

## FALL UPDATE ON QUEBEC'S FINANCIAL SITUATION

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## Putting money back into Quebecers' wallets

- Record \$4.8 billion surplus last year set favourable baselines.
- Surpluses of \$1.4 billion now projected in 2019-2020 and \$100 million per year thereafter.
- New initiatives will cost the government \$2.6 billion over three years.
- These include \$1.8 billion going "back into Quebecers' wallets".
- \$12 billion stabilization reserve provides solid protection against unexpected events.
- Gross debt reduction target will be achieved this year, well ahead of schedule.

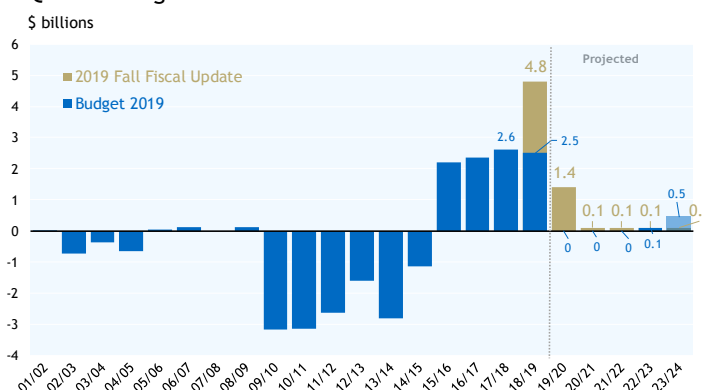
## Good news started early

The Quebec government consistently delivered good news on the fiscal front over the past four years. This started under the previous Liberals administration but it's been no different since the Coalition Avenir Québec (CAQ) party took the reins last year. This round, positive news arrived hours before the release of the 2019 fall fiscal update with the publication of the 2018-2019 public accounts. The final budget tallies showed a record budget surplus of \$4.8 billion (1.1% of GDP) last year *after* a \$3.5 billion deposit into the province's Generations Fund. The final surplus was almost double the \$2.5 billion estimate shown in March and fully \$4.8 billion above the original zero-surplus projection in Budget 2018 by the previous Liberal government. The stronger result reflected both higher revenues (up \$5.2 billion) and lower expenses (down \$2.2 billion) than expected. The government used this windfall to further pad up its stabilization reserve which totaled \$12 billion at March 31, 2019—large enough to protect against all but the most severe downturns.

## \$1.4 billion surplus expected this year

More favourable starting points improved the revenue and expenditure baselines over the entire fiscal plan. This gave Quebec Finance Minister Éric Girard further fiscal room to manoeuvre totaling to \$2.3 billion in 2019-2020 and just under \$1 billion in both 2020-2021 and 2021-2022. Minister Girard and his government seized this golden opportunity to advance delivery of election promises to put money back into Quebecers' wallets. Minister Girard announced \$1.8 billion worth of initiatives over three years doing just that. These include boosting the family allowance (totaling \$1.2 billion over three years), eliminating the additional contribution for childcare (\$233 million) and reducing parking fees at health care institutions (\$265 million). He also announced other targeted measures to meet specific needs: increased transfers to municipalities

Quebec budget balance\*



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

## Economic growth assumptions

|                               | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|-------------------------------|------|------|------|------|------|------|
| <b>Real GDP growth (%)</b>    |      |      |      |      |      |      |
| Fall update 2019              | 2.5  | 2.4  | 1.8  | 1.3  | 1.3  | 1.3  |
| Budget 2019                   | 2.3  | 1.8  | 1.5  | 1.3  | 1.3  | 1.3  |
| RBC                           | 2.4  | 2.4  | 2.0  | -    | -    | -    |
| <b>Nominal GDP growth (%)</b> |      |      |      |      |      |      |
| Fall update 2019              | 4.2  | 3.9  | 3.8  | 3.1  | 3.1  | 3.1  |
| Budget 2019                   | 4.3  | 3.5  | 3.2  | 3.0  | 3.0  | 3.1  |
| RBC                           | 4.5  | 4.6  | 3.8  | -    | -    | -    |

Source: Ministère des Finances du Québec, RBC Economics



(\$481 million over three years), support for modernizing the taxi industry (\$314 million) and support for print media companies (\$85 million). In total, the new initiatives announced yesterday cost the government \$2.6 billion, or just under \$900 million per year between 2019-2020 and 2021-2022. Yet this won't use up all the fiscal room available, giving rise to a \$1.4 billion budget surplus this year, followed by smaller \$100-million surpluses through the rest of the fiscal plan.

