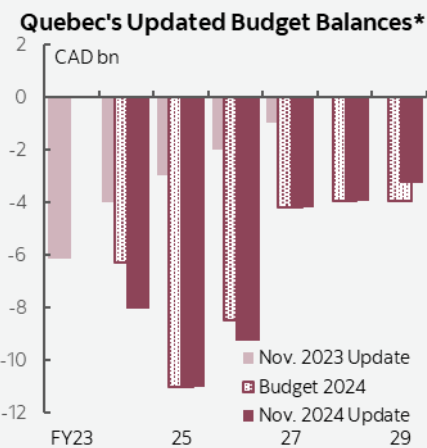


Contributors

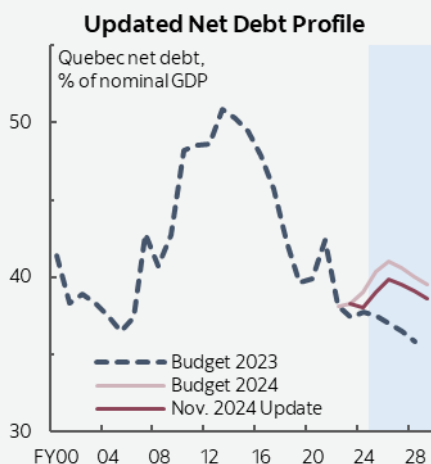
Laura Gu
Economist
Scotiabank Economics
416.866.4202
laura.gu@scotiabank.com

Chart 1



* After deposits into Generations Fund.
Sources: Scotiabank Economics, Finances Quebec.

Chart 2



Sources: Scotiabank Economics, Finance Canada, Finances Quebec.

Quebec: 2024–25 Mid-Year Update

A COURSE CORRECTION AMID STRONG WINDS

- **Budget balance projections:** **-\$11 bn (-1.8% of nominal GDP) in FY25, -\$9.2 bn (-1.5%) in FY26** (all figures after deposits into Generations Fund)—a slight deterioration from Budget 2024 projections; a structural deficit projected at **-\$3.2 bn (-0.5%) in FY29**. Updated plan for fiscal balance to be unveiled in next year’s budget, targeting balance by FY30 (chart 1).
- **Net debt forecasts:** expected to rise from 38.0% of nominal output in FY24 to 39.8% by FY26 before declining gradually to 38.6% by FY29—about 1 ppt below the path outlined in Budget 2024 (chart 2). Debt reduction target of 30% net debt -to-GDP by FY38 remains intact with an interim goal of 33% by FY33.
- **Economic forecasts:** real GDP forecast raised from 0.6% to 1.2% for 2024 but reduced from 1.6% to 1.5% for 2025; nominal GDP projection raised to 4.6% for 2024 and nudged down to 3.6% for 2025.
- **New policy measures incremental and targeted:** \$365 mn in FY25, \$463 mn in FY26, and \$431 mn in FY27—combined \$2.1 bn over FY25–29 (averaging 0.06% of projected nominal GDP per year over the forecast horizon). Key measures focus on public transit, support for the forestry sector, flood response, and access to social assistance.
- **The review of tax expenditures will save \$3.4 bn over five years for the government, offset by a \$5.2 bn cost due to the indexation of the personal income tax system and social assistance benefits over the same period.**
- **Financing program:** estimated at \$32.5 bn in FY25—\$3.9 bn lower than Budget 2024 forecast due to pre-financing in FY24; medium-term borrowing projected at \$29.2 bn in FY26 and \$30.1 bn in FY27.
- **Quebec sees revenue gains from a tax system review but faces cost overruns from its programs. The government is making its first attempt to bring public finances back in order, facing significant consolidation challenges. With a plan to restore a balanced budget by FY30 expected in the next budget, the current update's light and targeted policy announcements are a step in the right direction. Despite near-term bottom-line deterioration due to cost overruns, the government is committed to reining in spending to align closer with revenue as a share of output and gradually balance the books.**

