

QUEBEC BUDGET 2020

March 2020

A green-ish budget that could turn red?

- Province's books projected to remain in the black over the next five years
- 2019-2020 surplus revised higher to \$1.9 billion—and could be even larger
- Debt reduction targets are ahead of schedule
- Government ramps up fight against climate change
- Budget contains no explicit buffer to deal with unexpected shocks

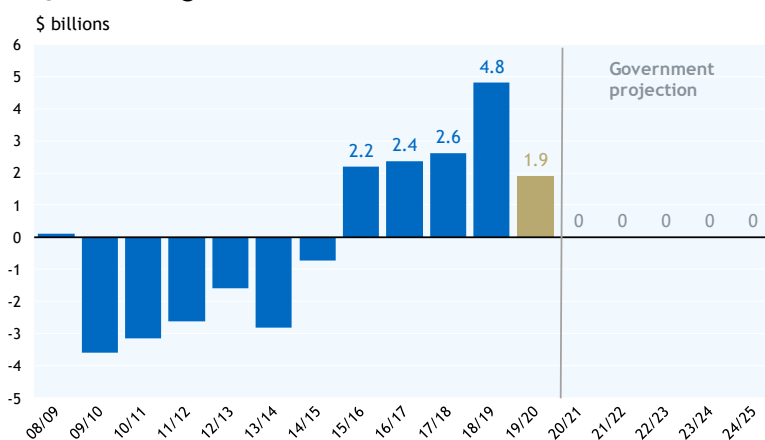
No surprises...

As tabled, the Coalition Avenir Québec's second budget was essentially a mid-mandate exercise with few surprises. The main new twist was an early look at the government's long-awaited climate action plan, the details of which will be revealed in the fall. Otherwise, Budget 2020 primarily rolled out already-announced measures—advancing the timing of some initiatives and modestly boosting the size of others. The bottom line remains the same: the books are projected to be balanced over the entire five-year fiscal plan. That is, after multi-billion-dollar deposits into the Generations Fund (the province's version of a sovereign wealth fund) as part of long-standing efforts to reduce the provincial debt.

...but exposed to heightened risks

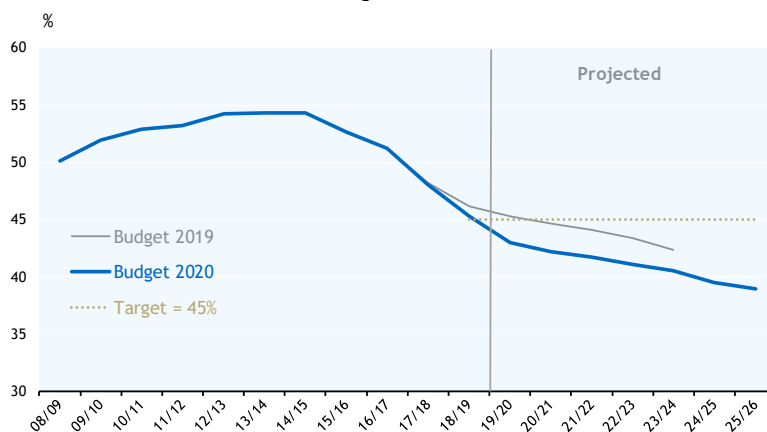
What's absent from Budget 2020, though, is any explicit buffer to deal with unexpected economic shocks. The government even did away with the \$100 million contingency reserve. That's an issue because some of the budget assumptions—drafted weeks ago—now look somewhat optimistic. The global outbreak of COVID-19 and current financial market turmoil pose a definite downside risk to the 2.0% growth projection for Quebec's economy in 2020. This in turn puts into question the government's revenue forecast of 2.8% in 2020-2021. Any material slowdown in revenues could easily tip the budget into the red. Quebec Finance Minister

Quebec budget balance*



* After deposits into the Generations Fund.
Source: Ministère des Finances du Québec, RBC Economics

Gross debt as % of GDP: Quebec



Source: Ministère des Finances du Québec, RBC Economics

Éric Girard indicated a weaker-than-anticipated economy wouldn't prompt him to cut expenditures (projected to rise by 5.1%). In fact, he'd consider boosting spending to keep the provincial economy out of recession. Any deficit smaller than the deposit into the Generations Funds (\$2.7 billion in 2020-2021) would not erode Quebec's fiscal position because it would still represent a surplus on an operating basis (the more conventional accounting basis used by other provinces).

Economic growth assumptions						
	2019	2020	2021	2022	2023	2024
Real GDP growth (%)						
Budget 2020	2.8	2.0	1.5	1.4	1.4	1.4
Fall update 2019	2.4	1.8	1.3	1.3	1.3	-
RBC (December 2019)	2.5	2.0	1.6	-	-	-
Nominal GDP growth (%)						
Budget 2020	4.7	4.1	3.4	3.2	3.2	3.2
Fall update 2019	3.9	3.8	3.1	3.1	3.1	-
RBC (December 2019)	4.0	3.8	3.4	-	-	-

Source: Ministère des Finances du Québec, RBC Economics

Larger-than-expected surplus in 2019-2020

The Quebec government is facing this period of global turbulence with substantial wind in its sails. The provincial economy has been on a tear lately with an estimated growth rate of 2.8% in 2019—the strongest among the provinces. This filled the government's coffers in 2019-2020, adding \$2.3 billion (or 2.0%) to the original revenue projection in Budget 2019. Minister Girard now expects a surplus of \$1.9 billion in 2019-2020 (up from zero in Budget 2019 and \$1.4 billion in the fall 2019 economic update). And that's including a \$603 million charge for the drop in value in the government's investment in Bombardier's CSeries airplane project. The new surplus figure may even be an understatement. The latest monthly budget tracking shows a \$5.8 billion surplus in the first nine months of the fiscal year, virtually on par with the results recorded a year earlier. The 2018-2019 surplus ended at \$4.8 billion—the largest ever in the province.

