



## CURRENT ANALYSIS

June 23, 2017

### Bigger-than-expected budget surplus in Quebec in 2016-17

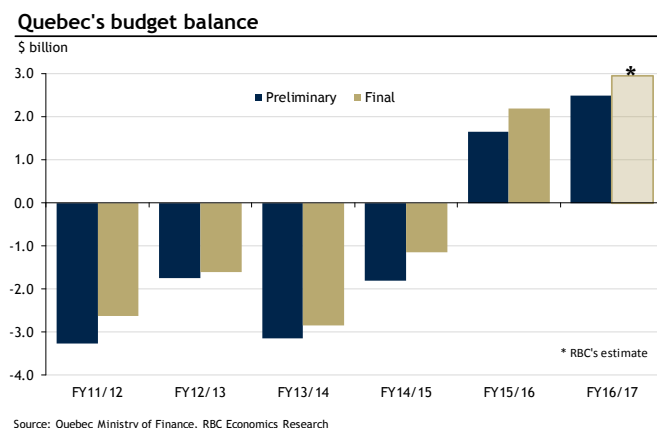
It's almost official: the Quebec government has posted a second-straight large budget surplus last fiscal year. The final number will be revealed in the audited public accounts later this year but the release yesterday of Quebec's monthly report of financial transactions pretty much sealed the deal. It showed that the provincial government recorded a surplus of \$2.5 billion over the 12 months of the 2016-17 fiscal year. And this is *after* a \$2 billion deposit into the Generations Fund.

As recently as three months ago in the 2017 budget, the government was forecasting a surplus of \$250 million 2016-17—or \$2.3 billion before the deposit to the Generations Fund.

The in-year monitoring of financial transactions historically has tended to provide a conservative estimate of the final, 'official' balance. The so-called '13th month' (the moniker for year-end adjustments) has added more than \$450 million to the bottom line on average in the past five years. So we see very little risk that the final surplus estimate will come in much lower than \$2.5 billion. On the contrary, we think it might get closer to \$3 billion. Again, that would be after a \$2 billion deposit into the Generations Fund.

The Quebec government used its previous \$2.2 billion surplus recorded in 2015-16 to set up a stabilization fund and pay down debt. It led to the first reduction of the province's gross debt since 1959. We expect similar uses for last year's surplus with, in addition, some tax cuts. The governing Liberals promised during the last election campaign to allocate half of any budget surplus to tax relief once growth in health care and education spending has been restored to 4.0% and 3.5%, respectively. Budget 2017 projects expenditures to grow by 4.3% for health care and by 4.0% for education in 2017-18. The Liberals promised to allocate the remaining half of surpluses to debt repayment.

The much larger-than-projected surplus last year puts the government in a strong position to deliver on its fiscal plan. The plan shows a balance this year and in the next four years. This solid position and scope for further progress in reducing the weight of the provincial debt are not going unnoticed by credit agencies. Indeed, Standard & Poor's last week upgraded the province's credit rating to AA-. This is one notch above Ontario's rating.



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