BUDGET ANALYSIS

Manitoba: Budget 2024

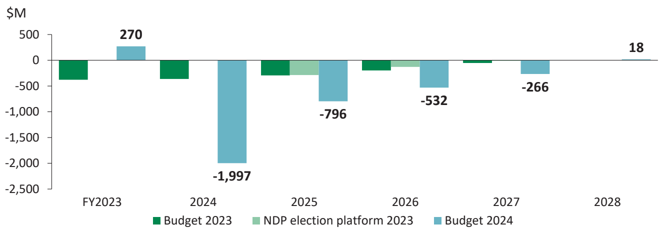
New Spending Pressures Drive Deeper Deficits

By Marc Desormeaux, Principal Economist, and Kari Norman, Economist

HIGHLIGHTS

- Manitoba's 2024 Budget—the first under the current New Democratic Party (NDP) administration—forecasts larger-than-previously anticipated deficits for the next three fiscal years (graph 1). In line with last year's NDP election platform, a return to balance is expected in fiscal year 2027–28 (FY2028). Table 1 on page 2 summarizes key fiscal indicators.
- Consistent with larger forecast capital expenditures and deficits, gross provincial borrowing requirement projections were revised higher, to $6.2B in FY2025, $5.8B in FY2026, and $4.7B in FY2027. These figures represent respective increases of $0.9B, $0.1B and $0.3B versus Budget 2023 plans.
- New policy was largely incremental and focused on healthcare and affordability. Measures including a new Homeowner's Affordability Tax Credit, Renters Tax Credit, and an extension of the gas tax cut.
- Budget 2024 clearly shows a deterioration in Manitoba's fiscal position relative to prior projections (as we've seen in most provinces so far this spring) and attaining fiscal targets will require outer-year spending restraint.
- However, Manitoba's broad industrial base remains an advantage. This should serve the province well as the economy slows in the quarters ahead, as well as over the coming years as it seeks to return to the black.

Graph 1
Deeper Deficits, but Surplus Still Expected in 2027–2028
Manitoba budget balance projections



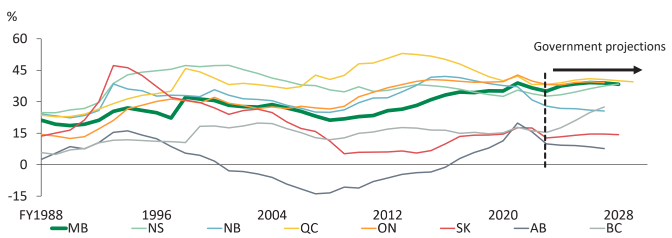
Manitoba Ministry of Finance, Manitoba New Democratic Party platform and Desjardins Economic Studies

Main Takeaways

Budget 2024 clearly shows a deterioration in Manitoba's fiscal position relative to prior projections (as we've seen in most provinces so far this spring). We already knew coming in that the FY2024 deficit would be considerably larger than expected in last year's plan. Now, shortfalls are expected to come in a combined $1B larger than previously anticipated for the FY2025 to FY2027 period. The province's net debt-to-GDP ratio is also set to come in three to five percentage points higher than last forecasted in each of the next three fiscal years. Following that adjustment, Manitoba still has one of the largest debt burdens of any Canadian province (graph 2 on page 2). That said, the deficits forecast for the next few years are nowhere near the 3% of provincial output clocked in during the 1980s and 1990s recession or the pandemic.

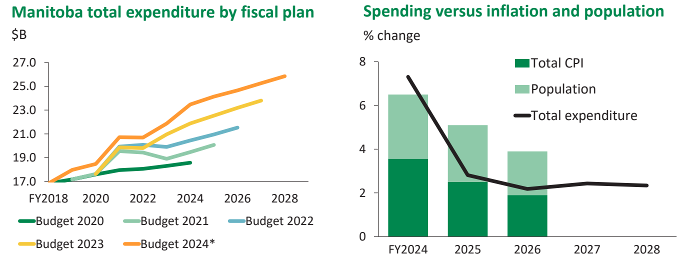
The province's decision to outline a path to balance should be well received by creditors, but attaining fiscal targets will require spending restraint in the later years of the plan. This was also a feature of many blueprints released by the province in recent years. Manitoba aims to keep advances in total expenditures

Graph 2
Manitoba's Debt Metrics Is One Of the Highest of Any Province



Provincial budget documents and Desjardins Economic Studies

Graph 3
Spending Plans Increased, But Remain Restrained



* Adjusted for historical accounting presentation changes
Statistics Canada, Manitoba Ministry of Finance and Desjardins Economic Studies

below the rate of population growth plus inflation in each of the next two fiscal years (graph 3). That's a challenging task for any government, not to mention the fact that rapid population aging will only add to healthcare spending pressures across Canada in the years ahead.

