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Chart 1

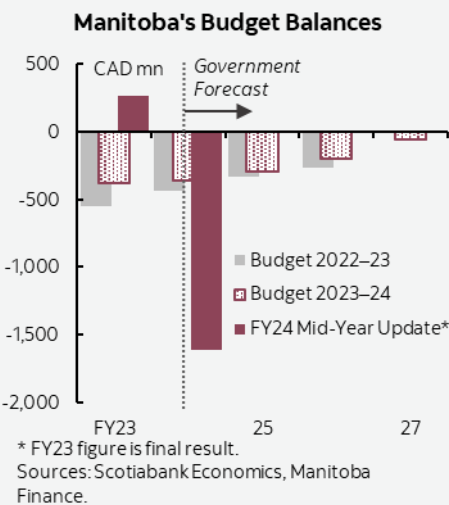
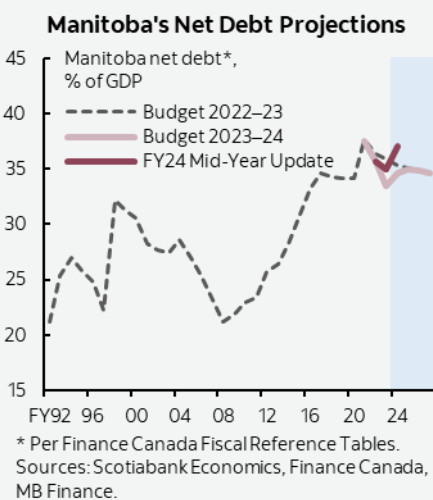


Chart 2



# Manitoba: 2023–24 Mid-Year Update

## A FISCAL REALITY CHECK REVEALS DEEPER RED INK

- **Budget balance forecasts: -\$1.6 bn (-1.8% of nominal GDP) in FY24, a deterioration of \$1,249 mn versus Budget 2023 (-\$363 mn, -0.4%) (chart 1).**
- **Net debt forecast: raised by \$2 bn to \$33.1 bn (37.1% of GDP) (chart 2) for FY24—highest on record excluding the exceptional FY21 affected by COVID-19—up from 34.6% projected in Budget 2023.**
- **Real GDP growth forecast: raised from 0.7% to 1.4% in calendar year 2023; nominal GDP forecast increased to 3.0%.**
- **Anticipated fiscal deterioration surpassed expectations, casting doubt on the previously outlined plan with diminishing deficits through FY26. With the net debt burden well above pre-pandemic levels and ticking back up with this mid-year update, it will be important for the province to prioritize debt reduction in its upcoming fiscal blueprint.**

## OUR TAKE

**Manitoba's newly elected NDP government delivered its first fiscal update with some major adjustments.** The Update projects a larger FY24 shortfall of -\$1.6 bn (-1.8% of nominal GDP) instead of the -\$363 mn (-0.4%) projected in the province's March fiscal blue print. This downward revision is the result of various factors, including a -5.5% dip in tax revenue linked to a reassessment-driven decrease in employment income, which has lowered the tax revenue base for 2023 and outer years. Manitoba Hydro further contributes to this downturn, projecting a -\$610 mn decrease in revenue relative to Budget 2023 due to adverse effects from drought conditions. The revenue reduction suggests major deviations from prior plans to balance the books by FY29.

**Despite a dimmer revenue outlook, the updated fiscal plan raised its growth assumptions, reflecting Manitoba's economic resilience.** The updated economic forecasts align with our current views, assuming real GDP to grow at 1.4% in 2023—slightly above the national average of 1.2%—before slowing to 0.8% in 2024. The \$200 mn revenue contingency built into Budget 2023 has been entirely utilized to offset the substantial revenue reduction, leaving the current plan exposed to downside risks.

**The update also revamped the government's spending plan, accounting for inflation, health-care bargaining and other adjustments.** While total spending has been revised up by +\$530 mn (+2.3%) from Budget, almost all of the impact comes from higher than budgeted spending on Health, Seniors and Long-Term Care (+\$566 mn). Increased cost pressures from wage settlements in the still-tight labour market and price inflation in medical supplies and services have added 2.5% to the Budget 2023 expenditure estimate. Absent additional spending on health and long-term care, net changes in FY24 expenditure presented in the Second Quarter update is -\$36 mn relative to the initial forecast. Higher spending on debt servicing costs from higher interest rates, correctional services, as well as transportation and infrastructure is more than entirely offset by lower than projected spending on emergency expenditures, education, and consumer protection.

**Mirroring the projected increase in deficit, net debt is tracking 2.5 ppts higher as a share of output at 37.1%, up from 35% in FY23.** The latest update places Manitoba as the fourth highest province in debt burden, very close to the third place (Quebec), warranting a prudent and credible medium term fiscal plan in its spring budget.

**A deeper fiscal shortfall implies higher borrowing requirements than the \$4.7 bn forecast for FY24 at Budget time.** Changes to the accounting presentation for Manitoba Hydro’s borrowings, that were first introduced in 2022/2023, include the Crown Corporation’s borrowings in debt servicing costs while the related recovery is reflected in revenue from government business enterprises. However, these changes do not impact the province’s deficit and net debt.

Updated Fiscal Forecast				
\$ millions except where noted				
	FY23		FY24	
	Bud. '23	Final	Bud. '23	Dec. '23
Total Revenue	20,583	22,144	22,577	21,658
% change	7.7	15.9	9.7	-2.2
Own-Source	14,326	15,674	15,278	14,440
Federal Transfers	6,257	6,470	7,299	7,218
Total Spending	20,961	21,874	22,740	23,270
% change	5.8	10.4	8.5	6.4
Program Spending	19,848	19,911	20,589	21,077
% change	5.3	5.7	3.7	5.9
Debt Service	1,113	1,963	2,151	2,193
% of Revenue	5.4	8.9	9.5	10.1
Contingency	—	—	200	—
<b>Budget Balance</b>	<b>-378</b>	<b>270</b>	<b>-363</b>	<b>-1,612</b>
% of GDP	-0.4	0.3	-0.4	-1.8
<b>Net Debt</b>	<b>29,415</b>	<b>30,263</b>	<b>31,057</b>	<b>33,059</b>
% of GDP	33.5	35.0	34.6	37.1

Sources: Scotiabank Economics, Manitoba Finance.

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