OUR TAKE

Despite near-term deterioration stemming from notable cost overruns, Quebec laid the foundation for improving its public finances in the FY25 mid-year update. The government reported some deterioration in the previous fiscal year, recording a deficit of **-\$8 bn (-1.4% of nominal GDP) in FY24**, significantly larger than the earlier forecast of **-\$6.3 bn (-1.1% of GDP)**. This is primarily due to declines in personal income tax and corporation tax revenues, driven by less favourable economic conditions than anticipated. This weakness is expected to persist into this year and next, with tax revenue losses and cost overruns keeping deficits high despite economic tailwinds, projected at **-\$11 bn (-1.8% of nominal GDP) in FY25** and **-\$9.2 bn (-1.5%) in FY26** (after deposits into Generations Fund).

The update has revised upward the near-term economic projections, reflecting the strong growth momentum in Quebec, in line with our view. Given a strong rebound of economic activity in the first half of this year, the update increased the projected real

growth rate to 1.2% for 2024, doubling the government’s March estimate, while maintaining a growth expectation of 1.5% for the following year supported by a more accommodative monetary policy. This aligns with our current baseline view, which accounts for a realistic path of population growth based on the federal government’s policy to curb the influx of international migrants. The update presented an alternative scenario that forecasts a recession in 2024 with Quebec’s economy contracting by -0.3%. The potential fiscal impact of the recessionary scenario is estimated at -\$0.4 bn in FY25, -\$2.1 bn in FY26, and -\$0.6 bn in FY27.

Despite stronger growth prospects for this year and next compared to the government’s March estimates, the continuation of last year’s revenue losses weighs on the province’s revenue outlook. The province benefited from a stronger-than-anticipated rebound in the economy after a year of stagnation in 2023, in addition to the increase in the capital gains tax by the federal government. However, before accounting for savings from the tax system update, the province expects tax revenue to be close to \$1.7 bn lower in the next three years, offset by higher federal transfers and higher miscellaneous revenue from health and education services. Adjustments to the tax credit for career extension and capital gains result in a combined saving of \$1.8 bn over the next three years, but this is offset by a \$2.7 bn cost due to the indexation of the personal income tax system and social assistance benefits. Overall, the revenue outlook remains robust, with total revenue projected to grow at an average annual rate of 4.2% over the next three years (chart 3).

Before accounting for new policy actions, program spending saw material upward adjustments since Budget 2024. Portfolio spending projections were revised higher by \$2.5 bn in FY25, \$0.9 bn in FY26 and \$0.5 bn in FY27 due to a lag in the pace of infrastructure realization and higher cost of health and social services. In contrast, the fiscal impact from new policy actions since Budget 2024 is minimal, averaging \$0.4 bn per year over the next three years. Total expenditures are projected to grow by 6% in FY25, before slowing to 1.9% and 1.8% in FY26–27 (chart 4).

The government is pledging several new policy initiatives, totalling \$2.1 bn (0.06% of nominal GDP each year), evenly splitting over FY25–FY29. New policy initiatives \$252 mn for the forestry sector, \$218 mn to improve housing access and social assistance, \$1.2 bn for public transit and urban vitality in Montréal and the Capitale-Nationale, and \$433 mn for community safety measures such as flood response.

The update marks modest progress towards fiscal consolidation, with an updated plan to restore a balanced budget still expected to be unveiled in next year’s budget, targeting balance by FY30. Total expenditure is projected to rise to 26.5% of GDP in FY25 due to cost overruns in public services, while total revenue is anticipated to remain steady at around 25.2% of GDP. By FY29, expenditure as a share of the economy is expected to decrease to 25.1%, aligning more closely with the share of revenue, which will be at 25.0% (chart 5). This highlights the effectiveness of the tax and budgetary expenditures review, which is expected to eventually equalize revenue and expenditure by FY28, gradually eliminating the structural deficit, currently projected to be -\$3.2 bn (-0.5% of GDP) in FY29. Additionally, the \$1.5 bn per year contingency reserve provides some room for maneuver if unused.

