-CAD currency fluctuations. Floating rate exposure, excluding short-term instruments and current maturities, accounts for approximately 10% of the province's debt portfolio; including short-term instruments and current maturities, this proportion rises to roughly 25%.

Province Addressing Pension Liabilities

In 2007-08, the province debt-financed C$1.5 billion of the Teachers' Retirement Allowance Fund (TRAF) unfunded liability. Investments held for the TRAF and the Civil Service Superannuation Fund (CSSF), which totaled C$2.2 billion in 2007-08, were reclassified and irrevocably restricted for pension purposes in 2008-09. As a result of the debt-funding of pension liabilities, the province's unfunded pension obligations declined to C$2.0 billion at the end of 2008-09 (15.7% of revenue), from C$3.3 billion at March 31, 2004 (32.9% of revenue). The government expects to continue this policy of debt-funding pension liabilities. Moody's considers unfunded pension liabilities as debt-like and takes them into account when establishing a government's credit profile. As such, Moody's views Manitoba's debt-funding of unfunded pension liabilities as credit-neutral.

High Degree of Fiscal Flexibility, Adjustment Capacity

The province's degree of fiscal flexibility, or adjustment capacity, also remains high, as evidenced by the declining proportion of revenues consumed by interest costs. This measure of debt affordability declined to 6.0% in 2008-09 from 7.6% in 2004-05, largely as a result of lower interest rates. In the early years of the current decade, this ratio measured over 12%. This improvement in fiscal flexibility illustrates the province's heightened shock-absorption capacity.

Manitoba Hydro Debt Self-Supporting

Roughly one third of the province's total direct and indirect debt is attributed to Manitoba Hydro and is considered by Moody's to be self-supporting. This Crown Corporation's ability to meet its own financial obligations without recourse to provincial subsidies is a positive credit attribute for the province. In Moody's view, the likelihood that the contingent liability represented by Manitoba Hydro's debt would materialize remains relatively remote.

Manitoba Hydro is currently planning for significant future capital expenditures with a view to increasing its generation and transmission capacity to meet domestic demand as well as to exploit export opportunities over the next 25-30 years. These projects include a new generation facility, the 200 MW Wuskwatim generation project, which has an estimated total capital cost of C$1.6 billion (including the generation and transmission components) and is scheduled to come into service in 2011. Other projects, including the larger Keeyask (695 MW) and Conawapa (1,300 MW) generating stations, remain in the early stages of planning. Manitoba Hydro intends to cover base capital expenditures with internally-generated funds from operations and to use external debt financing to fund expansion projects. Moody's will continue to monitor developments with Manitoba Hydro's capital plan to ensure that our conclusions with respect to the self-supporting nature of the utility's debt remain appropriate.

Governance and Management Factors

Manitoba, over the past several years, has relied on multi-year fiscal planning, prudent economic and revenue assumptions and ongoing expense restraint to maintain a strong financial profile. Overall, Manitoba displays strong governance and management factors. Fiscal management measures are supported by comprehensive and transparent financial reporting that is typical of governments in advanced industrial economies.

Economic Fundamentals

Economic Diversity Strengthens Credit Profile

The Manitoba economy is highly diversified, which helps to reduce economic volatility associated with business cycles and certain specific local industries. The service sector—including finance and insurance, real estate, public administration and transportation—accounts for an estimated 72% of real economic output, contributing to the province's overall economic diversity.

Manufacturing accounts for the largest share of the goods-producing sector, representing 13% of real GDP. The impacts of the US recession proved a considerable challenge for the Canadian manufacturing industry, which lost 74,600 jobs in 2008 (3.6% of manufacturing employment). Manitoba's manufacturing sector, however, fared better than the national average, losing 1,900 jobs (2.7% decline), after gaining 4,000 jobs (6.0%) in 2007. The nature of Manitoba's manufacturing sector, which includes niche areas such as aerospace and transit buses, and its high level of diversification have helped it face difficult external conditions.

