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Economics

PROVINCIAL BUDGET BRIEFS

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Manitoba budget 2024

Manitoba's new government unveiled its first budget today, projecting a slimming in the deficit to $796mn in fiscal 2024/25 (0.9% of GDP) from almost $2bn (2.2% GDP) in the just completed 2023/24 fiscal year. Last year's deficit is projected to be much larger than initially budgeted for due to a combination of weaker net revenues from government enterprises and higher spending on health care. Tax changes in today's budget come at a cost for the current fiscal year, largely due to a further three-month extension of the cut in gas tax, but turn into a benefit for fiscal 2025/26 and beyond which will help slim deficits further over the medium term. In line with its election pledge, the new government is projecting a balanced budget by the end of its first term (fiscal 2027/28). The projected deficit, combined with spending for capital investments, sees borrowing requirements rise slightly to $6.2bn in fiscal 2024/25, up from $5.6bn.

Table 1: Summary of fiscal position: (C$millions)

Fiscal measure	2022/23 Actual	2023/24 23 Budget	2023/24 24 Budget	2023/24 Change	2024/25 24 Budget	2025/26 24 Budget	2026/27 24 Budget	2027/28 24 Budget
Revenue	22,144	22,177	21,476	-701	23,437	24,227	25,092	25,966
Own source	15,674	14,415	14,372	-43	15,146	-	-	-
• % change	14.6	0.6	-8.3	-8.9	5.4	-	-	-
Federal transfers	6,470	7,299	7,104	-195	8,291	-	-	-
Expenditures	21,874	22,740	23,473	733	24,133	24,659	25,258	25,848
Program spending	19,911	20,589	21,303	714	21,869	22,302	22,795	23,301
• % change	5.4	3.4	7.0	3.6	2.7	2.0	2.2	2.2
Public debt charges	1,963	2,151	2,170	19	2,264	2,357	2,463	2,547
Budget balance ex reserve	270	-563	-1,997	-1,434	-696	-432	-166	118
Planning contingency	0	200	0	-200	100	100	100	100
Summary budget balance	270	-363	-1,997	-1,634	-796	-532	-266	18

Manitoba economy not immune to general slowing

Manitoba has one of the most diversified economies in the country and household debt is relatively low as a proportion of income. However, that hasn't made the economy completely immune to the impacts of higher interest rates. Having already slowed to an estimated 1.4% in 2023, real GDP growth is expected to ease further to 0.6% this year before accelerating again in 2025. Fluctuations in nominal GDP, which is usually more closely correlated to tax revenues, aren't expected to be as pronounced, slowing to 2.9% this year from 3.4% in 2023. The gas tax cut introduced on January 1st and extended in today's budget has contributed to Manitoba currently having the lowest inflation rate among provinces.

Table 2: Key assumptions (Y/Y % chg)

Economic assumptions	2023	2024	2025
Real GDP	1.4	0.6	1.9
Nominal GDP	3.4	2.9	3.1
Employment	2.5	1.2	1.5
Unemployment rate (%)	4.8	5.7	5.7

Large deficit to be cut down

For the just completed 2023/24 fiscal year, the province is now projecting a large deficit of nearly $2bn, which is just over 2% of nominal GDP and a big deterioration relative to last year's budget. However, this was broadly known by the time of the mid-year update, which projected a $1.6bn deficit. Relative to Budget 2023, the larger deficit is being driven by both lower revenue and higher spending. On the revenue side, the $700mn shortfall is largely due to lower net income from government business enterprises, primarily Manitoba Hydro. Personal income tax receipts are also projected to be a little weaker than first anticipated. On the expenditure side, the more than $700mn increase relative to last year's budget is almost exclusively being driven by health spending.

For the 2024/25 fiscal year, the deficit is expected to be reduced to $796mn (0.9% of GDP), which includes a planning contingency of $100mn. While the higher level of spending in health will be maintained, overall program spending growth is budgeted to slow to 2.7% which is broadly in line with the expected increase in nominal GDP. Revenues are anticipated to be $2bn higher in 2024/25, with more than half of that due to an increase in federal transfers.

The gas tax cut first introduced on January 1st was extended by a further three months in today's budget, and carries a revenue hit for the 2024/25 fiscal year of $85mn. However, measures to simplify the current system of school tax credits and rebates, which will become effective in the 2025 tax year, will improve the balance by $37mn in the current fiscal year. On a full fiscal year basis, the impact is estimated at $148mn. In sum, tax changes introduced in today's budget carry a cost of $55mn for the current fiscal year but a benefit of $122mn for fiscal 2025/26. Other changes included phasing out the basic personal amount for middle income earners and the introduction of a $4000 rebate for electric vehicles.

The impact of tax changes announced today, combined with a recovery in the economy, is expected to see overall revenue growth average roughly 3.5% from fiscal 2025/26 to 2027/28. With spending projected to increase by just less than 2.5% a year over the same period, deficits are expected to continue narrowing over the medium term. In line with its election pledge, the new government is projecting a balanced budget by the end of its first term (fiscal 2027/28).

