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FY 2025-26 has been a more challenging year for Manitoba's public finances. First, trade frictions led to an above-average national drop in nominal exports to the US last year (-17%). Also, wildfires and dry conditions meaningfully deteriorated the short-term fiscal picture. Due to the worst wildfire season on record in the last three decades, emergency expenditures during FY 2025-26 surpassed the previous 2025 budget projection by $333M. Particularly, Manitoba Hydro is on track for a third consecutive annual net loss in FY 2025-26. The crown corporation mentioned at the end of calendar 2025 watersheds feeding reservoirs were at the second-lowest level in 112 years. Altogether, the FY 2025-26 deficit stands at $1.67B, or 1.7% of NGDP.

The Manitoba government plans to shrink down the deficit very fast, by two-thirds, to only $498M in FY 2026-27 (a very modest 0.5% of NGDP). The Budget 2024 initial objective of eliminating the deficit by FY 2027-28 is preserved. FY 2026-27 revenues are projected to jump by $2.3B from the prior year, largely outpacing the intended pace of increase in spending of $1.3B.

Own-source taxation revenues are poised to advance at a modest clip, in line with the provincial real GDP annual growth forecast of 1.3% during 2026 (1.6% in 2025). In contrast to taxation revenues, the province will benefit from a major $1.1B jump in federal transfers during FY 2026-27, to $9.7B. Federal transfers to Manitoba have soared in recent years. They will represent 36% of total revenues in FY 2026-27, versus 29% in FY 2022-23. Another reason why the deficit projection shrinks fast relates to crown corporations. Budget 2026 assumes the rapid return to a net positive income of $140M from Manitoba Hydro after a large net loss of $500M registered in FY 2025-26. Mother Nature will have to cooperate. Budget 2026 includes new funding to add 19 firefighters to fight wildfires. The government also intends to build a new fire base.

Given the elevated level of economic uncertainty led by the crucial CUSMA outcome, the government benefits from the Fiscal Stabilization Account's balance of $585M representing a decent 2.2% of total revenues (a 1% variation in NGDP equals a $159M change in total revenues on an annual basis).

On the spending side, lower ER wait time is front and center in this budget as health care will receive a $0.7B increase to $10.6B. Budget 2026 also offers targeted measures to support Manitobans with the rising cost of living, as CPI inflation is projected at 2.4% in 2026. These measures won't cost much in terms of foregone revenues for the government. For example, the PST removal on all groceries, beginning July 1, will cost only $32M on an annual basis. Another targeted measure having small budgetary impact relates to the $100 increase – to $1,700 – of the school tax credit for homeowners.

Same story for the Renters Affordability Tax Credit gradually increasing in both 2026 and 2027 and costing the government an incremental $10M a year.

The borrowing program of FY 2025-26 ending in a few days stands at $5.6B, and 35% was completed outside the domestic market. The FY 2026-27 bond program stands at $4.2B. Despite shrinking deficits over the next two years, annual borrowing requirements will rise over time, to $6.4B in FY 2027-28 and $6.6B in FY 2028-29. One factor driving up borrowing requirements is the increase in refinancing, notably as more bonds will mature in 2029. The other factor is the gradual increase in annual capital funding necessary for infrastructure (schools, hospitals, Manitoba Hydro aging assets). Budget 2026 shows an annual average capital plan of $4.3B over the next five years. Market participants will notice that only 23.6% of the FY 2026-27 capital spending program of $3.77B will be allocated to new assets. Such a low figure is favourable for long-term financial sustainability because building new public assets today implies more funding will be necessary later for renovation.

Takeaway

Budget 2026 marks the third budget of the NDP government. Deficits have been higher than expected in the first two years of the current mandate. Public accounts showed a $353M larger-than-expected shortfall in FY 2024-25 at $1.1B). The FY 2025-26 deficit of $1.67B is also larger than initially envisioned a year ago. The Manitoba government has the ambitious plan to eliminate the shortfall very fast over a short period of time.

To conclude, it is worth looking at the longer-term picture given the global upheaval. Considering the rising importance of security and global trade reconfiguration, Manitoba is in a very good spot geographically. Notably, the Port of Churchill, Manitoba’s deepwater northern port, will play a very key role in upcoming years and decades. Positive developments related to studies and financing to upgrade infrastructure in Churchill are occurring. Market participants should also take notice of progress following the release of the province’s critical mineral strategy in 2024. For example, the Minago critical mineral project entirely owned by First Nations is moving closer to a production phase. In addition, pilot potash production has begun last December and first shipments abroad via the Port of Churchill are expected this year. Also, findings of high-grade gold mining sites have been announced.