

Quebec: 2019–20 Budget

SUMMARY

- The Province of Quebec's budget for fiscal year 2019–20 (*Budget*; FY20) projected balanced books¹ through FY24 as expected (chart 1, p.2).
- Stronger-than-anticipated revenue gains will be put towards a range of previously signaled initiatives and spending increases. These include steps toward implementation of universal full-day kindergarten, school tax rate harmonization, and stepped-up health care funding.
- The Province's debt remains on a downward path despite greater infrastructure spending and financing program activity than forecast in the December 2018 *Economic and Fiscal Update (Update)*.

ECONOMIC CONDITIONS

Quebec's economic outlook is largely in line with that presented in December 2018. Real output is forecast to have grown by 2.3% last year—slightly lower than the 2.5% expected in the *Update*—with gains of 1.8% and 1.5% still anticipated in 2019 and 2020, respectively. Assumptions of moderating consumer spending and export growth remain in place. Accelerated depreciation measures for machinery and equipment outlays announced in the *Update* are also expected to support healthy non-residential business investment this year and next. High numbers of job vacancies, which stem from a shrinking Quebec labour pool, were noted.

NEW POLICY MEASURES

New measures announced in *Budget* were myriad. They fell into six major categories: pocketbook relief, education spending, health spending, economic development, climate change policy, and support for communities.

Pocketbook in *Budget* relief builds on a suite of initiatives announced in the *Update*. The Province will phase out the additional contribution for childcare by 2022, harmonize school tax rates, and raise the income threshold below which families can receive support payments for dependent children. The phase-out, once achieved, is expected to lower the average Quebec family's financial burden by \$1,200 per annum. School tax levies will be lowered to the lowest effective rate paid by homeowners 2018–19 across the province.

Funds for the implementation of universal, full-day kindergarten for four-year-olds—a signature pledge in the 2018 election campaign—anchored education measures. *Budget* also intends to implement additional extracurricular time in secondary schools, enhance professional support services for students, and increase CEGEP funding. Education and Culture spending is now expected to climb by a hefty 7% in FY20, more than twice the 3.4% rise outlined in the *Update*.

Health spending policy announcements were concentrated in efforts to improve services for seniors and hiring caregiving staff. These included funding for home

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| | FY19 | | FY20 | |
|------------------------------------|----------------|----------------|----------------|----------------|
| | Dec. '18 | Bud. | Dec. '18 | Bud. |
| Personal Income Tax | 31,196 | 31,254 | 32,502 | 32,498 |
| Corporate Taxes | 8,521 | 9,036 | 8,099 | 8,516 |
| Consumption Taxes | 21,040 | 21,148 | 21,792 | 21,864 |
| Government Enterprises | 4,640 | 5,073 | 4,565 | 4,778 |
| Other Own-Source Revenue | 23,074 | 23,635 | 22,790 | 23,058 |
| Total Own-Source Revenue | 88,471 | 90,146 | 89,748 | 90,714 |
| Federal Transfers | 23,999 | 23,411 | 25,215 | 24,924 |
| Total Revenue | 112,470 | 113,557 | 114,963 | 115,638 |
| Health & Social Services | 42,094 | 41,978 | 43,857 | 44,429 |
| Education & Culture | 23,788 | 23,706 | 24,603 | 25,357 |
| Economy & Environment | 14,974 | 15,807 | 15,927 | 15,424 |
| Support for Individuals & Families | 10,225 | 10,200 | 10,602 | 10,832 |
| Administration & Justice | 7,756 | 7,361 | 8,154 | 7,996 |
| Total Program Spending | 98,837 | 99,052 | 103,143 | 104,038 |
| Debt Service | 7,773 | 8,899 | 8,134 | 8,996 |
| Total Expenditure | 107,969 | 107,951 | 112,364 | 113,034 |
| Contingency Reserve | — | — | 100 | 100 |
| Balance Before Transfers | 4,501 | 5,606 | 2,499 | 2,504 |
| Deposit to Generations Fund | 2,851 | 3,106 | 2,499 | 2,504 |
| Balance:Balanced Budget Act | 1,650 | 2,500 | — | — |
| Memo Items, % | | | | |
| Own-Source Revenue / GDP | 20.5 | 20.9 | 20.1 | 20.3 |
| Program Spending / GDP | 22.9 | 23.0 | 23.1 | 23.3 |
| Total Expenditure / GDP | 25.0 | 25.0 | 25.1 | 25.3 |
| Budget Balance / GDP | 0.4 | 0.6 | 0.0 | 0.0 |
| Debt Service / Revenues | 6.9 | 7.8 | 7.1 | 7.8 |
| Annual Change, % | | | | |
| Personal Income Tax | 5.6 | 5.8 | 4.2 | 4.0 |
| Corporate Taxes | 4.7 | 11.0 | -5.0 | -5.8 |
| Consumption Taxes | 3.5 | 4.0 | 3.6 | 3.4 |
| Government Enterprises | -8.9 | -0.4 | -1.6 | -5.8 |
| Total Own-Source Revenue | 3.0 | 4.9 | 1.4 | 0.6 |
| Federal Transfers | 6.7 | 4.1 | 5.1 | 6.5 |
| Total Revenue | 3.8 | 4.8 | 2.2 | 1.8 |
| Health | 4.8 | 4.5 | 4.2 | 5.8 |
| Education & Culture | 4.4 | 4.1 | 3.4 | 7.0 |
| Economy & Environment | 3.6 | 9.3 | 6.4 | -2.4 |
| Support for Individuals & Families | 4.2 | 3.9 | 3.7 | 6.2 |
| Administration & Justice | 10.5 | 4.9 | 5.1 | 8.6 |
| Total Program Spending | 4.9 | 5.1 | 4.4 | 5.0 |
| Total Expenditure | 4.3 | 4.3 | 4.1 | 4.7 |

