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April 3, 2024

Manitoba Budget 2024

Slight Financial Deterioration, and a Realistic Deficit Reduction Plan

The fiscal house in Manitoba was not in order when the NDP took office after winning the general elections of last Fall. Indeed, the super-sized FY 2023-24 deficit estimate of $2B almost matches the $2.1B record high shortfall registered during the pandemic. Droughts, notably lowering water levels, weighed down on Manitoba Hydro's exports last year. The crown corporation registered a worse-than-expected net loss of $190M during FY 2023-24 according to the latest financial update.

Budget 2024 proposes to cut the deficit by more than half to $0.8B in FY 2024-25, an ambitious plan considering the multiple electoral promises the NDP government decided to fulfill. An additional $1.1B in federal transfers, and a solid rebound in net income from crown corporations after the challenging 2023 year at Manitoba Hydro, are the two main drivers behind the projected 8.4% jump in total revenues. Federal transfers as a % share of total revenue will stay above the 15-year average of 28% for a fourth consecutive year. Various sources of taxation revenues are poised to grow at a relatively slow pace given targeted tax relief for average and below-average income earners, including the extension of the gasoline tax cut and new housing tax credits.

The revenue outlook is based on a soft landing, in other words the avoidance of a recession. The Ministry of Finance uses a real GDP growth assumption of 0.6% in 2024 and 1.9% in 2025. These assumptions were made before the new objective of the federal government to reduce non-permanent residents as a % share of the total population over three years from 6.2% to 5%. We estimate this measure alone will cut Canada's annual population growth by almost half in 2025 and 2026. Also, in case of an unexpected adverse economic shock, the government holds $0.585B in its Fiscal Stabilization Account, representing nearly 2% of the total revenues.

Growth in expenses projected at 2.4% appears small compared to revenues and relative to what many other provinces unveiled during the 2024 budget season. The intention of hiring 1K new health care workers over the next year stands out from the pack. This objective will be very difficult to reach out given the sub-5% unemployment rate figure and 25K existing job vacancies in the province. On some occasions in the past, provincial governments were unable to dedicate all the funding they were supposed to because they didn't find staff despite valuable intentions, ultimately resulting in program spending levels coming in below budget projections.

The annual capital spending program of $3.1B for FY 2024-25 is the same as last year, a difference compared to most provincial peers that moderately increased funding for public infrastructure due to rising costs.

Borrowing requirements of $6.2B for FY 2024-25 are approximately $1B above the bond issuance of FY 2023-24. This $6.2B tally includes $2.9B in pre-financing for FY 2025-26, a good strategy given the larger than usual $3.9B in debt maturing in 2026. The weighted average term to maturity of the province's debt was 14.7 years as of March 31st, 2023. Besides borrowing to finance new infrastructure projects such as new emergency departments in two hospitals, Manitoba will tap the bond market for $0.868B for Manitoba Hydro's financial needs. The combination of the very large $2B deficit of FY 2023-24 and the $0.8B figure for FY 2024-25 inevitably deteriorates the key net debt-to-GDP ratio. Budget 2024 projects a ratio of 38.5% at the end of FY 2024-25, near the peak level registered in FY 2020-21.

Those who tend to see the glass half-full will say the inclusion of a path back to a balanced budget over four years is good news. Those who see the glass half-empty will notice deficits and borrowing requirements over the medium-term are modestly higher than what was projected a year ago in Budget 2023. Both perspectives are valid.

In summary, Budget 2024 paints a reasonable balancing act, including plenty of targeted measures to ease the cost-of-living pain for individuals and a credible path to a balanced budget in the medium-term. The medium-term financial outlook of the Province worsens slightly relative to the mid-year update and budget of 2023, but we do not interpret it as a fundamental shift as the net debt-to-GDP ratio stays below the 40% mark.

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