### Gross debt reduction target will be achieved six years ahead of schedule

Generating serial surpluses enables the government to make significant progress on putting its elevated debt on a more sustainable path. The government projects gross provincial debt to fall to 44.6% as a share of GDP at the end of 2019-2020. This will be slightly below the 45% target set by law to be achieved by 2025-2026. The other legislated target—the debt representing accumulated deficits to GDP ratio of 17%—is now expected to be met two years ahead of schedule in 2023-2024. The net debt-to-GDP ratio is forecast to continue to fall throughout the fiscal plan, reaching 34.2% in 2023-2024 or 0.6 percentage points below what was expected in Budget 2019. The final estimate for that ratio in 2018-2019 is 39.7%, and the government forecasts it to dip to 38.2% in 2019-2020—which will compare favourably to Ontario's 40.0%.

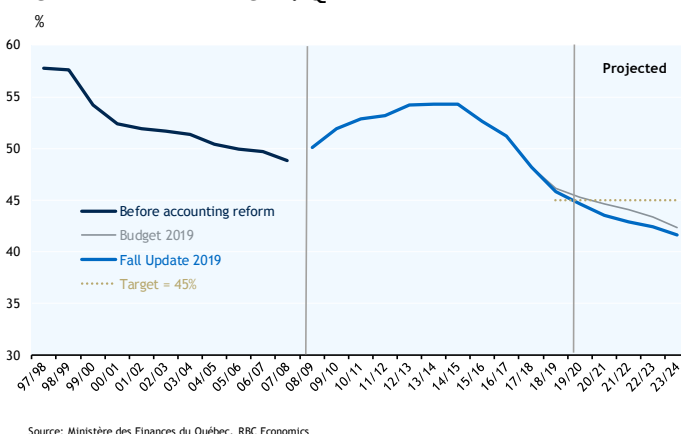
### Slight increase in financing requirements

The government's financing program for 2019-2020 amounts to \$12.5 billion, which is \$0.7 billion more than forecast in the March 2019 budget. The increase mainly reflects \$1.8 billion in pre-financing for next year as well as \$1.5 billion in net financial requirements. The government also indicated that it has contracted 31% of its borrowings on foreign markets, compared to the ten year average of 19%.

### Maintaining a prudent approach

Quebec's fall fiscal update struck a familiar note: the government continues to outperform budget expectations, serial surpluses aren't wasted away by keeping any new expenses targeted, and more progress is being made to addressing Quebec's high debt level. We're pleased to see that the CAQ government is carrying on the same prudent approach to managing the books as its Liberals predecessor. It's important because there's still work to be done to restore long-term fiscal flexibility more fully. The province's rapidly aging demographics won't make things easier in the years to come.

Gross debt as % of GDP: Quebec



Source: Ministère des Finances du Québec, RBC Economics

### Quebec's consolidated fiscal plan

| (\$ millions)  | Forecast     |              |             |             |             |             |
|--|--------------|--------------|-------------|-------------|-------------|-------------|
|  | 2018/19      | 2019/20      | 2020/21     | 2021/22     | 2022/23     | 2023/24     |
| <b>Consolidated Revenue</b>  | 114,746      | 117,374      | 119,892     | 123,515     | 127,104     | 130,653     |
| Own-source revenue   | 91,626       | 91,938       | 94,559      | 97,832      | 101,072     | 104,469     |
| Federal transfers  | 23,120       | 25,436       | 25,333      | 25,683      | 26,032      | 26,184      |
| <b>Consolidated expenditure</b>                                      | 106,466      | 113,203      | 116,954     | 120,261     | 123,527     | 126,765     |
| Portfolio expenditure  | 97,744       | 105,462      | 108,491     | 111,427     | 114,773     | 118,288     |
| Debt service   | 8,722        | 7,741        | 8,463       | 8,834       | 8,754       | 8,477       |
| <b>Contingency reserve</b>   | -            | 100          | 100         | 100         | 100         | 100         |
| <b>Surplus/(Deficit)</b>   | 8,280        | 4,071        | 2,838       | 3,154       | 3,477       | 3,788       |
| <b>Payments to the Generations Fund</b>                              | (3,477)      | (2,671)      | (2,738)     | (3,054)     | (3,377)     | (3,688)     |
| <b>Budgetary balance for the purposes of the Balanced Budget Act</b> | <b>4,803</b> | <b>1,400</b> | <b>100</b>  | <b>100</b>  | <b>100</b>  | <b>100</b>  |
| <b>Net debt as % of GDP</b>  | <b>39.7</b>  | <b>38.2</b>  | <b>37.0</b> | <b>36.1</b> | <b>35.3</b> | <b>34.2</b> |

Source: Quebec Ministry of Finance, RBC Economics

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