The province anticipates a slight improvement in its net debt burden, albeit among the highest in the country. Quebec’s debt-to-GDP ratio is projected to rise over the next two years, peaking at 39.8% in FY26—1.2 ppts lower than the forecast in Budget 2024. In the medium term, the debt burden is anticipated to follow a moderate downward trend, supported by an improving economic outlook. The province is staying the course on its objective of reducing net debt to 33% of nominal output by FY33, and then to 30% by FY38.

Chart 3

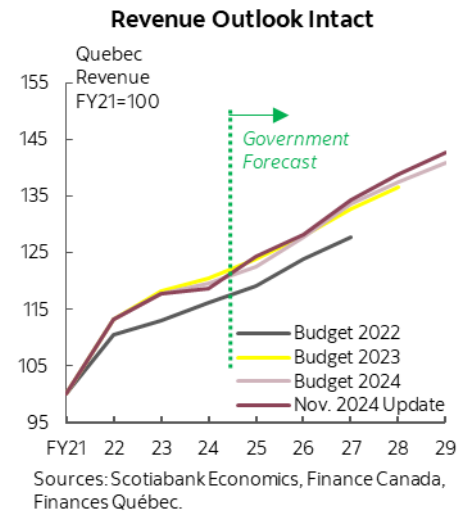


Chart 4

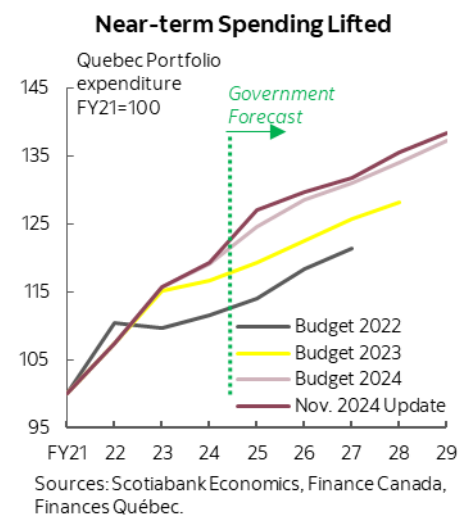
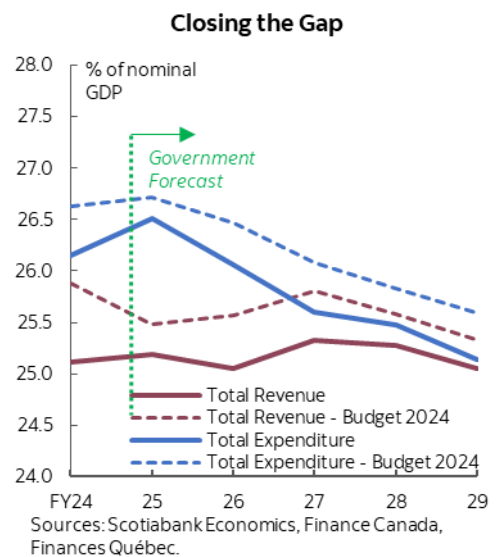


Chart 5



The government plans to withdraw \$4.4 bn from the Generations Fund in FY25 and \$2.5 bn in FY26 to reduce debt and lower borrowing needs. Following these withdrawals, the Generations Fund balance is expected to be \$16.4 bn (6.6% of net debt) in FY26.

The province's financing program scaled back by \$3.9 bn for FY25 and \$3.5 bn for FY26 with outer years projections revised up relative to Budget 2024. The province now expects to borrow \$32.5 bn in FY25, \$29.2 bn in FY26, \$30.1 bn in FY27, \$27.9 bn in FY28, and \$28.5 bn in FY29. The \$3.9 bn reduction in FY25 financing needs is the combination of lower net financial requirements (\$2.0 bn), the use of pre-financing (\$3.2 bn), and transactions under the credit policy (\$1.6 bn), before dedicating \$3.1 bn to pre-financing for the following fiscal year. The financing program is completed for FY25, with 35% of borrowing conducted on foreign markets—higher than the 30% average in the prior 10 years.