Sources: Finances Québec; Statistics Canada; nominal GDP forecasts: Scotiabank Economics.

¹ Figures reported in Canadian dollars unless otherwise stated.

care, new seniors' homes and residential beds. Rather than the 4.2% forecast in December, the Province anticipates that health expenditures will rise by 5.8% in FY20.

Economic development funding will target increased labour market participation, and offer various supports for “innovative” projects, research and development, training in the artificial intelligence industry, and regional infrastructure and tourism. The Province expanded a career extension tax credit for workers over 60, and introduced a new credit for small businesses that hire older workers. It also announced a new personalized immigration “pathway” that will give immigrants and temporary foreign workers access to integration and French language programs.

On the environment, Quebec will extend rebates on new electric vehicle purchases via its Drive Green Program through FY21, broaden the Program, and deliver new funding for workplace charging stations. Post-FY21 terms will be unveiled in the Province's next climate change action plan. Additional funding will also be apportioned to a range of existing programs that support firms as they undergo energy transitions.

Core community support measures included funding for announced but as yet unfinished social housing projects, plus support for taxi industry modernization and individuals affected by Réseau express métropolitain rapid transit system construction.

REVENUE AND EXPENDITURE DETAILS

The range of new measures comes with a sizeable six-year price tag of \$16.1 bn (table, p.3). Policies related to pocketbook relief are expected to result in nearly \$2.1 bn in foregone revenues; losses vis-à-vis school tax rate standardization are forecast to average about \$250 mn per year over FY20–24 for a total hit of \$1.2 bn. The Province foresees a \$2.4 bn hit to the bottom line via new funding for education, of which more than \$1 bn is attributable to full-day kindergarten roll-out. The bulk of the \$4.9 bn in forecast health spending is expected to go towards improvements to seniors' services. Efforts to boost Quebec labour force participation are projected to generate net fiscal losses of \$1.7 bn over FY19–24, and make up the largest portion of the costs related to economic growth initiatives.

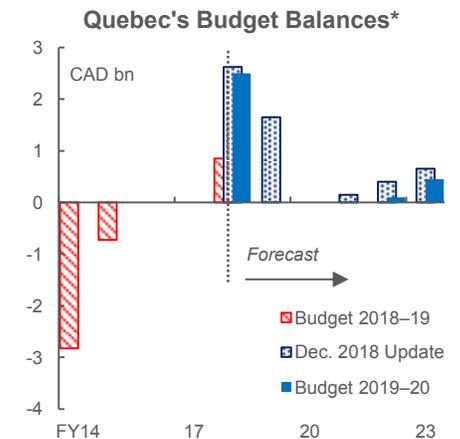
As in December, however, the Province's surplus had been on track to exceed projections, which leaves a significant cushion for new spending. Own-source receipts are forecast to exceed the prior estimate by more than \$1.7 bn in FY19—a development foreshadowed by Quebec financial data as of December 2018—and are now anticipated to rise by 4.9% in FY19 (chart 2). With revenues on a higher trajectory, public sector efficiencies and savings related to infrastructure projects are also expected to pad Government coffers through FY21.

The current fiscal plan also includes a contingency reserve of \$100 mn in every year from FY20 to FY24, in line with *Update* plans.

DEBT AND BORROWING

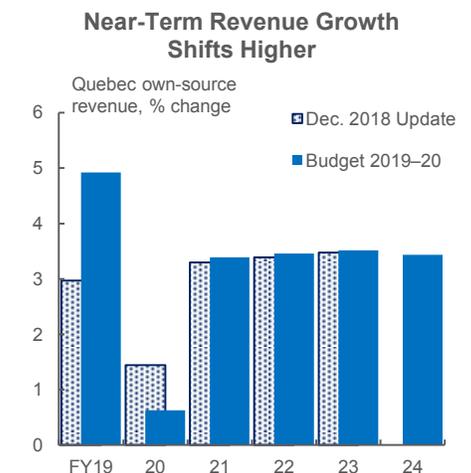
Quebec's projected debt path is in line with prior plans. Recall that in December 2018, the Government moved to accelerate debt repayment—with an \$8bn increase in FY19 Generations Fund withdrawals—to redress its borrowings. That plan remains in place (chart 3), as do expectations of debt cost savings and the previous trajectories for Generations Fund deposits, net debt, gross debt, and accumulated deficits.

