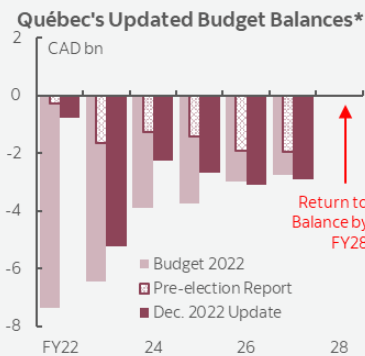


Contributors

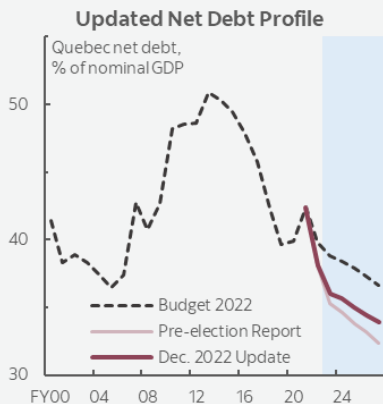
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Chart 1



\* After deposits into Generations Fund, before use of Stabilization Reserve.  
Sources: Scotiabank Economics, Finances Québec.

Chart 2



Sources: Scotiabank Economics, Finance Canada, Finances Québec.

# Quebec: 2022–23 Mid-Year Update

## SPEND NOW AND SAVE FOR THE RAINY DAYS

- **Budget balance projections:**  $-\$5.2$  bn ( $-0.9\%$  of nominal GDP) in FY23,  $-\$2.3$  bn ( $-0.4\%$ ) in FY24, and  $-\$2.7$  bn ( $-0.4\%$ ) in FY25—respective anticipated improvement of  $\$1.2$  bn,  $\$1.6$  bn, and  $\$1.1$  bn versus Budget 2022 (all figures after deposits into the Generations Fund) (chart 1).
- **Net debt forecasts:** expected to drop to  $36\%$  of nominal GDP in FY22 and decline steadily to  $33.9\%$  by FY27—a lower trajectory than the forecast in Budget 2022 (chart 2).
- **GDP expectations:**  $3.1\%$  real growth and  $10.0\%$  nominal growth this calendar year—both stronger than Budget 2022 projections. Economic growth assumptions were largely revised down for 2023 to  $0.7\%$  in real terms and  $2.8\%$  in nominal terms.
- **Financing program:** estimated at  $\$25.9$  bn in FY23,  $\$27.6$  bn in FY24, and  $\$32.0$  bn in FY25—representing a combined FY23–25 reduction of  $\$6$  bn from March 2022 forecasts.
- **New policy:**  $\$5.4$  bn in FY23,  $\$2.1$  bn in FY24, and  $\$2.4$  bn in FY25—combined  $\$13.9$  bn over FY23–27 (averaged  $0.5\%$  of projected nominal GDP per year over the forecast horizon). Key measures aim to help with the near-term rising cost of living—a combination of one-time payments, a senior tax credit, and an indexation limit of government rates.
- **The Update outlined improved revenues and spending profiles in the near term. The fiscal planning remained prudent and transparent to account for downside risks associated with heightened uncertainty about the economic outlook.**

## OUR TAKE

Quebec’s fiscal position improved modestly in the near-term relative to its forecast in Budget 2022, along with marginal downward revisions in outer years amidst a deteriorating economic outlook. The FY23–25 improvements appear less substantial than anticipated in the pre-election report in August, mainly due to new policy initiatives announced since then. Beyond FY25, longer-term structural shortfall persists at around  $\$3$  bn ( $-0.5\%$  of nominal GDP), and the government reaffirmed its position of achieving balance without major spending cuts or tax increases. With a detailed plan yet to be released (likely in the next Budget), the province still aims at returning to a balanced budget by FY28 after deposits in the Generations Fund, amounting to a cumulative  $\$37.7$  bn into the Fund. Before those deposits, a surplus can be expected by FY24.

**Spending ramped up in the near-term (chart 3), and increases in total expenditure should outpace revenue gains in FY23.** FY23 portfolio expenditures saw a large upward revision of  $\$5.5$  bn ( $4.3\%$ ) with electoral promises and new policy initiatives incorporated into the plan. Debt-service costs jumped by  $\$1.7$  bn ( $19\%$ ), but is deemed as a one-time occurrence as it resulted from the disposal of assets from the Sinking Fund. Although the upward revision in revenues came in lower than increases in spending, the bottom line still saw a net modest improvement for FY23 due to a reduction in forecast provision, narrowing the deficit by  $\$1.2$  bn versus Budget 2022. Since the bulk of this year’s new spending is non-recurring, planned expenditure is expected to remain flat in FY24 after the  $13.6\%$  surge this fiscal year.

