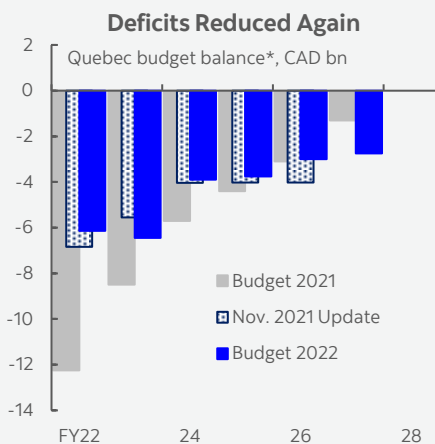


Contributors

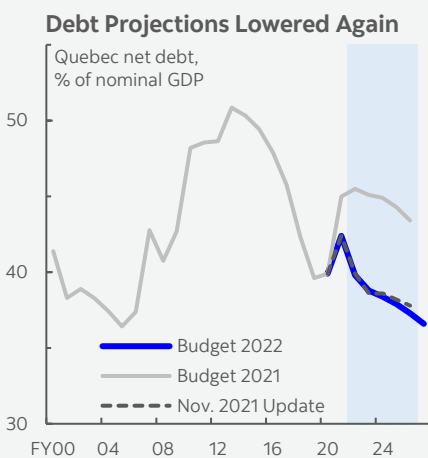
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Chart 1



* 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 Budget

DEPLOYING STRONG REVENUE GAINS TO FIGHT INFLATION

- **Budget balances:** **-\$7.4 bn (-1.5% of nominal GDP) in FY22, -\$6.4 bn (-1.2%) in FY23, -\$3.9 bn (-0.7%) in FY24, then eases to -\$2.8 bn (-0.5%) in FY27, slightly lower than in mid-year fiscal update (all figures after Generations Fund deposits) (chart 1).**
- **Net debt:** **expected to decline gradually from 39.8% of nominal output in FY22 to 36.6% by FY27—also slightly lower than in the November 2021 update (chart 2).**
- **New policy:** **\$3.4 bn in FY22, \$3.8 bn in FY23, \$3.8 bn in FY25, combined \$22.3 bn over FY22–27 accounts for 0.7% projected GDP; measures are initially concentrated in pocketbook relief, then tilt towards health system capacity expansions.**
- **Infrastructure spending:** **increased by a combined \$2 bn during FY23–25, capital outlays under the Quebec Infrastructure Plan (QIP) now expected to increase by 34% in FY22, then fall by 5% in FY23.**
- **Financing program:** **expected to reach \$22.9 bn in FY22, \$27.6 bn in FY23, \$30.1 bn in FY24, and average \$30.5 bn during FY25–27; projected FY22–26 total is about \$3.8 bn lower than forecast in the November 2021 update.**

The province’s fiscal position is marginally improved. Relative to the November 2021 mid-year update, own-source revenue projections were raised by \$4.3–4.8 bn per year from FY22–24 following a stronger-than-forecast economic recovery. The province’s “structural deficit” (i.e. budget balance after deposits into the Generations Fund to pay down debt) has been reduced relative to mid-year projections. Before Generations Fund deposits, Quebec expects to balance in FY24—one year earlier than in the mid-year update. Net debt is forecast to converge to a slightly more modest share of GDP. Planned program spending increases are generally in line with expected population and inflation gains beyond FY22. Quebec’s debt levels are higher than those in many other provinces, but its success lowering that burden since the early 2010s is impressive.

There is some upside built into projections. Contingencies are significant at \$2.5 bn in FY23 and \$1.5 bn per year through FY27. Nominal GDP growth projections are in line with the private-sector mean for 2022, and incrementally below that average in the outer years of the plan. Supplementary estimates to the budget associate every 1 ppt in nominal GDP growth with \$950 mn in own-source revenues in FY23. Incorporating these cushions into the plan is wise given economic uncertainty at the global level caused by the Russia-Ukraine conflict.

Budget includes \$22.3 bn in new policy initiatives (0.7% of nominal GDP), evenly split over FY22–27. In FY22, the key measure is a one-time, \$500 per person payment to Quebecers earning \$100k per year or less—with a price tag of \$3 bn—to mitigate the effects of the global surge in inflation. Later, policy is dominated by gradually escalating health care spending, which includes funding to improve workflow and service delivery at health facilities, and money to improve health care system accessibility. Efforts to increase long-run economic growth include: a new \$1.3 bn 2022–27 Research and Innovation Strategy to assist productive research and technology-oriented businesses; French language training for immigrants and support to attract them to regions in need; and stimulus for the tourism, accommodations, and cultural sectors, concentrated in FY23–24.

In line with the reduced deficit profile, Quebec’s financing program was reduced. The province now expects to borrow \$22.9 bn in FY22, \$27.6 bn in FY23, \$30.1 bn in FY24, \$33.8 bn in FY25, and \$32.5 bn in FY26; the FY22–26 total represents a cut of \$3.8 bn from November 2021 projections. To date in FY22, 37% of borrowing had been conducted on foreign markets—higher than the 24% average in the prior 10 years. Just over 63% of long-term borrowings were conducted in Canadian dollars in FY22; the majority of foreign

currency issuance denominated in Euro. The average maturity of FY22 borrowings was 18 years. The province reiterated its commitment to green bond financing; six issues totalling \$3.3 bn have been made since Quebec's Green Bond program was launched.

Overall, Quebec's budget aligns broadly with our expectations. The province's economy continues to show momentum coming out of pandemic lockdowns and that has translated into stronger revenues; as indicated in the leadup to the plan, the government has targeted pocketbook relief in the near-term. While the signature cost-of-living assistance payment is broad-based and as such has the potential to stimulate demand and further price pressures, it is at least time-limited. Long-run economic growth initiatives will take time to bear fruit but appear appropriately targeted. For the coming months, risks to the economic outlook are real, but prudent planning assumptions and credible fiscal anchors should be reasonably well-received by the province's creditors.

Changes to Quebec's Long-Run Fiscal Outlook			
\$ billions except where noted			
	FY22	FY23	FY24
November 2021 Balance Projection*	-6.8	-5.5	-4.0
Changes to Economic & Fiscal Outlook	4.2	4.7	4.6
New COVID-19 Support and Recovery Measures	-1.3	-0.6	-0.2
Updated Nov. 21 Balance	-3.9	-1.4	0.4
Cost of Living Assistance	-3.2	-0.3	-0.1
Restoring the Health Care System	—	-1.3	-1.6
Investing in Education & Higher Education	—	-0.5	-0.5
Stimulating Economic Growth	-0.1	-1.1	-1.1
Environmental Policy	-0.003	-0.1	-0.1
Support for Communities	-0.1	-0.5	-0.3
New Policy	-3.4	-3.8	-3.8
New Contingencies	—	-1.3	-0.5
Provincial Balance	-7.4	-6.4	-3.9
<i>% of GDP</i>	-1.5	-1.2	-0.7

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

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