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GLOBAL ECONOMICS

FISCAL PULSE

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Quebec: 2024–25 Mid-Year Update

A COURSE CORRECTION AMID STRONG WINDS

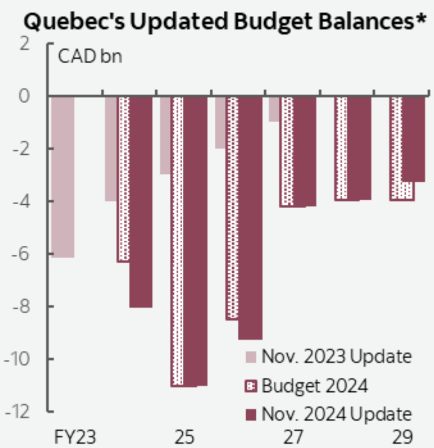
- **Budget balance projections: -$11 bn (-1.8% of nominal GDP) in FY25, -$9.2 bn (-1.5%) in FY26 (all figures after deposits into Generations Fund)—a slight deterioration from Budget 2024 projections; a structural deficit projected at -$3.2 bn (-0.5%) in FY29. Updated plan for fiscal balance to be unveiled 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).

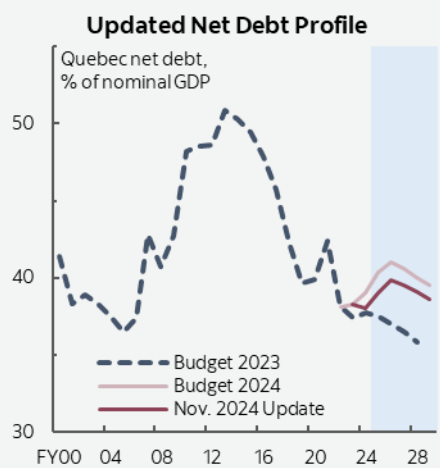
The update has revised upward the near-term economic projections, reflecting the strong growth momentum in Quebec, in line with our view. Given a strong rebound of economic activity in the first half of this year, the update increased the projected real

Chart 1



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

Chart 2



Sources: Scotiabank Economics, Finance Canada, Finances Quebec.

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).

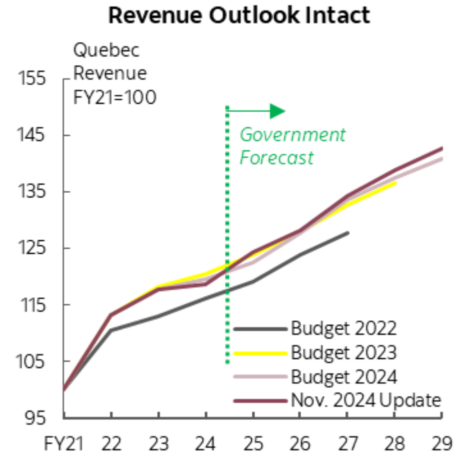
Before accounting for new policy actions, program spending saw material upward adjustments since Budget 2024. Portfolio spending projections were revised higher by \$2.5 bn in FY25, \$0.9 bn in FY26 and \$0.5 bn in FY27 due to a lag in the pace of infrastructure realization and higher cost of health 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.

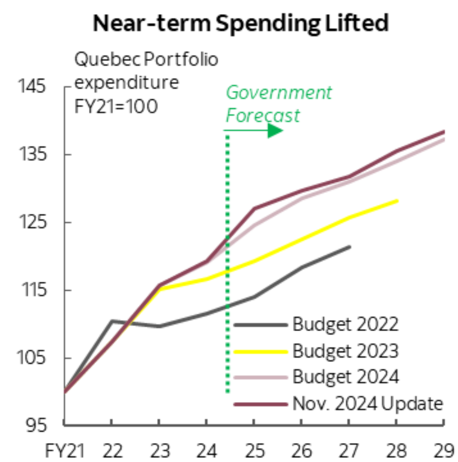
The province anticipates a slight improvement in its net debt burden, albeit among the highest in the country. Quebec's debt-to-GDP ratio is projected to rise over the next two years, peaking at 39.8% in FY26—1.2 ppts lower than the forecast in Budget 2024. In the medium term, the debt burden is anticipated 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



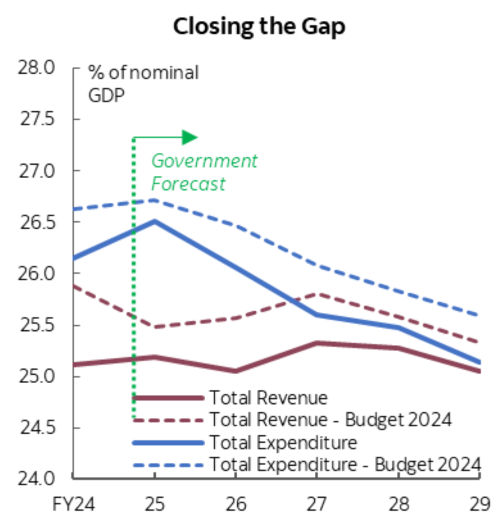
Sources: Scotiabank Economics, Finance Canada, Finances Québec.

Chart 4



Sources: Scotiabank Economics, Finance Canada, Finances Québec.

Chart 5



Sources: Scotiabank Economics, Finance Canada, Finances Québec.

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	-0.4	-0.5	-0.4
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.