

BUDGET ANALYSIS

Quebec: Economic and Fiscal Update

Government Stays on Course to Return to a Balanced Budget within Five Years

HIGHLIGHTS

- ▶ The deficit forecast for fiscal year 2020–2021 stands at \$15B. Deficits of \$8.3B and \$7.0B are projected for the next two fiscal years.
- ▶ The economic situation is slightly more favourable than anticipated last June. This lets governments announce additional measures totalling \$1.8B over three years to support the Quebec economy and accelerate its recovery.
- ▶ Under the *Balanced Budget Act*, the government must return to a balanced budget within five years. A more comprehensive plan should be presented in the next budget.
- ▶ The pandemic has had a significant impact on the Quebec government's debt. The gross debt, which stood at 43.3% of GDP as of March 31, 2020, will have jumped to 50.5% at the end of the current fiscal year and will remain at around 50% at the end of the 2022–2023 fiscal year.

Own-Source Revenue Was More Resilient than Expected

Today's economic and fiscal update confirms the dramatic effects of the COVID-19 pandemic on Quebec's public finances. Budget surpluses and the downward trend in the debt burden are well behind us and it is clear that it will take several years to restore the situation. Of course, this is far from unique to Quebec; last week, for example, Ontario reported a projected deficit of \$38.5B for the current fiscal year. Moreover, with the second wave of COVID-19, extreme uncertainty lies ahead.

There is still some good news in today's update. First, the initial recovery of the Quebec economy after the period of confinement has exceeded expectations. At the time of the last update in June, the Department of Finance was forecasting a 6.5% decline in Quebec's real GDP for 2020; today it is expecting a 6.0% decline. Government own-source revenue has been particularly resilient, limiting the decline in the current fiscal year to -3.6% according to the department's latest projections, a shock about half as severe as was expected last June. It should be noted that the economic forecasts the department used today are very close to ours on the whole and are even somewhat conservative, in our opinion, particularly with regard to economic and labour market growth.

The resilience of own-source revenue combined with increased federal transfers and lower debt charges has allowed the government to finance many expenditures related to the current crisis without further deepening the deficit. Additional measures totalling about \$4B had already been announced since June and the government is now adding \$1.8B for new initiatives. This new funding includes \$287M to address mental health issues, to better adapt educational settings and to support the tourism sector. Most of the new spending, \$1.5B, will be used to accelerate the economic recovery. Significant amounts will be invested to help get Quebecers back into the labour market (\$459M) and to support business investment projects and regional economic development (\$477M). Additional investments of \$300M will be used to enhance the Plan for a Green Economy and \$247M will be invested to promote Quebec production and buying locally.

A Gradual Rebalancing of Public Finances Seems Possible

A significant deterioration in public finances this year was inevitable given the health crisis. For the time being, it seems entirely appropriate for the government to focus its efforts on supporting and reviving the Quebec economy rather than presenting a clear plan to return to a balanced budget. Measures promoting productive investment should help increase potential economic growth in the medium term.

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 • 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.

IMPORTANT: This document is based on public information and may under no circumstances be used or construed as a commitment by Desjardins Group. While the information provided has been determined on the basis of data obtained from sources that are deemed to be reliable, Desjardins Group in no way warrants that the information is accurate or complete. The document is provided solely for information purposes and does not constitute an offer or solicitation for purchase or sale. Desjardins Group takes no responsibility for the consequences of any decision whatsoever made on the basis of the data contained herein and does not hereby undertake to provide any advice, notably in the area of investment services. The data on prices or margins are provided for information purposes and may be modified at any time, based on such factors as market conditions. The past performances and projections expressed herein are no guarantee of future performance. The opinions and forecasts contained herein are, unless otherwise indicated, those of the document's authors and do not represent the opinions of any other person or the official position of Desjardins Group. Copyright © 2020, Desjardins Group. All rights reserved.

TABLE 1
Budgetary situation

IN \$M (EXCEPT IF INDICATED)	ACTUAL	PROJECTIONS		
	2019–2020	2020–2021	2021–2022	2022–2023
Own-source revenue	91,744	88,437	94,477	98,709
Variation (%)	0.1	-3.6	6.8	4.5
Federal transfers	25,228	30,296	26,639	25,772
Variation (%)	9.1	20.1	-12.1	-3.3
Total budget revenues	116,972	118,733	121,116	124,481
Variation (%)	1.9	1.5	2.0	2.8
Program spending	-105,621	-119,507	-114,576	-117,959
Variation (%)	8.1	13.1	-4.1	3.0
Debt service	-7,676	-7,573	-8,806	-9,303
Variation (%)	-12.0	-1.3	16.3	5.6
Estimated losses on the Cseries investment	-1,037	---	---	---
Provision for economic risks	---	-4,000	-3,000	-1,000
Balance	2,638	-12,347	-5,266	-3,781
Generations Fund	-2,606	-2,653	-2,984	-3,219
Balance before use of the stabilization reserve	32	-15,000	-8,250	-7,000
Use of the stabilization reserve	---	12,009	---	---
Balance in the meaning of the Act	32	-2,991	-8,250	-7,000
Gross debt	198,811	220,837	233,850	244,535
Variation (%)	-0.1	11.1	5.9	4.6
In % of GDP	43.3	50.5	50.0	49.9
Debt representing combined deficits	95,178	107,525	112,791	116,572
Variation (%)	-5.2	13.0	4.9	3.4
In % of GDP	20.7	24.6	24.1	23.8

Source: Ministère des Finances du Québec

It will be important, however, to restore public finances to a sound footing quickly. The forecasts for fiscal years 2021–2022 and 2022–2023 are quite encouraging in this regard. Relatively large deficits are expected, but they include provisions for economic risks, especially for next year, in addition to payments to the Generations Fund. If efforts to contain spending growth are made and the economic environment is quite favourable, Quebec seems to be in a fairly good position to succeed in returning to a balanced budget within the period prescribed by the *Balanced Budget Act*. Obviously, depending on how the pandemic plays out over the next few months, the situation of Quebec's public finances could still drastically change.

TABLE 2
Economic outlook

VARIATION IN % (EXCEPT IF INDICATED)	2019	2020f	2021f
Real GDP			
Ministère des Finances forecasts	2.6	-6.0	5.0
Desjardins forecasts	2.6	-5.8	4.9
Nominal GDP			
Ministère des Finances forecasts	4.5	-4.6	6.9
Desjardins forecasts	4.5	-4.8	6.3
Consumer prices			
Ministère des Finances forecasts	2.1	0.8	1.6
Desjardins forecasts	2.1	0.7	1.5
Unemployment rate (annual average in %)			
Ministère des Finances forecasts	5.1	9.3	7.8
Desjardins forecasts	5.1	8.9	6.6
Treasury bills—3-month (annual average in %)			
Ministère des Finances forecasts	1.7	0.4	0.2
Desjardins forecasts	1.7	0.5	0.3
Federal bonds—10-year (annual average in %)			
Ministère des Finances forecasts	1.6	0.7	0.9
Desjardins forecasts	1.6	0.8	0.8
Exchange rate (annual average in US\$)			
Ministère des Finances forecasts	0.76	0.74	0.76
Desjardins forecasts	0.76	0.74	0.76

f: forecasts

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