November 25, 2021

Quebec: 2021–22 Mid-Year Update

RECORD ECONOMIC GROWTH, TARGETED POLICY

- **Budget balance projections: -$6.8 bn (-1.4% of nominal GDP) in FY22 versus March 2021 Budget estimate of $12.3 bn (2.6%), -$5.5 bn (1.0%) in FY23 (all figures after deposits into Generations Fund)** (chart 1).
- **Net debt forecasts: expected to drop below 40% of nominal GDP in FY22 and decline steadily to 37.8% by FY26—about 5 ppts lower than anticipated in Budget 2021** (chart 2, p.2).
- **GDP expectations: 6.5% real growth and 10.8% nominal growth this calendar year—both record expansions and much stronger than prior projections of 4.2% and 6%, respectively.**
- **Financing program: estimated at $24.5 bn in FY22, $30.9 bn in FY23, and $30 bn in FY24, all reductions from March 2021 forecasts** (chart 3, p.2).
- **New policy measures: aim to improve the cost of living, bolster the health care system, and address labour shortages; largely incremental but well-targeted to province-specific economic challenges.**

OUR TAKE

As widely expected, Canada's second-largest province finds itself on a much stronger fiscal path than laid out in Budget. We discussed the extent and key drivers of Quebec's economic outperformance **here**; the province is following in the footsteps of all others that have released updates thus far and likely won't be the last. Quebec's debt as a share of output remains on a downward path and looks likely to remain well below the record levels attained in the early 2010s. This is positive from the perspective of fiscal sustainability and creditworthiness.

Changes in long-run fiscal anchors and metrics underscore the extent to which hefty economic growth alters the province's financial landscape. Recall that in Budget, Quebec identified a $6.5 bn "shortfall" stemming from the pandemic-induced plunge in GDP and related increase in spending. It planned to eliminate that amount over the five years beginning in FY24 via expenditure adjustments or new revenues to be determined at a later date. This Update references a "structural deficit" of just $4 bn. Similarly, the province once again expects to reach a 45% gross debt-to-GDP ratio by FY26, having estimated early in the pandemic that that target was no longer attainable.

Federal transfers continue to play an important role in the fiscal plan; versus Budget, projections were revised higher by $2.6 bn in FY22, $2.4 bn in FY23 and $3.1 bn in FY24. This includes a one-time payment of $1.1 bn to support health care and vaccination and a $6 bn Childcare Agreement over the next five years. The province is also calling for an increase in the Canada Health Transfer (CHT) to 35% of provincial health spending, to support funding for long-term care.

There is less prudence built into this plan than in recent updates, which mirrors a more modest level of uncertainty with to the economic outlook

CONTACTS

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

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

Updated Fiscal Forecast

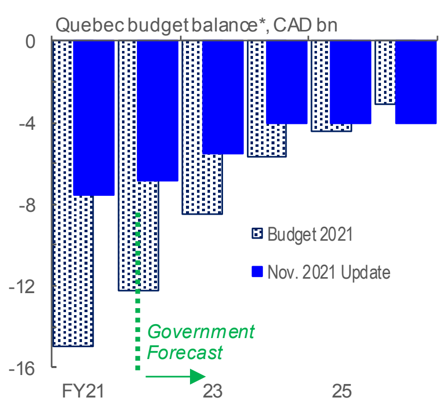
$ millions except where noted

	FY21		FY22	
	Mar. '21	Final	Mar. '21	Nov. '21
Total Revenue	**120,302**	**122,584**	**122,567**	**131,072**
Own-Source	90,028	91,868	95,668	101,608
Fed. Transfers	30,274	30,716	26,899	29,464
Total Expenditure	**131,038**	**126,810**	**130,487**	**134,631**
Programs	111,453	106,126	117,590	118,456
COVID-19 Support	11,920	12,995	4,284	7,610
Debt Service	7,665	7,689	8,613	8,565
% of Revenue	*6.4*	6.3	*7.0*	6.5
Reserve	**1,250**	—	**1,250**	—
Generations Fund Deposits	3,014	3,313	3,080	3,288
Surplus/Deficit	**-15,000**	**-7,539**	**-12,250**	**-6,847**
% of GDP	-3.4	-1.7	-2.6	-1.4
Stabilization Reserve Use	8,760	10,760	—	1,221
Accounting changes	—	3,221	—	—
Balance	-6,240	—	-12,250	**-5,626**
Net Debt	**199,060**	**190,245**	**213,020**	**198,564**
% of GDP	45.0	42.4	45.5	39.9

Sources: Scotiabank Economics, Finances Québec.