Ramping up the fight against climate change and boosting economic potential

Budget 2020 presented the first outline of the CAQ's forthcoming climate change action plan. The plan will feature investment totaling \$6.7 billion over six years (including \$322 million in 2020-2021), with two-thirds of it funded by carbon market revenues. Spending will focus on the electrification of public transit, extending programs to subsidize the purchase of electric vehicles and home heating conversion to renewable energy, and helping municipalities adapt to climate change (e.g. flood control). "Increasing the

Quebec's consolidated fiscal plan						
(\$ millions)	Forecast					
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Consolidated Revenue	117,943	121,295	125,152	128,623	132,221	135,869
Own-source revenue	92,846	95,603	98,859	102,094	105,623	109,061
Federal transfers	25,097	25,692	26,293	26,529	26,598	26,808
Consolidated expenditure	112,807	118,566	122,247	125,520	128,795	132,124
Portfolio expenditure	104,962	110,300	113,617	116,837	120,375	123,664
Debt service	7,845	8,266	8,630	8,683	8,420	8,460
Estimated losses on the CSeries investment	(603)					
Shortfall to be offset			125	250	250	250
Surplus/(Deficit)	4,533	2,729	3,030	3,353	3,676	3,995
Deposits into the Generations Fund	(2,633)	(2,729)	(3,030)	(3,353)	(3,676)	(3,995)
Budgetary balance for the purposes of the Balanced Budget Act	1,900	-	-	-	-	-
Net debt as % of GDP	37.3	36.1	35.2	34.4	33.6	32.7

Source: Quebec Ministry of Finance, RBC Economics

potential of the economy and creating wealth” was another big priority for the government in this budget. An additional \$5.8 billion will be invested over five years in education (\$1.5 billion), school tax reductions (\$1.2 billion), enhancing business productivity (\$1.0 billion), stimulating the cultural industry (\$407 million) and promoting workers’ integration and retention in the labour market. Finally, healthcare, services to people in vulnerable situations or with special needs, and support for indigenous communities collectively got \$3.5 billion in additional spending over five years.

Debt targets well ahead of schedule

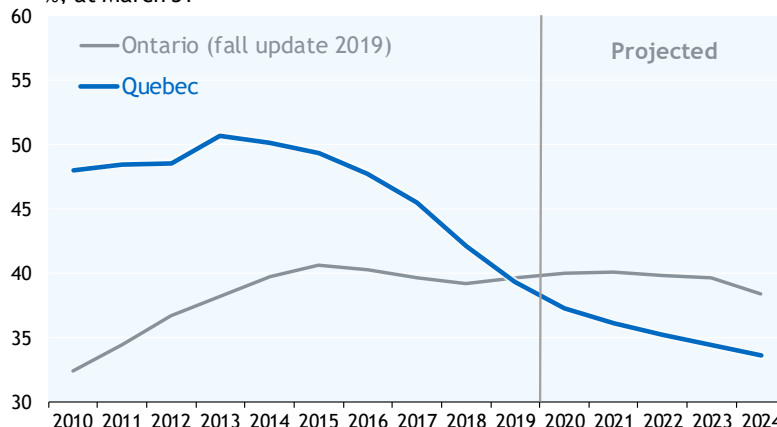
Budget 2020 reported that the province’s gross debt target (45% of GDP) was achieved in 2019, six years ahead of schedule. The government projects the gross debt to GDP ratio to fall to 43.0% in 2020 and 39.5% by 2025. Quebec’s other debt target—debt representing accumulated deficits of 17% of GDP—will be achieved in 2023, three years ahead of schedule. That ratio is projected to fall to 20.9% in 2020 and 14.5% by 2025. Net debt-to-GDP also remains firmly on a downward track. It’s projected to reach 37.3% at the end of this month—below the 40.0% most recently expected in Ontario—and ease to 32.7% by 2025. These numbers paint an encouraging picture for Quebec. The province has made substantial progress in addressing its elevated debt. And it’s at times of economic challenges—such as we might be facing this year—that improved fiscal flexibility will be of greatest service. It gives the government more options to respond to events and protect essential services.

Lower financing requirement in 2020-2021

The government expects its financing program to total \$13.9 billion in 2020-2021, down from \$19.2 billion in 2018-2019 (the latter included \$6.3 billion in pre-financing). The program is set to increase materially over the remainder of the fiscal plan, averaging \$26.9 billion per year.

Net Debt as % of GDP

%, at March 31



Source: Ministère des Finances du Québec, Ontario Ministry of Finance, RBC Economics