BUDGET ANALYSIS

Manitoba: Budget 2025

A Tough Balancing Act with a Twist

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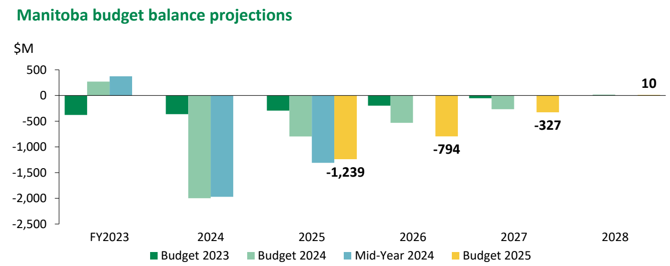
HIGHLIGHTS

- Manitoba's 2025 Budget maintains a largely intact consolidation path in its baseline, with an improved revenue outlook offsetting new spending. The deficit is projected to dwindle rapidly from $794M in fiscal year 2025–26 (FY2026) to achieve a surplus by FY2028, unchanged from the previous budget (graph 1). Table 1 on page 2 summarizes the province's updated fiscal forecasts.
- However, there's a twist. The alternative scenario factoring in tariff impacts sees the deficit deepen to $1.9B in FY2026, under assumptions in line with our current forecast.

Graph 1

The Aggressive Consolidation Path Remains Largely Intact



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- Spending has increased again but remains targeted, with a primary focus on healthcare and additional measures for cost-of-living and business support. The budget emphasizes capital spending to fund new and existing projects in healthcare and education, aiming to support growth and create jobs.
- The net debt-to-GDP ratio is projected to rise, peaking at 37.1% in FY2027, though on a lower trajectory than previously planned. Manitoba continues to have one of the highest debt burdens among Canadian provinces.
- Manitoba's updated budget is a pragmatic plan grounded in reasonable economic assumptions and deploys revenue gains to investments in key services, positioning the Keystone province well to brace against stronger economic headwinds in the near term. Although the government remains committed to balancing the budget, achieving a balanced book by FY2028 is contingent on maintaining spending restraint in the outer years and the absence of material impacts from tariffs.

Our Takeaways

In its Budget 2025, Manitoba anticipates a similar deficit profile as in the previous budget, with a largely improved revenue outlook offsetting new funding for key initiatives, particularly in healthcare, as well as other minor measures focused on cost-of-living and business support. The baseline scenario—which does not account for the impact of US tariffs—projects a smaller deficit of $794M (0.8% of nominal GDP) in fiscal year 2025–26 (FY2026).

In the medium term, the province aims to cap program spending growth at an annual average of 2.0%, well below the projected revenue growth of 3.4%, and achieve a balanced book in FY2028. This will require the province to rein in spending and keep increases in total expenditures well below the rate of

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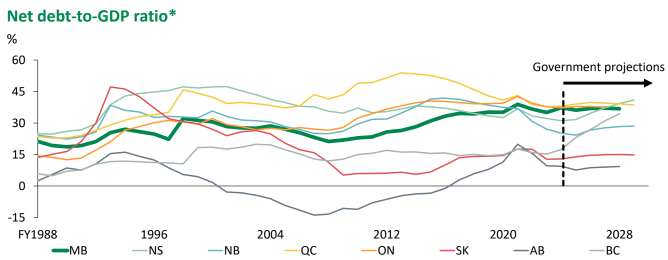
population growth plus inflation through FY2027 to FY2028—a noteworthy yet challenging target.

Reflecting the projected deficits and increased capital spending, Manitoba's net debt-to-GDP ratio is on an upward trend, albeit on a lower trajectory than previously anticipated. Net debt is tracking two percentage points lower as a share of output at 36.9% in FY2026, albeit up from 36.1% in FY2025. This ratio is set to peak at 37.1% in FY2027 before edging down. Despite this improvement, Manitoba still has one of the largest debt burdens among Canadian provinces (graph 2).

Graph 2
Manitoba's Net Debt Outlook Is One of the Highest of Any Province



* Ontario and Quebec figures based on mid-year FY2025 projections
Provincial budget documents and Desjardins Economic Studies

However, the current plan to balance the books comes with a twist as Manitoba faces substantial uncertainties from tariffs that affect all provinces. As expected, the government presented an alternative scenario that incorporates the impact of tariffs, with revenue losses and relief measures widening the deficit to \$1.9B in FY2026—a \$1.1B deterioration from the baseline. The assumptions appear reasonable and adequately account for the considerable downside risks faced by the province.

