

Quebec: Fiscal 2019–20 Fall Statement

- The 2019 *Update on Quebec's Economic and Financial Situation (Update)*, released today with *Public Accounts* for 2018–19 (FY19), highlighted continued positive developments in the Province of Quebec.
- Budgetary surpluses are still expected through FY24. The FY19 balance exceeded expectations at \$4.8 bn, while a \$1.4 bn surplus is forecast for FY20 (both figures net of deposits into the *Generations Fund*).
- Economic growth that continues to surprise on the upside is driving greater-than-anticipated revenues, while expenditures are expected to be held in check.
- Improved conditions will continue to drive down Quebec's debt-to-GDP ratio substantially over the medium-term from 38.2% in FY20 to 34.2% by FY24. That is constructive to further positive credit rating action.

STAYING THE COURSE WITH A HEALTHY DOSE OF PRAGMATISM

The Quebec economy continues to power the Province's impressive financial performance. Alongside the FY19 *Public Accounts*, the *Update* presents an economy in the midst of strong job creation, healthy population gains, and a solid investment climate that are contributing to exceptional growth. Consequently, government revenues continue to beat expectations. Real GDP growth in 2019 was revised upward to 2.4% from its 1.8% forecast in the March 2019 budget (*Budget*) (chart 1, p.2)—a climb that would complete a three-year, 8% expansion not seen in Quebec since 2000–02. That would also outpace Canadian growth for a second consecutive year.

Strong budgetary surpluses are set to continue. The final FY19 balance came in at \$4.8 bn, while \$1.4 bn in black ink is expected in FY20 with surpluses of \$100 mn planned thereafter. This budgetary balance nets out dedicated revenues to the *Generations Fund*—Quebec's fund dedicated to debt repayment—forecast to total an impressive \$19 bn between FY19 and FY24 (chart 2, p.2).

Exceptional revenue growth is forecast to drive the near-term surpluses. Own-source receipts will deliver an additional \$1.0 bn and \$1.6 bn in FY19 and FY20 respectively. Strong personal tax receipts in particular are forecast to drive much of the gains over the forecast horizon, with a hefty three-year, 15.2% rise anticipated from FY20 to FY22.

This revenue growth has enabled a modest, but well-crafted set of new initiatives. Additional investments of \$875 mn in FY20, adding up to \$4.7 bn by FY24 (table, p.3), are largely offset by savings on debt interest payments. Accelerated childcare cost reductions deliver on an existing commitment and should strengthen female labour force participation. Increased family allowances should underpin consumption in the near term, while offsetting the impact from an increase in the Quebec Sales Tax (QST). This broad-based revenue measure is an efficient means of raising revenues that should also pad municipal coffers

CONTACTS

Marc Desormeaux, Provincial Economist
416.866.4733
Scotiabank Economics
marc.desormeaux@scotiabank.com

Rebekah Young
Director, Fiscal & Provincial Economics
416.862.3876
Scotiabank Economics
rebekah.young@scotiabank.com

