BUDGET ANALYSIS

# Quebec: 2019 Economic and Fiscal Update

## The Economy Continues to Have a Highly Favourable Impact on Public Finances

HIGHLIGHTS

- The economy's dynamism is providing the Government of Quebec with more room to manoeuvre financially.
- The budgetary surplus is revised upwards, mainly for fiscal years 2018–2019 and 2019–2020.
- The new measures announced today affect mostly families, with a full enhancement of the family allowance and the immediate elimination of the additional contribution for childcare.
- The relative size of the provincial debt will continue to decrease over the next few years, and Ontario could, thus, move into second place in terms of indebtedness in the country, replacing Quebec.

**Even More Room to Manoeuvre Financially**

Quebec has had a lot of momentum in recent years. Economic growth is robust and expected to exceed the national average for the second year in a row in 2019. The labour market is strong, and the unemployment rate has dropped to a historic low. The Quebec economy's solid performance is obviously having a positive impact on the provincial government's finances.

According to the final results for the fiscal year ended March 31, 2019, the provincial government's surplus rose to $4.8B during the period, surpassing the $2.5B estimated in the last budget. For fiscal year 2019–2020, the Quebec government now has approximately $2.3B more at its disposal than forecast in March's budget. As for fiscal years 2020–2021 and 2021–2022, the additional money totals nearly $975M for each period.

The budgetary surplus generated in 2018–2019, i.e., $4.8B, is directly allocated to the stabilization reserve, which is now sitting at $12B. It is worth remembering that this reserve is recorded in accordance with the *Balanced Budget Act*. Still, it is not hard cash; in fact, this money is used each year to reduce the government's debt on the markets.

For fiscal years 2019–2020 to 2021–2022, the additional money resulting from Quebec's solid performance will be dedicated almost entirely to new measures, i.e., those announced in today's update as well as those already mentioned in recent months.

That being said, the Government of Quebec does not seem to have completely used up its financial leeway. The projections tabled today anticipate a $1.4B budgetary surplus for the current fiscal year. Additionally, if Quebec's economy were to continue to surprise, with results exceeding expectations, the room to manoeuvre could be even greater.

As for the Quebec government's debt, the debt representing accumulated deficits will continue to decrease in the coming fiscal years. Gross debt (which notably includes infrastructure investments) should grow at a rate below that of the economy. As a result, the gross debt to GDP ratio will continue to fall in the years ahead.

The same observation applies to net debt. The net debt to GDP ratio could go from 39.7% at March 31, 2019, to 34.2% at March 31, 2024. In comparison, the new budget projections released yesterday by the Government of Ontario anticipate that the province's net debt ratio could rise slightly in the years ahead to reach 40.1% at March 31, 2021. In other words, Quebec could

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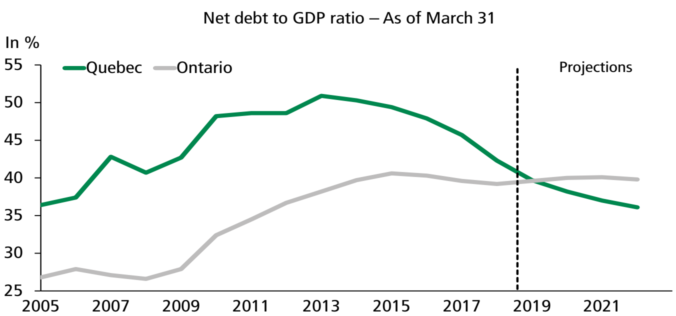
NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

**TABLE 1**
**Summary of transactions**

| IN $M (EXCEPT IF INDICATED) | ACTUAL 2018–2019 | PROJECTIONS 2019–2020 | 2020–2021 | 2021–2022 | 2022–2023 | 2023–2024 |
|---|---|---|---|---|---|---|
| Own-source revenue | 91,626 | 91,938 | 94,559 | 97,832 | 101,072 | 104,469 |
| *Variation (%)* | *6.6* | *0.3* | *2.9* | *3.5* | *3.3* | *3.4* |
| Federal transfers | 23,120 | 25,436 | 25,333 | 25,683 | 26,032 | 26,184 |
| *Variation (%)* | *2.8* | *10.0* | *-0.4* | *1.4* | *1.4* | *0.6* |
| Total budget revenues | 114,746 | 117,374 | 119,892 | 123,515 | 127,104 | 130,653 |
| *Variation (%)* | *5.9* | *2.3* | *2.1* | *3.0* | *2.9* | *2.8* |
| Program spending | -97,744 | -105,462 | -108,491 | -111,427 | -114,773 | -118,288 |
| *Variation (%)* | *3.7* | *7.9* | *2.9* | *2.7* | *3.0* | *3.1* |
| Debt service | -8,722 | -7,741 | -8,463 | -8,834 | -8,754 | -8,477 |
| *Variation (%)* | *-5.4* | *-11.2* | *9.3* | *4.4* | *-0.9* | *-3.2* |
| Contingency reserves | --- | -100 | -100 | -100 | -100 | -100 |
| Balance | 8,280 | 4,071 | 2,838 | 3,154 | 3,477 | 3,788 |
| Generations Fund | -3,477 | -2,671 | -2,738 | -3,054 | -3,377 | -3,688 |
| Balance in the meaning of the Act | 4,803 | 1,400 | 100 | 100 | 100 | 100 |
| Gross debt | 199,098 | 201,331 | 204,131 | 207,231 | 211,082 | 213,597 |
| *Variation (%)* | *-1.0* | *1.1* | *1.4* | *1.5* | *1.9* | *1.2* |
| *In % of GDP* | *45.8* | *44.6* | *43.5* | *42.9* | *42.4* | *41.6* |
| Debt representing combined deficits | 100,448 | 96,377 | 93,539 | 90,385 | 86,908 | 83,120 |
| *Variation (%)* | *-6.5* | *-4.1* | *-2.9* | *-3.4* | *-3.8* | *-4.4* |
| *In % of GDP* | *23.1* | *21.3* | *19.9* | *18.7* | *17.4* | *16.2* |