After underperforming the national average through the first part of the current decade (which saw relatively strong economic growth in Canada), real GDP growth measured 2.4% in 2008, outperforming the national average (real growth of 0.4%). Manitoba is less exposed to the US economy than most Canadian provinces; the province's exports to the United States account for approximately 68% of its foreign exports, compared to approximately 75% for the Canadian economy as a whole. As a result, the province was less affected by the US recession than Ontario or Quebec, which are more exposed to the health of the US economy.

The Manitoba economy tends to underperform the Canadian economy in times of rapid economic growth and to outperform in economic slowdowns. The province's high degree of economic diversity—which implies the absence of a dominant sector that could act as a catalyst for growth in boom years and represent a drag on the provincial economy in recessions—is one factor that could explain these trends. The province's economic diversity represents a major source of credit strength, ensuring a broad and productive tax base for the government.

The province's real GDP is expected to contract slightly in 2009 (-0.2% compared to -2.4% for the country as a whole), again outperforming the national average. Manitoba's labour market remains tight as the 2008 unemployment rate of 4.2% was one of the lowest in the country and well below the national average of 6.1%. As of late 2009, the provincial unemployment rate was estimated to have climbed moderately to 5.2%, remaining among the lowest in the country.

Operating Environment

The national operating environment in which Manitoba operates is typical of advanced industrial economies, characterized by high GDP per capita, low GDP volatility and a high ranking on the World Bank's Government Effectiveness Index, all of which suggest a minimal level of systemic economic, financial and political risk. As evidenced by Canada's record of continued economic expansion and political stability, the macroeconomic environment is robust and federal government institutions are responsive. Accordingly, the conditions that have historically preceded national crises associated with widespread defaults of regional and local governments are not present in Canada.

Institutional Framework

The Province of Manitoba, like all Canadian provinces, enjoys significant flexibility in its financial management. Compared to their counterparts in other countries, such as the German Länder and the Australian states, Canadian provinces enjoy far greater autonomy in terms of both the spending and revenue sides of their budgets. Unfettered access to a broad range of tax bases and the ability to alter expenditure programs provide Canadian provinces with substantial flexibility to meet fiscal challenges. As such, Canadian provinces benefit from a high degree of fiscal policy flexibility that is more akin to that of sovereign governments than to many of their international sub-sovereign peers. These positive institutional factors increase Canadian provinces' ability to manage through economic downturns and handle relatively high debt burdens In conjunction with the high degree of fiscal flexibility, a system of fiscal transfers from the federal government, which seeks to reduce the fiscal disparities across the country, also provides support to Canadian provinces' creditworthiness.

Application of Joint-Default Analysis

The Aa1 rating assigned to Manitoba reflects the application of Moody's joint-default analysis methodology for regional and local governments. The province's rating is composed of two principal inputs: a baseline credit assessment of 3 (on a scale of 1-21, in which 1 represents the lowest level of credit risk) and a very high likelihood of extraordinary support from the federal government (rated Aaa, stable) to prevent a default by Manitoba, or any province. The very high likelihood of support reflects Moody's assessment of the incentive provided by the risk to the federal government's reputation if Manitoba, or any province, were to default, as well as indications of a moderately positive national government policy stance, as illustrated by the flexibility inherent in the system of federal provincial transfers.

Moody's also assigns a very high default dependence level, reflecting a medium level of federal transfers and the significant overlap of the economies and revenue bases of the provincial and federal governments.