The Rosy Baseline Scenario

Budget 2025 foresees increases in spending to more than offset revenue gains. Total revenue expectations were lifted by a combined \$3B versus the previous budget from FY2026 to FY2028, while spending was raised by a total of \$3.4B for that period.

Despite a slower growth outlook, the province expects to receive \$1B more revenue in FY2026 than projected in its previous budget, representing an 8.1% increase from FY2025. Federal transfers are set to grow by 10.1% in FY2026, contributing to a record share of 35.6% of total revenue due to increased equalization payments, as well as new cost-shared programs with the federal government. These transfers will remain an important source of income over the planning horizon, averaging around 34.8%. Own-source revenues are also expected to grow across most categories, at a notable aggregated rate of 7.0%.

TABLE 1
Summary of Fiscal Forecasts

IN \$M (UNLESS OTHERWISE INDICATED)	2023–2024	2024–2025		2025–2026		2026–2027		2027–2028	
	Actual	Bud. 2024	Bud. 2025	Bud. 2024	Bud. 2025	Bud. 2024	Bud. 2025	Bud. 2024	Bud. 2025
Total revenues	21,792	23,437	23,367	24,227	25,256	25,092	26,128	25,966	26,982
% change	-1.6	9.1	*7.2*	3.4	*8.1*	3.6	*3.5*	3.5	*3.3*
Own-Source Revenues	14,632	15,146	15,257	—	16,326	—	—	—	—
% change	-6.6	5.4	*4.3*	—	*7.0*	—	—	—	—
Federal Transfers	7,160	8,291	8,110	—	8,930	—	—	—	—
Total expense	23,763	24,133	24,506	24,659	25,850	25,258	26,405	25,848	26,922
% change	8.6	2.8	*3.1*	2.2	*5.5*	2.4	*2.1*	2.3	*2.0*
Program spending	21,607	21,869	22,173	22,302	23,513	22,795	23,973	23,301	24,444
% change	8.5	2.7	*2.6*	2.0	*6.0*	2.2	*2.0*	2.2	*2.0*
Debt charges	2,156	2,264	2,333	2,357	2,337	2,463	2,432	2,547	2,478
% of total revenues	*9.9*	*9.7*	*10.0*	*9.7*	*9.3*	*9.8*	*9.3*	*9.8*	*9.2*
Forecast allowance	—	100	100	100	200	100	50	100	50
Budget balance	**-1,971**	**-796**	**-1,239**	**-532**	**-794**	**-266**	**-327**	**18**	**10**
% of GDP	*-2.1*	*-0.9*	*-1.3*	*-0.6*	*-0.8*	—	*-0.3*	—	—
Net Debt, % of GDP	*35.2*	*38.5*	*36.1*	*39.1*	*36.9*	*38.9*	*37.1*	*38.3*	*36.8*
Real GDP, % change	*1.4*	*0.6*	*1.1*	*1.9*	*1.7*	—	*1.7*	—	—
Nominal GDP, % change	*3.4*	*2.9*	*3.8*	*3.1*	*3.6*	—	*3.4*	—	—
Infrastructure spending, \$B	3.1	3.1	3.2	3.2	3.7	2.9	3.3	3.0	3.3

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Tax measures introduced in the budget have a net positive impact on revenue. Specifically, the indexation of the Basic Personal Amount and Tax Bracket Threshold effectively offsets the fiscal drag from tax relief measures such as the Homeowners and Renters Affordability Tax Credit.

In its baseline scenario, the Budget projects real growth to accelerate from 1.1% in 2024 to 1.7% in 2025, maintaining this rate through 2026, though still underperforming the national average. This largely aligns with our view excluding the impact of tariffs. The province prudently allocates $200M in revenue for FY2026 and $50M annually over the subsequent two years in its baseline fiscal outlook. With revenue estimated to contract by $147 million for every one percent reduction in nominal GDP growth, the FY2026 contingency is sufficient to absorb a 1.4 percentage point downside to nominal growth.

The Gloomy but Highly Plausible Alternative

The alternative scenario presented in the budget appears reasonable and prepares the province well for trade uncertainties. A 25% tariff on US imports, coupled with Canada's retaliatory measures, is projected to reduce Manitoba's GDP by up to 3.8%. This could lead to a revenue decline of up to $559M in FY2026, similar to the recession the province experienced in 2009. To account for this loss of revenue, the government added an additional $600M revenue contingency in the alternative scenario on top of the $200M already embedded in the baseline. On the spending side of the ledger, the government will also allocate a $500M tariff response contingency to support targeted business programs for trade-exposed firms and help retrain displaced workers. That brings the total bottom-line deterioration in the event of tariffs to $1.1B.