Updated Fiscal Forecast

\$ millions except where noted

	FY19		FY20	
	Bud.	Final	Bud.	Nov. '19
Personal Income Tax	31,254	31,773	32,498	33,240
Corporate Taxes	9,036	9,183	8,516	8,707
Consumption Taxes	21,148	21,001	21,864	21,975
Government Enterprises	5,073	5,548	4,778	4,436
Other Own-Source Revenue	23,635	24,121	23,058	23,580
Total Own-Source Revenue	90,146	91,626	90,714	91,938
Federal Transfers	23,411	23,120	24,924	25,436
Total Revenue	113,557	114,746	115,638	117,374
Health & Social Services	41,978	41,522	44,429	44,484
Education & Culture	23,706	23,887	25,357	25,753
Economy & Environment	15,807	14,730	15,424	15,304
Support for Individuals & Families	10,200	10,095	10,832	11,532
Administration & Justice	7,361	7,510	7,996	8,389
Total Program Spending	99,052	97,744	104,038	105,462
Debt Service	8,899	8,722	8,996	7,741
Total Expenditure	107,951	106,466	113,034	113,203
Contingency Reserve	—	—	100	100
Balance Before Transfers	5,606	8,280	2,504	4,071
Deposit to Generations Fund	3,106	3,477	2,504	2,671
Balance: Balanced Budget Act	2,500	4,803	—	1,400
Memo Items, %				
Own-Source Revenue / GDP	20.9	21.2	20.3	20.6
Program Spending / GDP	23.0	22.6	23.3	23.6
Total Expenditure / GDP	25.0	24.7	25.3	25.3
Budget Balance / GDP	0.6	1.1	0.0	0.3
Debt Service / Revenues	7.8	7.6	7.8	6.6
Annual Change, %				
Personal Income Tax	5.8	7.6	4.0	6.4
Corporate Taxes	11.0	12.8	-5.8	-3.6
Consumption Taxes	4.0	3.3	3.4	3.9
Government Enterprises	-0.4	8.9	-5.8	-12.6
Total Own-Source Revenue	4.9	6.6	0.6	2.0
Federal Transfers	4.1	2.8	6.5	8.6
Total Revenue	4.8	5.9	1.8	3.4
Health	4.5	3.4	5.8	6.0
Education & Culture	4.1	4.9	7.0	8.6
Economy & Environment	9.3	1.9	-2.4	-3.2
Support for Individuals & Families	3.9	2.8	6.2	13.1
Administration & Justice	4.9	7.0	8.6	14.0
Total Program Spending	5.1	3.7	5.0	6.5
Total Expenditure	4.3	2.9	4.7	4.9

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

and spur further economic activity. Overall, the package is contained and well-designed.

Overall, the Government continues to demonstrate progress on its longer-run economic development and debt reduction efforts, while remaining prudent. With strong revenue performance, expenditures in check, and healthy balances, the Province can afford to lean against downside risks to the outlook. It has exercised a pragmatic approach with a relatively contained set of measures that balance near-term support with longer-term activity. Nevertheless, labour shortages and an aging workforce remain a binding constraint in Quebec's outlook that may require further action.

DETAILS OF NEW POLICY MEASURES

Policy announcements in the Update generally fell into two categories—pocketbook relief and targeted government spending.

For pocketbook relief, the key move was the full enhancement of the family allowance as of Jan. 2020. Under the new system, families will receive the same amount for each child—rather than a smaller stipend for younger children—with increases to the maximum and minimum eligible amounts. A \$2.3 bn price tag is assumed during FY20–24. The additional contribution for provincial childcare will also be phased out retroactively to Jan. 1, 2019, three years ahead of schedule. Healthcare institution parking fees will be reduced through FY24, and new supports will be provided for families of children with serious illnesses or severe disabilities.

A five-year, \$1.1 bn partnership to provide funds for Quebec's municipalities and regions will anchor new spending plans for the next five fiscal years. That includes a new transfer to municipalities—to be financed via sharing of proceeds from a one percentage point increase in the QST—as well as appropriations for road investments and local economic development. Tax and funding supports for print media companies and incentives for taxi industry modernization rounded out the targeted Government spending initiatives.

Quebec continues to develop its *Electrification and Climate Change Plan*. The Plan, which replaces the 2013–20 *Climate Change Action Plan* set to lapse next year, will be released publicly in 2020.

The Province's 10-year *Quebec Infrastructure Plan* (QIP) schedule was unchanged from *Budget*. Capital outlays of \$115.4 bn are penciled in from FY20 to FY29.

DEBT AND BORROWING

With heftier surpluses forecast for the foreseeable future, the Province finds itself on a softer debt trajectory. Net debt dipped below 40% of nominal GDP by the end of FY19—the first time since FY06—and is now expected to fall gradually from 38.2% this fiscal year to just 34.2% by FY24 (chart 3). On the heels of its \$8 bn withdrawal in FY19, the Province still plans to use \$2 bn from the *Generations Fund* for borrowing repayment this fiscal year.