Borrowing requirements are increasing in 2024/25

For the fiscal year that just ended, Manitoba tapped the domestic market for $4.2bn through 13 transactions, which included three carve-outs. As well, the province accessed the USD market with a US$1.0bn deal and the EUR market with a €30mn bond. That placed total issuance for 2023/24 at C$5.6bn of which 25% was completed internationally, compared to the previous year’s 10%. This amount included approximately six months of pre-borrowing for fiscal year 2024/25 totalling $2.7bn, which is consistent with the present practice of staying six months ahead of cash needs.

The province stated that it again intends to access both domestic and international capital markets to complete their program. Meanwhile, there is a US$1.0bn bond maturing in two weeks, while another US$0.8bn is maturing in mid-May. Those upcoming maturities suggest there could be a possibility of a USD bond issuance from the province in the near-term to refinance that debt.

As for this upcoming year, borrowing plans show $3.5bn needed for refinancing purposes, $3.3bn for new cash requirements, while there is $0.8bn of estimated repayments. That places gross borrowings net of repayments at $6.0bn. When incorporating that $2.7bn of pre-funding already completed, that brings total borrowing requirements down to $3.3bn. However, continuing with the present practice mentioned above, the province plans to pre-fund $2.9bn for the next fiscal year (i.e. 2025/26), projecting total borrowing at $6.2bn in 2024/25.

When compared to last year’s budget forecast for this upcoming year, that borrowing amount is higher than the estimated $5.3bn. The main reason for that is new cash requirements are larger than the previously projected $1.9bn, mostly relating to the larger deficit. Meanwhile, the remaining $3.4bn was for refinancing which is explained by the two USD bonds maturing mentioned above, a CAD$0.9bn bond maturing in June and an AUD$375mn bond maturing in March of 2025.

Also included in the budget documents are borrowing estimates over the medium-term. For fiscal year 2025/26, new cash requirements are projected at $1.8bn while refinancing needs are $4.0bn. That places borrowing requirements at $5.8bn for the next fiscal year, a decrease from the $6.2bn planned this year. Looking further ahead, borrowing requirements are expected to be $4.7bn in 2026/27 and $5.7bn in 2027/28. While this is the first time we are seeing estimates for 2027/28, the previous budget had $5.7bn and $4.4bn, respectively, for 2025/26 and 2026/27.

Table 3: Borrowing requirements (C$billions)

Borrowing requirements	2024/25	2025/26	2026/27	2027/28
New Cash Requirements	3.298	1.832	1.705	1.584
Refinancing	3.472	3.965	3.000	4.100
Est Repayments	-0.779	-	-	-
Pre-borrowed Mar 31, 2024	-2.717	-	-	-
Pre-funding Mar 31, 2025	2.918	-	-	-
Total	6.193	5.797	4.705	5.684

Net Debt as a percentage of GDP is forecasted to increase over the next two years

Net debt is forecasted to be $33.5bn as at March 31, 2024, which is some $2.5bn higher than the budget estimate. That is mostly related to the larger deficit than previously forecast, coupled with more capital spending. That translates into a net debt-to-GDP ratio of 37.5% vs. the 34.6% in last year's budget.

For this new fiscal year, net debt is projected to increase to $35.4bn as at March 31, 2025, due to funding the deficit of $796mn and $1,111mn of net capital assets. Those are related to the multi-year capital infrastructure investment plan and the moderating economic growth projected. Overall, that increase sees the net debt as a percentage of GDP growing to 38.5% for this year.

Meanwhile, projections over the medium-term show that ratio peaking at 39.1% the following year (i.e. 2025/26), before declining to 38.9% in 2026/27 and getting down to 38.3% by 2027/28. That peak of 39.1% projected is higher than the 38.9% that was experienced during the pandemic year of 2020/21, which saw a record deficit.

Manitoba's five-year capital plan projects $15.5bn in spending

Budget 2024 targets $1.7bn of financed capital investments which are planned to grow at the rate of population growth over the next four years. Those capital expenditures are focused on funding for the priority areas of Health, Housing, and Transportation, including both new projects and projects currently under construction. Planned investments include an overall increase of $150mn in Housing and $1.3bn in Health over five years which align with industry capacity. Meanwhile, $500mn in planned capital grants to municipalities, infrastructure maintenance and child care, along with $900mn planned by Crown corporations places total strategic infrastructure spending for 2024/25 at $3.1bn.

Over the remaining four years of the capital plan, spending averages $3.1bn per year to total $15.5bn in capital spending. That compares to last year's budget which projected $14.0bn of spending over five years. The largest growth planned is in capital investments made by Crown corporations which increases from $900mn this year to $1,200mn by 2028/29. That amount includes both Manitoba Hydro and Manitoba Public Insurance which are supported by ratepayer-generated revenue.

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