Source: Ministère des Finances du Québec

**GRAPH**
**Ontario may soon take second place, replacing Quebec, in terms of indebtedness in the country**




Sources: Ministère des Finances du Québec, Ontario Ministry of Finance and Desjardins, Economic Studies

soon cede its position as the second most indebted province (behind Newfoundland and Labrador) to Ontario.

### Measures Aimed at Families

The budget update tabled today contains several measures, some of which had already been announced by the Quebec government in recent months. The new initiatives introduced today are mainly aimed at families.

- Full enhancement of the family allowance:
  - As of next January, i.e., two years earlier than expected, the family allowance will rise once again.
  - For each minor (regardless of the child's rank within the family), the maximum amount will be $2,515, and the minimum amount will be $1,000.
- Immediate elimination of the additional contribution for childcare:
  - The government will eliminate the additional contribution for childcare retroactively to January 1, 2019. Parents will no longer have to pay the additional contribution when they file their next income tax return.
  - All parents will pay a single, reduced rate of $8.25 per day in 2019.

### Caution Still Warranted

Considering the Quebec government's financial leeway, it would have been easy to introduce several new budgetary expenditures today. Given the situation, the government's cautious approach, with emphasis on the targeted measures, is certainly worth mentioning.

**TABLE 2**
**Economic outlook**

| VARIATION IN % (EXCEPT IF INDICATED) | 2018 | 2019f | 2020f |
|---|---|---|---|
| **Real GDP[1]** | | | |
| Ministère des Finances forecasts | 2.5 | 2.4 | 1.8 |
| Desjardins forecasts | 2.5 | 2.6 | 1.7 |
| **Nominal GDP** | | | |
| Ministère des Finances forecasts | 4.2 | 3.9 | 3.8 |
| Desjardins forecasts | 4.8 | 5.0 | 3.9 |
| **GDP deflator[1]** | | | |
| Ministère des Finances forecasts | 1.7 | 1.4 | 2.0 |
| Desjardins forecasts | 2.3 | 2.4 | 2.2 |
| **Housing starts (annual rate in thousands of units)** | | | |
| Ministère des Finances forecasts | 46.9 | 51.4 | 47.4 |
| Desjardins forecasts | 46.9 | 48.5 | 46.0 |
| **Consumer prices** | | | |
| Ministère des Finances forecasts | 1.7 | 2.2 | 2.2 |
| Desjardins forecasts | 1.7 | 1.9 | 1.6 |
| **Job creation (annual average in thousands)** | | | |
| Ministère des Finances forecasts | 38.9 | 80.0 | 38.8 |
| Desjardins forecasts | 38.9 | 80.0 | 50.0 |
| **Unemployment rate (annual average in %)** | | | |
| Ministère des Finances forecasts | 5.5 | 5.0 | 4.9 |
| Desjardins forecasts | 5.5 | 4.9 | 4.5 |
| **Treasury bills—3-month (annual average in %)** | | | |
| Ministère des Finances forecasts | 1.4 | 1.6 | 1.5 |
| Desjardins forecasts | 1.4 | 1.7 | 1.7 |
| **Federal bonds—10-year (annual average in %)** | | | |
| Ministère des Finances forecasts | 2.3 | 1.5 | 1.6 |
| Desjardins forecasts | 2.3 | 1.6 | 1.6 |
| **Exchange rate (annual average in US$)** | | | |
| Ministère des Finances forecasts | 0.77 | 0.75 | 0.77 |
| Desjardins forecasts | 0.77 | 0.75 | 0.76 |

f: forecasts; [1] Due to rounding, the sum of the real GDP and GDP deflator does not correspond exactly to nominal GDP.
Sources: Ministère des Finances du Québec and Desjardins, Economic Studies

Remember that Quebec remains one of the provinces with the highest debt despite the improvements of recent years. Therefore, it seems like the right time to take advantage of the good years and Quebec's strong economic performance to reduce the debt burden using the Generations Fund, the stabilization reserve and budgetary surpluses.

Moreover, even if Quebec's economic forecasts remain relatively favourable, there is a very high degree of uncertainty due to the global situation, especially the trade tensions slowing down our exports and making businesses hesitant to invest. The budget projections tabled today demonstrate that Quebec is fairly well equipped to face a possible deterioration in economic conditions.