

# BUDGET ANALYSIS

## Quebec: Budget 2021 Still a Long Way to Go to Balance the Budget

### HIGHLIGHTS

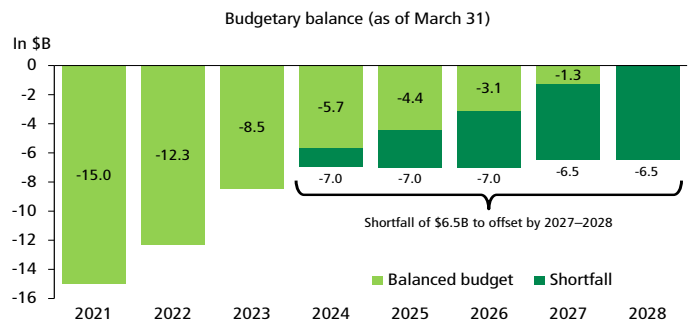
- ▶ The Ministère des Finances is projecting a \$15.0B budget deficit for 2020–2021, identical to the deficit presented in last November’s update.
- ▶ The budget deficit should gradually decrease after that. However, it will be 2027–2028 before it drops to zero.
- ▶ The Quebec government’s financial projections are not entirely nailed down. The current estimates include a growing shortfall as of 2023–2024. To achieve a balanced budget in 2027–2028, the shortfall for that year stands at \$6.5B.
- ▶ After hitting a low of 43.2% of GDP on March 31, 2020, the gross debt ratio will climb to 49.5% on March 31, 2021. The debt-to-GDP ratio is then projected to gradually decline after that.
- ▶ The 2021 budget puts forward a number of new measures to deal with the fallout from the pandemic, and to position Quebec for what comes afterwards. Together, the additional measures total \$15.0B by 2025–2026.

### A Balanced Budget Is Not Expected before 2027–2028

The 2021 budget not only provides an update on COVID-19’s impact on Quebec’s public finances, it also gives a glimpse of what comes next. As we suspected, it will take several years for Quebec’s budget to recover from this extraordinary shock. The Ministère des Finances is still projecting a \$15.0B budget deficit for 2020–2021, identical to the deficit presented in last November’s update. Some of the deficit will be dealt with on the books with the amount remaining in the stabilization reserve, \$8.8B. For fiscal 2021–2022, the deficit has been increased from last fall’s estimates. It goes from \$8.2B to \$12.3B, which is still lower than the projected deficit for 2020–2021. The budget deficit should gradually decrease after that. However, it will take until 2027–2028—seven years—to get it back to zero. This is longer than the period currently permitted by the *Balanced Budget Act*. That Act will therefore have to be suspended temporarily, which is easily justified by the extraordinary situation now prevailing.

That said, the Quebec government’s financial projections are not entirely nailed down. The current estimates include a growing shortfall as of 2023–2024. To balance the budget in 2027–2028, the shortfall for that year stands at \$6.5B. The

### GRAPH Returning to a balanced budget



Source: Ministère des Finances du Québec

Quebec government’s budget plan will clearly have to be refined in the years to come.

In the near term, the Quebec government can bank on some help from the economy. The budget projections call for Quebec’s real GDP to rise by 4.2% in 2021. The economic outlook has improved substantially recently, as Quebec is showing a lot of

François Dupuis, Vice-President and Chief Economist • Mathieu D’Anjou, Deputy Chief Economist • Benoit P. Durocher, Senior Economist

Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • [desjardins.economics@desjardins.com](mailto:desjardins.economics@desjardins.com) • [desjardins.com/economics](https://desjardins.com/economics)

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

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**TABLE 1**  
**Budgetary situation**