Risks to population growth cut both ways for Manitoba. Like the rest of Canada, the Keystone Province is currently experiencing decades-high headcount gains, and it revised its population growth projections meaningfully higher versus last year. Fortunately, because it's less reliant on temporary residents than jurisdictions, Manitoba's less likely to experience population slowdown-induced economic or revenue weakness. But that will also make achieving spending control targets more challenging.

Still, longstanding economic advantages remain. Manitoba's broad industrial base means that its economy isn't exposed to the ups and downs of any one sector. In our last Provincial Economic Outlook, we highlighted how Manitoba's relatively limited exposure to interest rates and contributions from mining and manufacturing investment would support its economy. These factors should prevent severe economic weakness as we progress through what will likely be some challenging quarters

TABLE 1
Summary of Fiscal Forecasts

IN $M (UNLESS OTHERWISE INDICATED)	2023–2024		2024–2025		2025–2026		2026–2027		2027–2028
	Bud. 2023*	**Bud. 2024**	**Bud. 2023***	**Bud. 2024**	**Bud. 2023***	**Bud. 2024**	**Bud. 2023***	**Bud. 2024**	**Bud. 2024**
Total revenues	22,377	21,476	22,337	23,437	23,067	24,227	23,796	25,092	25,966
% change	—	*-3.0*	*2.9*	*9.1*	*3.3*	*3.4*	*3.2*	*3.6*	*3.5*
Own-Source Revenues	15,078	14,372	—	15,146	—	—	—	—	—
% change	—	*-8.3*	—	*5.4*	—	—	—	—	—
Federal Transfers	7,299	7,104	—	8,291	—	—	—	—	—
Total expense	22,540	23,473	22,531	24,133	23,189	24,659	23,799	25,258	25,848
% change	—	*7.3*	*3.0*	*2.8*	*2.9*	*2.2*	*2.6*	*2.4*	*2.3*
Program spending	20,389	21,303	21,214	21,869	21,693	22,302	22,168	22,795	23,301
% change	—	*7.0*	*3.0*	*2.7*	*2.3*	*2.0*	*2.2*	*2.2*	*2.2*
Debt charges	2,151	2,170	1,317	2,264	1,496	2,357	1,631	2,463	2,547
% of total revenues	*9.6*	*10.1*	*5.9*	*9.7*	*6.5*	*9.7*	*6.9*	*9.8*	*9.8*
Forecast allowance	200	—	100	100	75	100	50	100	100
Budget balance	**-363**	**-1,997**	**-294**	**-796**	**-197**	**-532**	**-53**	**-266**	**18**
% of GDP	*-0.4*	*-2.2*	*-0.3*	*-0.9*	—	*-0.6*	—	—	—
Net Debt, % of GDP	*34.6*	*37.5*	*35.0*	*38.5*	*34.8*	*39.1*	*34.6*	*38.9*	*38.3*
Real GDP, % change	*0.7*	*1.4*	*1.1*	*0.6*	—	*1.9*	—	—	—
Nominal GDP, % change	*2.2*	*3.4*	*3.0*	*2.9*		*3.1*			—
Infrastructure spending, $B	2.8	3.1	2.8	3.1	2.7	3.2	2.7	2.9	3.0

* Figures for FY2024 reflect accounting presentation change for the debt servicing recoveries from Manitoba Hydro; figures for FY2025 onwards do not
Manitoba Ministry of Finance and Desjardins Economic Studies

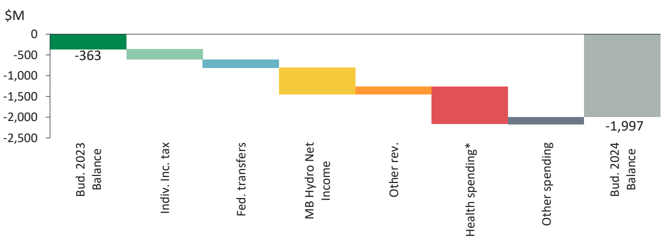
ahead. Economic stability should also serve the province well over the coming years as it seeks to return to the black.