Rating History

Manitoba, Province of

Date	Rating
November 2006	Aa1
January 2003	Aa2
September 1998	Aa3
May 1985	A1
September 1975	Aa
October 1968	A

Annual Statistics

Debt Statement (C$ millions, as at 3/31)	2004	2005	2006	2007	2008	2009
Treasury Bills and Promissory Notes	440	325	325	325	850	1,185
Canada Pension Plan	1,002	883	756	606	597	492
Direct Debentures	17,668	18,108	18,237	18,923	20,252	20,907
Other	752	954	1,021	1,047	756	742
Total Direct Debt	**19,862**	**20,270**	**20,339**	**20,901**	**22,455**	**23,326**
Guaranteed Debt						
Manitoba HydroBonds and Promissory Notes	914	654	485	670	347	398
Other Guarantees	86	83	83	87	94	92
Total Direct and Indirect Debt	**20,863**	**21,007**	**20,907**	**21,658**	**22,896**	**23,816**
Less:						
Manitoba Hydro	6,493	6,548	6,625	6,640	7,142	7,836
Manitoba HydroBonds and Promissory Notes	914	654	485	670	347	398
Direct Debt Sinking Fund	4,016	4,010	3,918	4,118	3,334	2,741
Net Direct and Indirect Debt	**9,439**	**9,795**	**9,879**	**10,230**	**12,073**	**12,841**

Debt Trends (as at 3/31)	2004	2005	2006	2007	2008	2009
Net Direct and Indirect Debt (C$ millions)	9,439	9,795	9,879	10,230	12,073	12,841
As % GDP	25.2	24.6	23.8	22.8	24.9	25.2
As % Personal Income	30.5	30.1	29.3	28.8	31.7	31.9
Per Capita (C$)	8,110	8,346	8,384	8,640	10,116	10,630
As % Total Revenues	112.0	97.6	92.1	93.7	97.1	99.4
Total Direct and Indirect Debt	20,863	21,007	20,907	21,658	22,896	23,816
% Hydro Debt	31.1	31.2	31.7	30.7	31.2	32.9
Total Foreign Currency Debt (Before Hedges)	6,397	5,887	5,672	6,286	5,890	6,178
As % Total Direct and Indirect Debt	30.7	28.0	27.1	29.0	25.7	25.9
Foreign Currency Debt Net of Hedges (C$ Millions)	3,186	2,940	2,838	2,804	2,706	3,005
As % Total Direct and Indirect Debt	15.3	14.0	13.6	12.9	11.8	12.6
Short-Term Debt	1799.0	2172.0	2247.0	1941.0	3118.0	3364.0
As % of Total Direct and Indirect Debt	8.6	10.3	10.7	9.0	13.6	14.1
Actuarial Pension Liability (Surplus) (C$ millions)	3,304	3,379	3,430	3,460	2,300	2,003
As % of GDP	8.8	8.5	8.3	7.7	4.7	3.9
As % of Revenue	32.9	31.5	31.4	27.8	17.8	15.7
Total Employer Cash Contributions [1]	275	291	319	426	1,976	194
As % of Revenue	2.7	2.7	2.9	3.4	15.3	1.5

[1] In 2008, includes a special contribution of C$1.5 billion, which was borrowed in the capital markets by the province to fund pension plans.

Manitoba, Province of

Economic Trends (Year Ending 12/31)	2003	2004	2005	2006	2007	2008
Population in 1000s	1,164	1,174	1,178	1,184	1,194	1,206
Real GDP (2002 C$ millions)	37,059	37,861	38,860	40,158	41,593	42,407
% Growth	1.4	2.2	2.6	3.3	3.6	2.0
Nominal GDP (C$ millions)	37,451	39,748	41,681	45,029	48,718	50,834
% Growth	2.4	6.1	4.9	8.0	8.2	4.3
Personal Income (C$ millions)	30,972	32,581	33,762	35,669	37,986	40,080
Per Capita (C$)	26,613	27,762	28,653	30,126	31,817	33,231
As % Canadian Average	90.4	90.1	89.2	88.7	89.5	90.3
Personal Disposable Income (C$)	24,436	25,733	26,433	28,097	29,803	31,793
As % Personal Income	78.9	79.0	78.3	78.8	78.5	79.3
Employment Growth	0.5	1.1	0.6	1.2	1.6	1.7
Participation Rate	68.7	69.1	68.6	68.8	69.4	69.6
Unemployment Rate	5.0	5.3	4.8	4.3	4.4	4.2
Manufacturing Shipments (C$ millions)	12,682	13,262	13,688	14,862	16,168	16,378
Housing Starts (units)	4,206	4,440	4,731	5,028	5,738	5,537
Retail Sales (C$ millions	10,953	11,692	12,381	12,870	14,008	15,017
Per Capita (C$)	9,411	9,963	10,508	10,870	11,733	12,451
CPI, All Items	101.8	103.8	106.6	108.7	110.9	113.4
Inflation Based on CPI % Change	1.8	2.0	2.7	2.0	2.0	2.3