IN \$B (EXCEPT IF INDICATED)	ACTUAL	PROJECTIONS							
	2019–2020	2020–2021	2021–2022	2022–2023	2023–2024	2024–2025	2025–2026	2026–2027	2027–2028
Own-source revenue	91.7	90.0	95.7	100.3	104.1	107.8	111.2	115.1	119.0
Variation (%)	0.1	-1.9	6.3	4.8	3.8	3.6	3.1	3.6	3.3
Federal transfers	25.2	30.3	26.9	26.2	26.8	26.4	27.0	27.5	27.9
Variation (%)	9.1	20.0	-11.1	-2.8	2.4	-1.3	2.0	2.1	1.5
Total budget revenues	117.0	120.3	122.6	126.4	130.8	134.3	138.1	142.7	146.9
Variation (%)	1.9	2.8	1.9	3.2	3.5	2.6	2.9	3.3	3.0
Program spending	-107.2	-110.8	-116.9	-119.6	-123.8	-126.6	-130.5	-134.9	-139.2
Variation (%)	9.3	4.1	5.4	2.3	3.5	2.3	3.1	3.4	3.2
Debt service	-7.7	-7.7	-8.6	-9.0	-9.0	-9.4	-9.3	-9.1	-9.2
Variation (%)	-12.0	-0.1	12.4	4.5	-0.1	4.8	-1.3	-2.2	1.3
Support and recovery measures	---	-11.9	-4.3	-1.2	-0.1	---	---	---	---
Change in accounting respecting transfer payments	---	-0.6	-0.7	-0.7	-0.5	-0.6	-0.6	-0.1	0.4
Provision for economic risks	---	-1.3	-1.3	-1.3	-0.8	-0.5	-0.5	-0.5	-0.5
Shortfall	---	---	---	---	1.3	2.6	3.9	5.2	6.5
Balance	2.1	-12.0	-9.2	-5.3	-1.9	-0.3	1.1	3.2	4.9
Generations Fund	-2.6	-3.0	-3.1	-3.2	-3.8	-4.1	-4.2	-4.5	-4.9
Balance before stabilization reserve	-0.5	-15.0	-12.3	-8.5	-5.7	-4.4	-3.1	-1.3	0.0
Use of the stabilization reserve	0.5	8.8	---	---	---	---	---	---	---
Balance in the meaning of the Act	0.0	-6.2	-12.3	-8.5	-5.7	-4.4	-3.1	-1.3	0.0
Gross debt	198.8	219.0	230.3	242.0	250.8	254.9	258.4	n/a	n/a
Variation (%)	-0.2	10.1	5.2	5.1	3.6	1.6	1.4	n/a	n/a
In % of GDP	43.2	49.5	49.2	48.8	48.7	47.9	47.0	n/a	n/a
Debt representing combined deficits	107.6	119.6	128.8	134.1	136.0	136.3	135.2	n/a	n/a
Variation (%)	-4.2	11.1	7.7	4.1	1.4	0.2	-0.8	n/a	n/a
In % of GDP	23.4	27.1	27.5	27.0	26.4	25.6	24.6	n/a	n/a

n/a: not available

Source: Ministère des Finances du Québec

resilience to the fallout from COVID-19's second wave. Our most recent forecast calls for Quebec's real GDP to grow 6.0% in 2021. This difference should yield a slightly smaller budget deficit, even though interest rates could be a little higher than the Ministère des Finances projects.

In terms of debt, the accounting changes made to transfer payments, recommended by the Auditor General, have led to a \$12.4B increase in the debt representing accumulated deficits and the net debt on March 31, 2020. Also factoring in the impact of the major budget deficits triggered by COVID-19, the Quebec government's debt will increase substantially. After hitting a low of 43.2% of GDP on March 31, 2020, the gross debt ratio will climb to 49.5% at March 31, 2021. However, this remains below the record peak, 57.6%, seen in 1997–1998. The debt-to-GDP ratio is expected to decline gradually after that.

### Additional Measures to Deal with COVID-19

The 2021 budget puts forward a number of new measures to deal with the fallout from the pandemic, and to position Quebec for what comes next. Together, the additional measures total \$15.0B by 2025–2026. Here is a summary of the main initiatives:

- ▶ Strengthening our health care system (total of \$10.3B).
  - \$7.0B to address the public health crisis, including \$750M a year to improve health care over the long term.
  - \$2.0B to strengthen services for seniors.
  - \$1.3B to enhance health care and services.