Changes to Quebec's Fiscal Outlook			
\$ billions except where noted			
	FY24	FY25	FY26
Budget 2024 Balance Projection*	-11.0	-8.5	-4.2
Tax revenue	-0.6	-0.5	-0.5
Other own-source revenue	0.4	0.6	1.0
Government enterprises	-0.1	-0.2	0.0
Federal transfers	1.6	0.3	0.4
Subtotal – Revenue	1.4	0.1	0.8
Portfolio expenditures	-2.5	-0.9	-0.5
Debt service	-0.2	-0.2	-0.1
Subtotal – Expenditure	-2.7	-1.1	-0.6
Deposits of dedicated revenues in the Generations Fund	0.0	0.0	0.0
Changes to Economic & Fiscal Outlook	-1.4	-0.9	0.2
Updated Balance	-12.4	-9.4	-4.0
November 2024 Initiatives			
Increasing support for the forestry sector	0.0	0.0	0.0
Consolidating support for Quebecers	-0.1	-0.1	0.0
Fostering community development	—	-0.3	-0.3
Ensuring the safety of communities	-0.3	0.0	0.0
New Policy			
Ongoing review of tax expenditures	1.0	0.6	0.2
Gap to be bridged for achieving fiscal balance in operations	—	—	—
Contingency Reserve	0.8	—	—
Provincial Balance*	-11.0	-9.2	-4.2
% of GDP	-1.9	-1.5	-0.7

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

Long-Run Fiscal Forecast												
\$ millions except where noted												
	FY24		FY25		FY26		FY27		FY28		FY29	
	Mar. '24	Final	Mar. '24	Nov. '24	Mar. '24	Nov. '24	Mar. '24	Nov. '24	Mar. '24	Nov. '24	Mar. '24	Nov. '24
Total Revenue	146,776	145,541	150,301	152,626	156,558	157,330	163,820	164,843	168,503	170,338	172,845	174,932
Own-Source	115,486	114,665	120,904	121,584	126,130	126,618	131,937	132,538	136,391	137,830	140,839	142,744
Fed. Transfers	31,290	30,876	29,397	31,042	30,428	30,712	31,883	32,305	32,112	32,508	32,006	32,188
Total Expenditure	150,997	151,535	157,577	160,631	162,075	163,630	165,610	166,630	170,143	171,747	174,614	175,545
Programs	141,347	141,553	147,815	150,703	152,492	153,877	155,493	156,382	159,140	160,751	162,972	164,134
Debt Service	9,650	9,982	9,762	9,928	9,583	9,753	10,117	10,248	11,003	10,996	11,642	11,411
% of Revenue	6.6	6.9	6.5	6.5	6.1	6.2	6.2	6.2	6.5	6.5	6.7	6.5
Gap to be bridged	—	—	—	—	750	750	1,500	1,500	1,750	1,500	2,000	1,500
Reserve	—	—	1,500	750	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Generations Fund Deposits	2,081	2,047	2,222	2,243	2,219	2,194	2,419	2,411	2,554	2,528	2,671	2,635
Surplus/Deficit	-6,302	-8,041	-10,998	-10,998	-8,486	-9,244	-4,209	-4,198	-3,944	-3,937	-3,940	-3,248
% of GDP	-1.1	-1.4	-1.9	-1.8	-1.4	-1.5	-0.7	-0.6	-0.6	-0.6	-0.6	-0.5
Net Debt	221,128	220,016	237,771	236,562	250,893	249,847	257,515	256,953	263,455	263,619	269,396	269,597
% of GDP	39.0	38.0	40.3	39.0	41.0	39.8	40.6	39.5	40.0	39.1	39.5	38.6

Sources: Scotiabank Economics, 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 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: Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, 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 authorized 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 authorized 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., Grupo Financiero Scotiabank Inverlat, and Scotia Inverlat 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.