Chart 1

Deficits Reduced Significantly

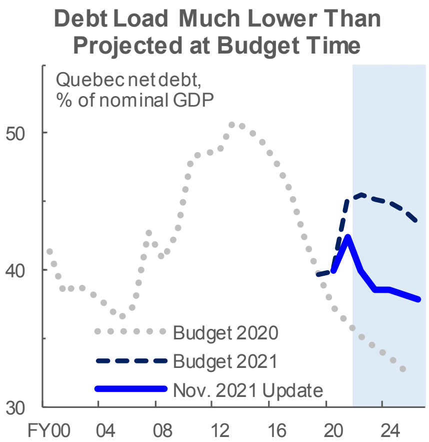


* After deposits into Generations Fund, before use of Stabilization Reserve.
Sources: Scotiabank Economics, Finances Québec.

than during the peak pandemic period. Update assumes nominal GDP growth of 10.8% in calendar year 2021—just a hair below the private-sector average—and FY22 no longer includes a $1.25 bn reserve. However, FY23–24 incorporate a combined forecast allowance of $2.3 bn.

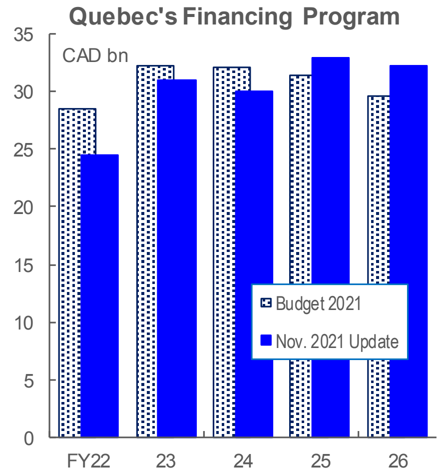
New policy measures fell into four key categories: a) cost of living help, b) social policy, c) health care supports, and d) efforts to address labour shortages; all look appropriately targeted to province-specific challenges. Cost of living policies included a one-year lump sum payment to low- and medium-income households—known to be the most impacted by consumer goods inflation. That could stoke demand on the margins, but the measure is temporary, in line with expected inflation. Social policy includes cost offsets for daycare—which we've argued is beneficial for long-run growth. The costliest single health care measures were a one-year extension of pandemic financial incentives and further funds unlocked for broad salary cost and operating expenses related to health care workers.

Chart 2



Sources: Scotiabank Economics, Finance Canada, Finances Québec.

Chart 3



Sources: Scotiabank Economics, Finances Québec.

Measures to address labour shortages—long identified as a significant constraint on Quebec's growth—acknowledged both pandemic time and pre-COVID structural imbalances. Also on Thursday, Statistics Canada quietly released its Q3-2021 *Job Vacancy and Wage Survey* results, which showed a new record 7.3% job vacancy in Quebec in September 2021. Nearer-term measures include incentives for retirees and experienced workers to remain in the labour force, and a pledge to grant worker permits to immigrants awaiting permanent resident status. The Update also announced a suite of training and educational programs, notably in the IT sector, widely expected to experience long-run labour supply-demand imbalances even before the pandemic.

The government maintained the $4.5 bn increase to the 2021–31 Québec Infrastructure Plan (QIP) announced in the March 2021 Budget, which committed to spending a total of $135 bn over 10 years. Key policy priorities included hospitals, seniors' residences, schools, roads and public transit. Infrastructure spending plans for 2022–32 will be released in the spring budget.

Quebec's financing program has scaled down for FY22, FY23 and FY24 relative to the March 2021 Budget, and is estimated to be $24.5 bn, $30.9 bn and $30 bn, respectively. The Update penciled in higher borrowings in FY25 and FY26, averaging $32.6 bn per year. As of November 9, 2021, 32% of FY22 borrowing had been conducted on foreign markets, with the majority of foreign currency issuance denominated in Euro. Almost all completed borrowings had a maturity of 10 years or more, higher than the mean of 70% in the decade prior. The province also issued a $498 mn Green bond under its Green Bond program in FY22, for a total of six issues totalling $3.3 billion since the program was launched.

Long-Run Fiscal Forecast
$ billions except where noted

	FY21	FY22	FY23	FY24	FY25	FY26
Total Revenue	122.6	131.1	133.4	138.1	141.7	146.3
Total Expenditure	113.4	126.7	132.2	135.9	140.2	145.4
Net	9.2	4.4	1.2	2.2	1.6	0.9
COVID-19 Support	13.0	7.6	1.0	0.1	0.0	
Accounting Adjustments	0.5	0.4	1.2	1.3	0.8	0.0
Reserve	—	—	1.3	1.0	0.5	0.5
Surplus/Deficit	-4.2	-3.6	-2.3	-0.1	0.2	0.4
Generations Fund Deposits	3.3	3.3	3.3	3.9	4.3	4.4
Balance Before Stabilization Reserve	**-7.5**	**-6.8**	**-5.5**	**-4.0**	**-4.0**	**-4.0**
Accounting Changes	3.2	—	—	—	—	—
Stabilization Reserve Withdrawal	10.8	1.2	—	—	—	—
Provincial Balance	**—**	**-5.6**	**-5.5**	**-4.0**	**-4.0**	**-4.0**

Sources: Scotiabank Economics, Finances Québec.