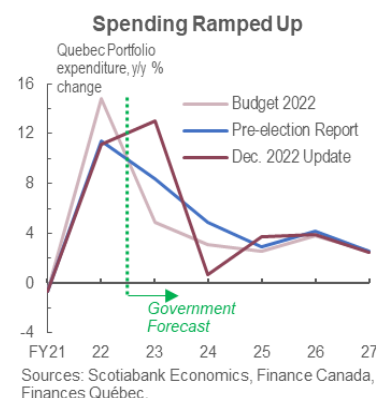
**The Update beefed up contingencies to address significant downside risks vis-à-vis a potential recession.** The baseline scenario underpinning the updated fiscal path assumes Quebec’s real growth will slow sharply to 0.7% in 2023 and then rebounds to 1.6% in 2024—both higher than the private-sector average of 0.3% and 1.3%, respectively. The Update provided an alternative scenario forecasting a recession in 2023 with Quebec’s economy contracting by -1.0% in 2023 and a slower recovery of 1.2% in 2024. The potential fiscal impact of the alternative scenario is estimated at -\$1.9 bn in FY24, -\$1.7 bn in FY25, and -\$1.0 bn in FY26. The Update added more contingency for these years, bringing the provision amount from \$1.5 bn to \$2 bn each year for FY24–FY25, and maintained the \$1.5 bn each year beyond FY26.

**The new policy measures announced in the Update total \$13.9 bn, with \$5.4 bn kicking in this fiscal year and the rest evenly splitting over FY24–FY27.** New policy initiatives focus on supporting households amid rising cost of living (the “Anti-Inflation Shield”, as the Update calls it), including a one-time lump sum payment announced earlier, totaling \$3.5 bn (0.6% of nominal GDP) to 80% of the province’s population, which could work against tightening monetary policy on near-term inflation. A more targeted policy focuses on enhancing the senior assistance amount, bringing the maximum amount of the senior assistance tax credit from \$411 to \$2000. This measure has a fiscal impact of approximately \$1.6 bn each year starting in FY23 and represents an on-going funding pressure

Quebec should continue to see an reduction in the province’s indebtedness, even in the alternative scenario of a recession. Quebec’s net debt is still high as a share of nominal output compared to its peers but the ratio remains on a steady downward path. The net debt-to-GDP ratio is expected to decline from 38.1% in FY22 to 36% in FY23, 2.8 ppts lower than projected in Budget 2022, before trending down gradually to 33.9% by FY27. In the alternative scenario where the economy sees a contraction in 2023, net debt could go up slightly to 36.7% of nominal GDP in FY24 before falling again to 34.8% by FY27. The province is looking to modernize its fiscal anchor in the upcoming Budget 2023,

**The province’s financing program scaled back modestly for FY23, FY24 and FY25 relative to Budget 2022, estimated at \$25.9 bn, \$27.6 bn and \$32.0 bn, respectively.** As of November 17, 2022, 57% of FY23 borrowings have been completed, only 8% of which was conducted on foreign markets to limit the exposure to exchange rate volatility. The province also issued two green bonds this fiscal year under its Green Bond program, totalling \$1.8 bn.

Chart 3



Changes to Quebec’s Fiscal Outlook			
	\$ billions except where noted		
	FY23	FY24	FY25
Budget 2022 Balance Projection*	-6.5	-3.9	-3.8
Changes to Economic & Fiscal Outlook	4.6	3.6	3.3
New COVID-19 Support and Recovery Measures	0.4	0.1	0.0
Deposits in the Generations Fund	0.2	0.0	-0.2
<b>Updated Budget 2022 Balance</b>	<b>-1.3</b>	<b>-0.2</b>	<b>-0.6</b>
Implementing the Anti-Inflation Shield	-5.1	-2.0	-2.2
Improving housing affordability	-0.2	-0.1	-0.1
Strengthening security in Montréal	-0.1	-0.1	-0.1
<b>New Policy</b>	<b>-5.4</b>	<b>-2.1</b>	<b>-2.4</b>
Program Review	—	0.5	0.8
New Contingencies	1.5	-0.5	-0.5
<b>Provincial Balance*</b>	<b>-5.2</b>	<b>-2.3</b>	<b>-2.7</b>
% of GDP	-0.9	-0.4	-0.4

\* After Generations Fund deposits, before Stabilization Reserve use.  
Sources: Scotiabank Economics, Finances Québec.

Long-Run Fiscal Forecast						
	\$ billions except where noted					
	FY22	FY23	FY24	FY25	FY26	FY27
Total Revenue	138.8	144.8	147.7	153.2	158.3	163.3
Total Expenditure	126.6	143.8	143.7	149.3	155.1	159.5
<b>Net</b>	<b>12.2</b>	<b>1.0</b>	<b>4.0</b>	<b>3.9</b>	<b>3.3</b>	<b>3.8</b>
COVID-19 Support	9.4	2.0	0.4	—	—	—
Reserve	—	1.0	2.0	2.0	1.5	1.5
Surplus/Deficit	2.8	-2.0	1.7	1.9	1.8	2.3
Generations Fund Deposits	3.6	3.3	3.9	4.6	4.8	5.2
<b>Balance Before Stabilization Reserve</b>	<b>-0.8</b>	<b>-5.2</b>	<b>-2.3</b>	<b>-2.7</b>	<b>-3.1</b>	<b>-2.9</b>
Stabilization Reserve Withdrawal	0.8	0.4	—	—	—	—
<b>Provincial Balance</b>	<b>—</b>	<b>-4.8</b>	<b>-2.3</b>	<b>-2.7</b>	<b>-3.1</b>	<b>-2.9</b>

Sources: Scotiabank Economics, Finances Québec.

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