

BUDGET ANALYSIS

Quebec: Economic and Fiscal Update

Facing a Deficit of \$14.9B for Fiscal 2020–2021

The Entire Stabilization Reserve Will Be Required to Offset It

HIGHLIGHTS

- ▶ COVID-19 has led to a serious deterioration of the Quebec government's budgetary situation.
- ▶ The budgetary impact of measures to support Quebecers and businesses will amount to \$6.6B for fiscal years 2019–2020 and 2020–2021.
- ▶ The severe deterioration of economic conditions will generate a pronounced drop in the Quebec government's own-source revenue.
- ▶ After an estimated surplus of \$3.0B for 2019–2020, the budgetary balance will decline sharply for 2020–2021. Once the deposits to the Generations Fund are made, a deficit of \$14.9B is expected for the year.
- ▶ Under the *Balanced Budget Act*, the \$14.9B deficit should be completely made up by using all the funds accumulated in recent years in the stabilization reserve.
- ▶ However, the stabilization reserve is only an accounting mechanism for budgetary surpluses and it does not consist of surplus cash. As such, the Quebec government will actually have to borrow on financial markets to finance its \$14.9B deficit.
- ▶ The Quebec government's debt will therefore increase significantly in 2020–2021. The gross-debt-to-GDP ratio could climb to 50.4% as at March 31, 2021, a level just below that of 2017.

TABLE 1
Budgetary situation

IN \$M (EXCEPT IF INDICATED)	ACTUAL	PROJECTIONS	
	2018–2019	2019–2020	2020–2021
Own-source revenue	91,626	92,386	85,654
Variation (%)	6.6	0.8	-7.3
Federal transfers	23,120	25,158	29,781
Variation (%)	2.8	8.8	18.4
Total budget revenues	114,746	117,544	115,435
Variation (%)	5.9	2.4	-1.8
Program spending	-97,744	-103,724	-115,504
Variation (%)	3.7	6.1	11.4
Debt service	-8,722	-7,648	-8,304
Variation (%)	-5.4	-12.3	8.6
Estimated losses on the Cseries investment	---	-603	---
Provision for economic risks	---	---	-4,000
Balance	8,280	5,569	-12,373
Generations Fund	-3,477	-2,606	-2,567
Use of the stabilization reserve	---	---	14,940
Balance in the meaning of the Act	4,803	2,963	0
Gross debt	199,098	198,916	221,815
Variation (%)	-1.0	-0.1	11.5
In % of GDP	45.3	43.4	50.4
Debt representing combined deficits	100,448	94,879	107,252
Variation (%)	-6.5	-5.5	13.0
In % of GDP	22.9	20.7	24.4

Source: Ministère des Finances du Québec

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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.

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COVID-19 Wreaks Havoc on Quebec's Public Finances

The COVID-19 pandemic and the related confinement measures are having unprecedented repercussions on Quebec's economy. Quebec is on its way to a historic recession with significant erosion of its real GDP in 2020. This affects Quebec's public finance situation on two fronts. First, the sharp downturn in economic activities and significant rise in unemployment will lead to a decrease in own-source revenue. In addition, the various measures put forward in recent months by the Quebec government to deal with COVID-19 generated an increase in budgetary expenditures. These two factors have contributed to a marked deterioration of the Quebec government's budgetary balance.

Therefore, a deficit of \$14.9B is now anticipated for 2020–2021. Under the *Balanced Budget Act*, this deficit will be entirely offset by funds accumulated in the stabilization reserve in recent years. However, this reserve is not truly money in the bank since the Quebec government must borrow on the markets to finance this deficit. This will inevitably lead to an increased public debt.

That said, even in the current context of high uncertainty, the gradual re-opening that was initiated in Quebec over the past few weeks is encouraging. This would suggest that the worst is behind us and that economic conditions will progressively

improve over the coming months, although certain sectors will recover faster than others. Thus, the impact on public finances should be temporary. However, the recovery period will be challenging since certain increases in public spending are recurring, especially for healthcare. Given these conditions, returning to fiscal balance may be difficult and could take several years.

What Can We Expect after March 31, 2021?

Unfortunately, the update published today does not provide information on the Quebec government's financial outlook beyond fiscal 2020–2021. One would expect that improved economic conditions would lead to a lower budgetary deficit as of 2021, but to what extent is unclear. There is also reason to believe that it will take several years to balance Quebec's public finances once more. However, now that the stabilization reserve has been liquidated, the financial leeway provided for under the *Balanced Budget Act* will be significantly less over the coming years. Only the next forecast from the Minister of Finance will provide further details.

TABLE 2
Economic outlook

VARIATION IN % (EXCEPT IF INDICATED)	2019	2020f	2021f
Real GDP¹			
Ministère des Finances forecasts	2.7	-6.5	6.0
Desjardins forecasts	2.7	-6.6	6.1
Nominal GDP			
Ministère des Finances forecasts	4.4	-4.0	7.1
Desjardins forecasts	4.4	-5.2	7.5
Consumer prices			
Ministère des Finances forecasts	2.1	0.7	1.5
Desjardins forecasts	2.1	0.6	2.0
Unemployment rate (annual average in %)			
Ministère des Finances forecasts	5.1	9.5	7.6
Desjardins forecasts	5.1	8.9	7.5
Treasury bills—3-month (annual average in %)			
Ministère des Finances forecasts	1.7	0.5	0.4
Desjardins forecasts	1.7	0.5	0.3
Federal bonds—10-year (annual average in %)			
Ministère des Finances forecasts	1.6	0.8	1.1
Desjardins forecasts	1.6	0.8	0.9
Exchange rate (annual average in US\$)			
Ministère des Finances forecasts	0.76	0.72	0.73
Desjardins forecasts	0.76	0.73	0.75

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