Plans for new spending and pocketbook relief have shifted Quebec's projected borrowing requirements higher. The Province's FY20 borrowing

Chart 1

Above-Trend Expansion Continues to Power Quebec Revenues

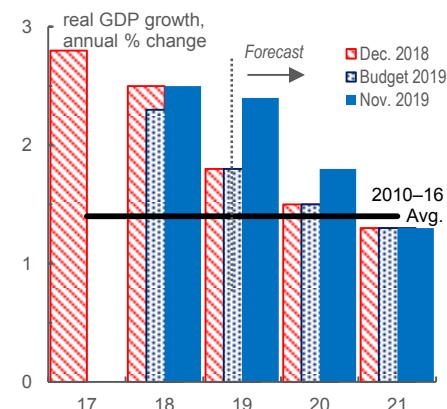


Chart 2

Quebec's Budget Balances*

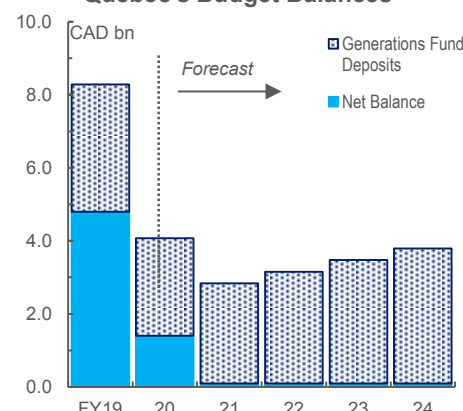
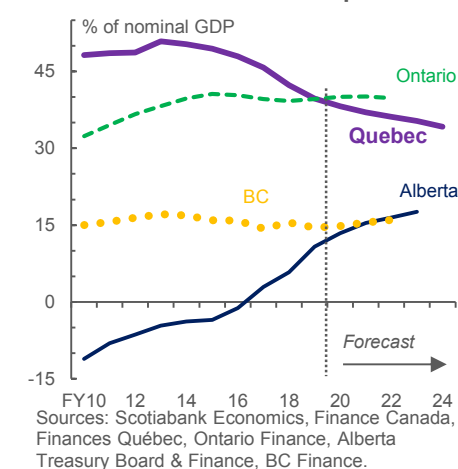


Chart 3

Provincial Net Debt Comparison



program is expected to amount to \$12.5 bn, a \$700 mn increase relative to the March 2019 fiscal blueprint. That change stems from upward adjustments to *Budget* borrowing repayment plans and increased deposits into the Retirement Plans Sinking Fund, which in turn were partially offset by greater pre-financing and diminished net financial requirements. As of October 18, 92% of planned FY20 borrowings had already been contracted. From FY20 to FY24, borrowings are expected to total \$99.6 bn, \$13.2 bn more than anticipated as of *Budget*.

Developments Since March 2019 Budget

Net fiscal impact, \$ millions except where noted

	<u>FY19</u>	<u>FY20</u>	<u>FY21</u>	<u>FY22</u>	<u>FY23</u>	<u>FY24</u>	<u>Total</u>
Budgetary Balance*—March 2019 Budget	2,500	—	—	—	100	450	3,050
Changes to Economic and Budgetary Situation	2,303	2,257	976	972	n.a.**	n.a.**	n.a.**
Developments since March 2019	2,303	2,257	976	972	n.a.**	n.a.**	n.a.**
Pocketbook Relief	—	332	758	717	726	751	3,284
Targeted Spending	—	525	119	155	281	344	1,424
November 2019 policy initiatives	—	857	876	872	1,007	1,095	4,708
Budgetary Balance*—November 2019 Update	4,803	1,400	100	100	100	100	6,602

*After *Generations Fund* deposits. ** Not available. Source: Finances Québec.

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a "call to action" or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed in this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with "Global Banking and Markets", is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including, Scotiabanc Inc.; Citadel Hill Advisors L.L.C.; The Bank of Nova Scotia Trust Company of New York; Scotiabank Europe plc; Scotiabank (Ireland) Limited; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Scotia Inverlat Casa de Bolsa S.A. de C.V., Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorised by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorised by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., and Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.