Revenue and Expenditure Details

Budget 2024 features increases to both revenue and spending forecasts. Total revenue expectations were lifted by a combined $3.6B versus Budget 2023 for FY2025 to FY2027, while spending was raised by a total of $4.5B for that period. This fiscal year, the government anticipates that own-source revenues will rise by almost $800M (5.4%) and program spending will climb by just under $600M (2.7%) compared to FY2024.

Some of these changes appear to reflect a carry-forward of effects from the fiscal year ending March 31, 2024. Weak results at Manitoba Hydro following drought conditions hit revenues hard in FY2024, as did lower individual income tax assessments from the Canada Revenue Agency. More optimistically, however, the province anticipates a small profit for Manitoba Hydro in FY2025. Meanwhile, settling of collective agreements boosted healthcare spending (graph 4), continuing the trend of higher provincial government compensation costs seen across much of the country this budget season. The government stated that these were among the factors putting upward pressure on expenses. That said, other FY2024 spending projections came in slightly below Budget 2023 forecasts.

Graph 4
Manitoba Hydro Losses, Healthcare Wage Increases Hit Deficit
Changes to FY2024 budget balance since Budget 2023



* Includes health, seniors and long-term care
Manitoba Ministry of Finance and Desjardins Economic Studies

New policies focused on healthcare and affordability as expected. The first category included construction of a new CancerCare Headquarters and two new Minor Injury and Illness Clinics. Affordability measures also included a new $1,500 Homeowner's Affordability Tax Credit in 2025 (replacing the School Tax Rebate), $10 per day childcare accompanied by an increase in the number of spaces and raised personal income tax bracket thresholds. The Renters Tax Credit—an income tax credit for renters to help offset their rental costs—will be enhanced and is expected to cost $8.6M in 2025. With respect to housing affordability, the government is introducing a new Rental Housing Construction Tax Credit that will provide $8,500 for the construction of each new market-rate rental units and $13,500 for affordable units.

The three-month extension of the gas tax cut that was initially implemented on January 1st comes with the same caveats we've highlighted in other provinces. Desjardins Economic Studies' 2022 report showed that transportation costs tend to be disproportionately incurred by higher-income households, whereas most research argues that affordability measures should target the lowest income individuals during periods of high inflation. Moreover, while progress has been made on bringing price pressure to heel, the risk of re-invigoration inflation remains. Still, commodity price volatility is also a source of reduced affordability and increased anxiety for many Manitobans and this measure should help to alleviate that. The extension also isn't especially costly, estimated to reduce revenues by only $85M in FY2025.

Debt and Borrowing

Manitoba increased infrastructure spending projections by just over $1B combined from FY2025 to FY2027. The largest individual contributors to the plan continue to be road and bridge construction projects, healthcare facilities and schools, and Manitoba Hydro-related outlays.

In line with larger forecast capital expenditures and deficits, gross provincial borrowing requirement projections were revised higher, to $6.2B in FY2025, $5.8B in FY2026, and $4.7B in FY2027. These figures represent respective increases of $0.9B, $0.1B and $0.3B versus Budget 2023 plans. In FY2028, Manitoba expects to borrow $5.7B.

The $6.2B borrowing total for FY2025 consists of $3.8B in refinancing and $2.4B in cash requirements (net of estimated repayments). To date, $2.7B has been pre-borrowed for FY2025, and the province plans to pre-fund about $2.9B for FY2026. Refinancing accounts for over two-thirds of borrowing plans from FY2026 to FY2028; the rest reflects new cash requirements. Manitoba's forecast average interest rate for term borrowings during FY2025 is 4.2%, the same as the rate estimated for FY2024 in last year's budget.

In January 2024, the Manitoba government increased its promissory note program to authorize the issuance of up to $1.5B to increase liquidity. Most of its funding is through 10- and 30-year bonds, while 5-year and ultra-long bonds were also used in FY2024. As of March 22, 2024, they have raised $5.6B in FY2024 including about six months of pre-borrowing for FY2025.