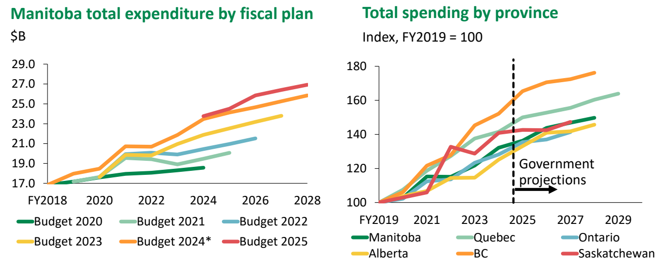
The government's assessment closely aligns with our own. We've identified Manitoba as one of the provinces most exposed to US tariffs due to the importance of its manufacturing sector and its reliance on US demand. Should tariffs on Canadian exports be fully implemented, we anticipate a sharp deceleration in real GDP growth for the province this year, with subdued growth continuing into next year. Unemployment is expected to rise to levels comparable to those seen during the Great Financial Crisis.

New Spending Prioritizes Healthcare

Spending has increased once again but remains middle-of-the-pack among Canadian provinces compared to pre-pandemic levels (graph 3). The new policy measures introduced in the budget are targeted and focused, with program spending set to rise by $1.3B in FY2026, primarily concentrated in healthcare. Spending in Health, Seniors, and Long-Term Care is set to increase by $640M, building on the $525M additional funding allocated in FY2025 (graph 4). This increase is mainly due to investments in front-line staff remuneration and retention, expanding critical and transitional care unit beds, and new investments in diagnostic and surgical services to reduce wait times.

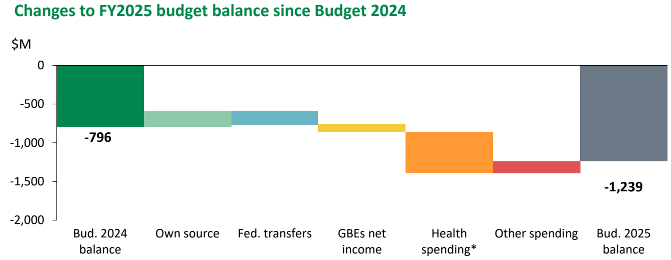
Manitoba ramped up infrastructure spending with a purpose to grow the economy, allocating an additional $1.1B combined from FY2026 to FY2029 compared to the previous plan (graph 5). The record high of $3.7B planned outlays for FY2026 includes fundings for construction of new schools, emergency rooms, and personal care homes. The government is also increasing capital spending to boost economic growth, aiming to create nearly 18k new jobs through investments in key projects like the North End Water Pollution Control Centre, Port of Churchill, Hudson

Graph 3
Spending Plan Increased Again, but Remains Manageable



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

Graph 4
Healthcare Spending Increases Likely Drove a Larger Deficit



* Includes health, seniors and long-term care
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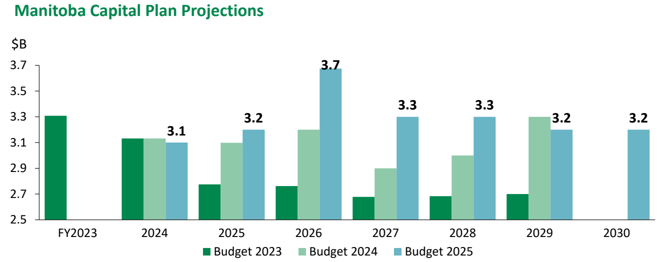
Graph 5
Increased Capital Plan Outlays Should Support Growth



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Bay Rail Line, Manitoba Hydro upgrades, twinning the east Trans-Canada Highway, and work on the Lake St. Martin and Lake Manitoba outlet channels and Wasagamack Airport.

Debt and Borrowing

The province's gross borrowing requirement totals $6.8B in FY2026, with $4.0B in refinancing and $2.9B in new cash requirements (net of estimated repayments). $2.9B has been pre-borrowed for FY2026, and the province plans to pre-fund about $2.0B for FY2027. Borrowing Requirements are expected to decline to $4.1B in FY2027 with lower refinancing needs, before ramping up to $5.5B in FY2028 and $6.8B in FY2029.

Manitoba continues to prioritize its well-established domestic borrowing program for both short- and long-term financing, providing cost-effective options and liquidity. In FY2025, the province issued an ultra-long bond to diversify its domestic borrowing. Meanwhile, Manitoba continues to tap into international markets, raising 60% of its FY2025 borrowing domestically and the rest internationally, particularly in the US, Europe, and Australia, to diversify its investor base and lower costs.