TD Economics

2024 Manitoba Budget
Province to Remain Highly Indebted

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Highlights

- After swelling to over 2% of GDP in FY 2023/24, Manitoba's deficit is set to shrink to a much more manageable level of 0.9% in the year ahead.
- Even with weak economic growth expected, revenues are anticipated to soar in FY 2024/25 on the back of rising federal transfers. Several tax measures are introduced in the budget, including help for renters, a phasing out of the Basic Personal Amount for high income households and an extension of the fuel tax cut. Program spending, meanwhile, is concentrated on healthcare and education.
- Manitoba is expecting to carry a historically elevated debt burden over the next several years, with interest costs gobbling up 10% of revenues – nearly twice the long-term average.

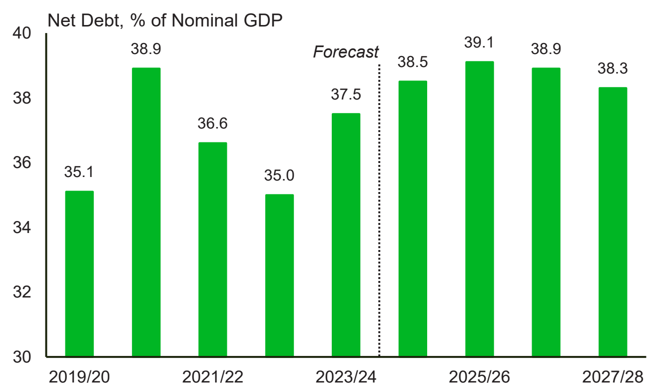
In Budget 2024, Manitoba's estimated $2.2 billion shortfall for the year ended March 31st is expected to shrink to $796 million in FY 2024/25. This represents a much more manageable 0.9% of GDP and places Manitoba's deficit in the middle of the pack compared to other provinces. Note that Manitoba has run deficits nearly every year since FY 2009/10. After this fiscal year, dwindling shortfalls are projected until the books return to balance by FY 2027/28.

Program spending is set to advance at a moderate pace this year, supported by a healthcare initiatives and expenditures for education and training. Numerous tax measures are also introduced. Some of the major measures include enhancing the Renters Tax Credit, introducing a Rental Housing Construction Tax Credit, raising the Basic Personal Amount for high income households, and temporarily extending the fuel tax credit.

Solid Revenue Growth Expected

The Manitoba government sees real GDP growth easing markedly from an estimated pace of 1.4% in 2023 to 0.6% this year, before some acceleration takes place in 2025. These forecasts underpin a slowdown in nominal GDP in 2024, although it's expected to grow at a below trend pace next year as well. Comparing these projections to our own forecasts, we're well above the government in terms of real and nominal GDP growth in 2024, with the economy expected to be supported by a relatively resilient job market, comparatively low household debt levels, solid capital investment intentions, and elevated commodity prices. Our forecasts imply some upside revenue risk for the government in FY 2024/25.

Chart 1: Manitoba to Carry an Elevated Debt Burden



Source: Manitoba Budget 2024, TD Economics.

Manitoba Government Fiscal Position [Millions of C$ Unless Otherwise Noted]		
Fiscal Year	2023/24 Forecast	2024/25 Budget
Revenues	**21,476**	**23,337**
% Change	-3.0	8.7
Expenditures	**23,473**	**24,133**
% Change	7.3	2.8
Operating Surplus (+) / Deficit (-)	**-1,997**	**-796**
% of GDP	-2.2	-0.9
Net Debt	**33,514**	**35,421**
% of GDP	37.5	38.5

Source: Manitoba Budget 2024, TD Economics.

Even with a very slow economic growth backdrop anticipated, revenues are expected to surge nearly 9% this fiscal year. Federal transfers offer a huge assist, as they're expected to jump 17%, reflecting an increase in equalization. However, even excluding federal transfers, revenue growth is anticipated to be strong. The main drivers are rising revenues from Manitoba Hydro (after droughts hampered hydroelectric production last year) and higher income taxes.

There are several notable tax measures rolled out in the budget including:

- Phasing out the Basic Personal Amount for incomes between \$200k to \$400k. This measure is expected to boost the FY 2024/25 income tax intake by \$3.5 million.
- Increasing the maximum annual value of the Renters Tax Credit to \$575 from \$525 and boosting the senior's top-up to \$328 from \$300. This measure will cost the government \$2.2 million this fiscal year. Rebates of up to \$4k for electric vehicles are also on offer.
- Doubling the available annual credit amount under the Fertility Treatment Tax Credit to \$16k from \$8k, making prescription birth control free and introducing a vaping tax. The vaping tax and fertility tax credits offset each other in terms of FY 2024/25 fiscal impact.
- Extending the fuel tax cut by 3 months to the end of September. The gas tax cut has played a notable role in reducing inflation in Manitoba (0.9% in February – the lowest in Canada). This is important as wage growth is also subdued. The FY 2024/25 cost to the government of this measure is estimated at \$85 million.
- Introducing the Rental Housing Tax Credit for the 2024 tax year. The credit is meant to kickstart rental construction and will provide \$8,500 for the construction of new rental units along with \$13,500 for units classified as affordable for at least 10 years. The FY 2024/25 cost of this measure is \$8.3 million.
- Replacing the School Tax Rebate and Education Property Tax Credit with a new Homeowners Affordability Tax Credit of up to \$1,500 on principal residences. This change means that owners of lower-valued homes will pay less, while those that own more expensive properties pay more.

Spending Growth to Ease This Year

Spending growth will advance at a sub-trend 3% pace in FY 2024/25, although this follows a 7% surge the prior fiscal year. Education and early childhood funding expenditures are set to jump, boosted by increased funding for municipalities and schools and the delivery of a universally accessible school nutrition program. Healthcare expenditures are projected to advance more slowly, with funds earmarked for the hiring, recruiting, and training of more healthcare workers.

Debt servicing charges are projected to rise 4% this fiscal year, eating up a lofty 10% of revenues. This "interest bite" is expected to remain stable around this figure by FY 2027/28.

Debt-to-GDP to Rise

Persistent deficits and rising capital spending are expected to push net debt-to-GDP about 1.5 ppts higher from its FY 2023/24 level of 37.5% through FY 2025/26, before it trends lower thereafter. This profile will leave Manitoba as one of the more highly indebted provinces in the country. Borrowing requirements are expected to total \$6.2 billion this fiscal year.

Bottom Line

Tax measures are, on balance, expected to generate savings for Manitobans this fiscal year, largely through the extension of the fuel tax. This will provide some modest support to the economy at a time when economic growth is expected to decelerate. The government's economic growth assumptions are conservative, and they've built in $100 million for contingencies, offering some wiggle room in the event of a downside growth surprise.

However, what really stands out is the lofty debt burden the government expects to maintain over the projection horizon. Indeed, the net debt-to-GDP ratio is forecast to hold above the multi-decade high that was hit during the pandemic. This elevated debt burden comes with a cost, as interest payments are set to gobble up about 10% of revenues. This compares to a long-term average of 6% and is well above other highly indebted provinces like Ontario and Quebec, whose debt servicing costs are expected to range between 6-7% of revenues.