Manitoba, Province of

Consolidated Revenues and Expenses (C$ millions, Year Ending 3/31)	2005	2006	2007	2008	2009	2010B
Revenues						
Personal Income Tax	1,787	1,949	2,130	2,285	2,455	2,343
Corporate Income Tax	374	373	311	367	386	347
Payroll Tax (Health and Education)	287	303	318	341	357	359
Retail Sales Tax	1,125	1,198	1,277	1,391	1,486	1,595
Net Income of Government Business Enterprises	716	958	627	946	807	815
Federal Transfers	3,151	3,103	3,317	3,597	3,866	4,103
Other	2,600	2,841	2,940	3,510	3,558	3,168
Total Revenues	**10,040**	**10,725**	**10,920**	**12,437**	**12,915**	**12,729**
Expenses						
Health	3,559	3,849	4,005	4,224	4,586	4,723
Family Services and Housing	1,020	1,075	1,142	1,224	1,321	1,390
Education	2,254	2,366	2,397	3,218	3,154	3,270
Community, Economic and Resource Development	1,087	1,448	1,280	1,406	1,582	1,529
Debt Service	767	790	835	815	830	766
Other	754	822	831	974	972	1,003
Total Expenses	**9,441**	**10,350**	**10,490**	**11,861**	**12,445**	**12,682**
Consolidated Surplus/(Deficit)	**599**	**375**	**430**	**576**	**470**	**48**
Cash Financing Surplus/(Requirement)	**153**	**(184)**	**365**	**(560)**	**(440)**	**--**

Financial Trends (Year Ending 3/31)	2005	2006	2007	2008	2009	2010B
% Change in Revenue	19.2	6.8	1.8	13.9	3.8	(1.4)
As a % of Revenue						
Consolidated Surplus (Deficit)	6.0	3.5	3.9	4.6	3.6	0.4
Cash Financing Surplus (Requirement)	1.5	(1.7)	3.3	(4.5)	(3.4)	--
Interest Expense	7.6	7.4	7.6	6.6	6.4	6.0
Intergovernmental Transfers	31.4	28.9	30.4	28.9	29.9	32.2
% Change in Expenses	4.6	9.6	1.4	13.1	4.9	1.9
As a % of Expenses						
Health	37.7	37.2	38.2	35.6	36.9	37.2
Education	23.9	22.9	22.9	27.1	25.3	25.8
Interest Expense	8.1	7.6	8.0	6.9	6.7	6.0
As a % of GDP						
Revenues	25.3	25.8	24.3	25.6	25.4	25.5
Expenses	23.8	24.9	23.4	24.4	24.5	25.4
Consolidated Surplus (Deficit)	1.5	0.9	1.0	1.2	0.9	0.1
Cash Financing Surplus (Requirement)	0.4	(0.4)	0.8	(1.2)	(0.9)	--
Health Expenses	9.0	9.3	8.9	8.7	9.0	9.5
Expenses Per Capita (C$)	8,045	8,784	8,860	9,938	10,303	10,421

Moody's Related Research

Credit Opinion:

- Canada, August 2009

Special Comment:

- Canadian Provinces Face Challenging Conditions, February 2009 (114544)

Statistical Handbook:

- Non-US Regional and Local Governments, June 2009 (117472)

Rating Methodologies:

- Regional and Local Governments Outside the US, May 2008 (107844)
- The Application of Joint-Default Analysis to Regional and Local Governments, December 2008 (99025)

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Manitoba, Province of

Report Number: 121801

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