Chart 1



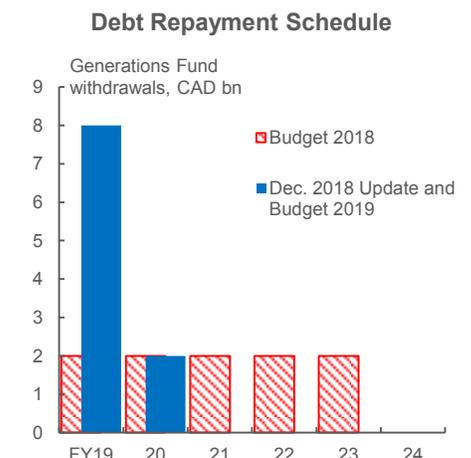
*Under the *Balanced Budget Act*. Sources: Scotiabank Economics, Finances Québec.

Chart 2



Sources: Scotiabank Economics, Finances Québec.

Chart 3



Sources: Scotiabank Economics, Finances Québec.

Quebec Infrastructure Plan (QIP) outlays of \$115.4 bn are now expected over FY2019–29, \$15 bn more than expected in the December 2018 blueprint. These expenditures will be reinforced by an additional \$29.2 bn contribution from the Government's partners, of which \$16.5 bn is expected to come from the Federal Government. The Province cites accelerated debt reduction as the proximate cause of stepped-up capital investment, and will put the increased outlays towards the infrastructure needed for kindergarten classes, seniors' homes, public transit expansions and road maintenance and restoration.

With spending plans notched higher, the Province anticipates greater financing activity. Quebec's financing program for FY19 is now expected to total \$15.6 bn—\$2.2 bn higher than estimated in last year's budget and \$3.3 bn more than as of December 2018. A \$3.8 bn increase versus December in pre-financing for next year—likely related to *Budget's* new policy initiatives—underlies the upward revision. Financing of \$11.8 bn is forecast for FY20—\$1.4 bn lower than projected in December—and the program is expected to average \$21.6 bn per year from FY21 to FY24, \$1.2 bn more than the FY21–23 average outlined in the *Update*.

OUR TAKE

We are generally supportive of the economic development measures announced in *Budget*. Use of surfeit revenues in a period of above-trend economic expansion to support training in key sectors and greater labour force participation at first glance look constructive to the province's longer-run growth potential and for useful for addressing near-term skills shortages. Given present tightness in Quebec's labour market, we continue to question the wisdom of a cut to immigration targets, but new integration programs may help newcomers meet labour market needs.

Quebec's financial planning direction is largely unchanged but it remains prudent. The economic assumptions that underlie the Government's plan are reasonable, but downside risks to the outlook are more heightened at this advanced stage of the province's expansion. Balanced books and continued attention to debt reduction will leave more fiscal room for the Province to weather adverse economic shocks should they occur. Importantly, balance will not be maintained at the expense of capital investment, as indicated by projected QIP outlays. Quebec's front-loaded borrowing repayment schedule builds in an additional buffer against potential deviations from the long-run debt curtailment plan.

Developments Since Fall 2018 Update on Quebec's Economic and Financial Situation

Net fiscal impact, \$ millions except where noted

| | FY19 | FY20 | FY21 | FY22 | FY23 | FY24 | Total |
|--|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
| Budgetary Balance*—December 2018 Update | 1,650 | — | 150 | 400 | 650 | | 3,000 |
| Changes to Economic and Budgetary Situation | 2,282 | 1,682 | 2,097 | n.a.** | n.a.** | n.a.** | n.a.** |
| Optimization Measures | — | 640 | 690 | n.a.** | n.a.** | n.a.** | n.a.** |
| Developments since December 2018 | 2,282 | 2,322 | 2,787 | n.a.** | n.a.** | n.a.** | n.a.** |
| Pocketbook Relief | -5 | -271 | -419 | -457 | -473 | -472 | -2,097 |
| Education | — | -230 | -317 | -498 | -625 | -743 | -2,413 |
| Health | -90 | -801 | -847 | -931 | -1,112 | -1,122 | -4,903 |
| Economic Growth Initiatives | -357 | -505 | -679 | -703 | -738 | -709 | -3,690 |
| Environmental Policy | -51 | -395 | -491 | -138 | -113 | -88 | -1,276 |
| Support for Communities | -930 | -105 | -162 | -191 | -186 | -164 | -1,739 |
| Other | — | -15 | -22 | -30 | — | — | -67 |
| March 2019 policy initiatives | -1,432 | -2,322 | -2,937 | -2,948 | -3,247 | -3,298 | -16,184 |
| Budgetary Balance*—March 2019 Budget | 2,500 | — | — | — | 100 | 450 | 3,200 |

*Under the *Balanced Budget Act*. ** Not available. Source: Finances Québec.

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