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

VARIATION IN % (EXCEPT IF INDICATED)	2020	2021f	2022f
<b>Real GDP</b>			
Ministère des Finances forecasts	-5.3	4.2	4.0
Desjardins forecasts	-5.3	6.0	3.4
<b>Nominal GDP</b>			
Ministère des Finances forecasts	-4.0	6.0	5.8
Desjardins forecasts	-4.0	8.2	5.2
<b>Housing starts (annual rate in thousands of units)</b>			
Ministère des Finances forecasts	54.1	50.4	48.8
Desjardins forecasts	54.1	60.0	55.0
<b>Consumer prices</b>			
Ministère des Finances forecasts	0.8	1.9	2.2
Desjardins forecasts	0.8	2.4	1.5
<b>Job creation (annual average in thousands)</b>			
Ministère des Finances forecasts	-208.5	148.9	75.5
Desjardins forecasts	-208.5	177.0	117.0
<b>Unemployment rate (annual average in %)</b>			
Ministère des Finances forecasts	8.9	6.4	6.0
Desjardins forecasts	8.9	6.2	5.4
<b>Treasury bills—3-month (annual average in %)</b>			
Ministère des Finances forecasts	0.4	0.1	0.3
Desjardins forecasts	0.4	0.2	0.3
<b>Federal bonds—10-year (annual average in %)</b>			
Ministère des Finances forecasts	0.7	1.4	1.6
Desjardins forecasts	0.7	1.7	1.9
<b>Exchange rate (annual average in US\$)</b>			
Ministère des Finances forecasts	0.75	0.80	0.81
Desjardins forecasts	0.75	0.81	0.81

f: forecasts

Sources: Ministère des Finances du Québec and Desjardins, Economic Studies

- ▶ Supporting educational success and young people (total of \$1.5B).
  - \$574M to support educational success.
  - \$669M to support student retention and graduation in higher education.
  - \$107M to facilitate the professional and social integration of young people.
  - \$113M to promote the practice of physical and recreational activities.
- ▶ Accelerating growth and the transition to the new economy (total of \$4.0B).
  - \$2.2B to increase productivity and stimulate business investment.
  - \$218M to create wealth through innovation.
- \$404M to support the requalification of workers and get them back into the labour market.
- \$523M to promote economic development in the regions.
- \$137M to develop our economy in a sustainable way.
- \$392M to promote Quebec's culture, heritage and the French language.
- \$193M to keep supporting businesses affected by the pandemic.
- ▶ Supporting Quebecers (total of \$1.0B).
  - \$581M to meet Quebecers' specific needs, with measures that target such things as:
    - √ providing affordable housing,

- ✓ supporting families, in particular by improving the offer of childcare services and family-work balance,
  - ✓ continuing and improving the support provided to women,
  - ✓ fostering the funding of community organizations and access to their services,
  - ✓ supporting the purchase of essential products for social assistance recipients.
- \$397M to protect crime victims, combat the sexual exploitation of minors and improve the justice system, in particular by ensuring that judicial and police practices evolve so that they are better adapted to the reality and issues of current society.
- Fairness is a fundamental value for the government of Quebec. Everyone must do their fair share and receive what is owed to them. The government therefore intends to:
- Continue its actions to ensure the integrity and fairness of the tax system. As such, it will make sure the Quebec sales tax (QST) is collected on foreign goods originating from distribution warehouses.
  - Maintain the compensation tax for financial institutions.
  - Facilitate remittance of all unclaimed financial proceeds to the right-holders.
  - The government expects these actions to eventually result in additional revenues of \$500M per year.

- In addition to these measures, Quebec Infrastructure Plan (QIP) investments are increased \$4.5B to \$135.0B. These major investments will help increase the economy's potential and create wealth over the long term, as well as filling the void left in the construction market by private projects that were abandoned due to the pandemic. To help relaunch the economy, implementation of the QIP has been accelerated, and nearly 60% of the investments in the ten-year plan will be made over the next five years.

### Many Uncertainties Persist

The economic outlook is more encouraging, and Quebec's vaccination campaign is picking up speed. However, the situation remains highly uncertain, and several risks still hover over the budget projections. Substantial efforts must be deployed in the coming years to get Quebec's public finances balanced again. This is a major objective in order to control rising debt and maintain intergenerational equity. Thankfully, although its financial situation has deteriorated, the Quebec government will keep paying dedicated revenue into the Generations Fund. Its book value could hit \$30.3B on March 31, 2026.

Moreover, some measures introduced in today's budget aim to increase business investment. This should foster a rise in productivity, which could translate into higher growth potential for Quebec's economy over the medium term. In this way, the hope is that Quebec's economy will more quickly return to the extraordinary vitality seen just before the pandemic. If the Quebec government succeeds in its aim, it could make it easier to balance the budget again.