Economics

PROVINCIAL BUDGET BRIEFS

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Québec budget 2024

The Province of Québec is expecting a larger deficit for the outgoing 2023/24 fiscal year than originally anticipated, due to a combination of higher spending and a weaker economy impacting revenues. For the upcoming 2024/25 fiscal year, the deficit is expected to widen further to $8.8bn (1.5% of nominal GDP) on a public accounts basis, due to a drop in federal transfers and further increases in spending, with the projection allowing for $1.5bn in contingencies. The larger deficit, combined with higher refinancing requirements, sees borrowing increase to $36.5bn in fiscal 2024/25, from $21.5bn in the outgoing fiscal year. The jump in borrowing was mitigated somewhat by a larger withdrawal from the Generations Fund and the start of withdrawals from the Retirement Plans Sinking Fund.

Table 1: Summary of fiscal position: (C$billions)

Fiscal measure	2022/23 Actual	2023/24 23 Budget	2023/24 24 Budget	2023/24 Change	2024/25 24 Budget	2025/26 24 Budget	2026/27 24 Budget	2027/28 24 Budget	2028/29 24 Budget
Revenue	144.3	147.7	146.8	-1.0	150.3	156.6	163.8	168.5	172.8
Own-source	115.6	118.0	115.5	-2.5	120.9	126.1	131.9	136.4	140.8
• % Change	5.4	1.8	-0.1	-1.9	4.7	4.3	4.6	3.4	3.3
Federal transfers	28.7	29.7	31.3	1.5	29.4	30.4	31.9	32.1	32.0
Expenditure	147.3	147.9	151.0	3.1	157.6	162.1	165.6	170.1	174.6
Portfolio expenditures	137.2	138.4	141.3	3.0	147.8	152.5	155.5	159.1	163.0
• % Change	7.6	1.2	3.0	1.8	4.6	3.2	2.0	2.3	2.4
Public debt interest	10.1	9.5	9.7	0.2	9.8	9.6	10.1	11.0	11.6
Gap to be bridged for achieving fiscal balance in operations	-	-	-	-	-	0.8	1.5	1.8	2.0
Contingency Reserve	0.0	1.5	0.0	-1.5	1.5	1.5	1.5	1.5	1.5
Budget balance (public accounts basis)	-3.0	-1.6	-4.2	-2.6	-8.8	-6.3	-1.8	-1.4	-1.3
Generations fund deposit	-3.1	-2.4	-2.1	0.3	-2.2	-2.2	-2.4	-2.6	-2.7
Budget Balance per Balanced Budget Act	-6.1	-4.0	-6.3	-2.3	-11.0	-8.5	-4.2	-3.9	-3.9

Growth in Québec to remain slow in 2024

The Québec economy endured an earlier slowdown in 2023 than the Canadian average, with real GDP growth last year estimated to have been only 0.2%. Growth was limited by a further decline in residential investment, which included a sharp drop in housing starts, and a reduction in business investment relative to the prior year. For this year, real GDP growth is expected to remain muted at 0.6%, which would be slightly below the national average. However, nominal GDP, which is more important for provincial revenues, is expected to rise by 4.0% in 2024, with that projection higher than the 3.0% increase expected by the consensus of private sector economists. Longer-term projections see real GDP growth accelerating to just above 1.5% on average, as interest rate cuts starting in the middle of this year bring stronger consumer spending in 2025 and beyond.

The province once again provided some alternative economic scenarios and the fiscal impact of those. Under a recession scenario, in which real GDP would fall by 0.5% in 2024, the budget deficit would be $1.8bn larger than under the base case projections.

Table 2: Key assumptions (Y/Y % chg)

Economic assumptions	2023	2024	2025	2026-28
Real GDP	0.2	0.6	1.6	1.7
• Private sector average	-	0.4	1.5	1.7
Nominal GDP	3.9	4.0	3.8	3.7
• Private sector average	-	3.0	3.6	3.7
Employment change (K)	103	44	28	20
Jobless rate (%)	4.5	5.2	4.9	4.3
Real Household consumption	2.3	0.8	1.8	1.9
Housing starts (k)	38.9	42.7	43.7	42.3
Household income	6.0	5.2	3.6	3.3
Corporate net operating surplus	-11.0	-2.5	3.0	4.5
CPI	4.5	2.8	2.2	2.0

Table 3: Key financial assumptions

Financial assumptions (fiscal yr)	2023	2024	2025
3-month T-Bills (%)	4.80	4.60	3.50
10-year GoC Bonds (%)	3.30	3.30	3.10
Exchange rate (US¢/C$)	1.35	1.32	1.29

Note: 2026-28 is three-year average

Projecting larger and continued deficits

For the outgoing 2023/24 fiscal year, the province of Québec is now projecting a deficit of $4.2bn on a public accounts basis, which is roughly 0.7% of GDP and larger than the $1.6bn shortfall that had been anticipated in last year's budget. Sluggishness within the provincial economy appears to have impacted own source revenues, which are projected to be $2.5bn lower than initially expected. That shortfall is only partly offset by higher transfers from the Federal government. Spending is tracking $3.0bn higher than the Budget 2023 projections, also contributing to the wider deficit.

The higher starting point for spending and lower base for own-source revenue, combined with roughly $1.8bn in new measures for the upcoming year announced in today's budget, means that the deficit projection for fiscal 2024/25 has widened notably relative to last year's plans. Indeed, the $8.8bn shortfall now expected would be wider than the outgoing fiscal year, and is approximately 1.5% of provincial GDP. Following a $2.2bn deposit to the Generations Fund, the deficit would be $11.0bn on a Balanced Budget Act basis.

Longer-term projections show deficits slimming, with spending growth averaging around 2.5% a year and revenues close to 4%. However, unlike last year's budget, a balance isn't expected to be achieved by the end of the forecast horizon. The government stated today that it aims to restore fiscal balance within the meaning of the Balanced Budget Act by 2029/30, and a plan to do so would be released in next year's budget. Today's projections show a deficit of $3.9bn remaining in fiscal 2028/29 on a Balanced Budget Act basis.

In today's budget the province aims to achieve a budgetary balance in operations (i.e. excluding contingencies and deposits to the Generations Fund) by fiscal 2027/28. To do this it will need to bridge a gap of $750mn in 2025/26, rising to $2.0bn in 2028/29, between planned spending and revenues. As part of its effort to do this, the provincial government will be launching two reviews this spring, one for taxation and one for budgetary expenditures, and will continue to try and secure more funding from the federal government.

Financing program higher due to larger net financial requirements

In their fall update, the province adjusted this year's borrowing requirements down by $7.6bn to $21.9bn, after the use of some pre-financing ($2.2bn), an increase in outstanding short-term debt ($2.0bn), as well as lowering net financial requirements ($4.1bn). In today's budget, that number was further adjusted downward by approximately $500mn, placing this outgoing fiscal year's requirements at $21.5bn. Meanwhile, the province has borrowed $21.2bn of that total through both domestic and international deals.

For this upcoming year, net financial requirements are almost doubling to $28.5bn, while repayment of borrowings are $16.9bn for a total of $45.4bn. However, the province is using $4.4bn from the Generations Fund to repay borrowings, withdrawing $2.5bn from the Retirement Plans Sinking Fund (RPSF), and increasing short-term debt outstanding by $2.0bn, bringing the overall financing program down to $36.5bn. When compared to this outgoing year, net financial requirements are up by $13.7bn, while repayment of borrowings are up by $3.2bn.

Starting this upcoming fiscal year, the government will begin withdrawing funds from that RPSF to provide payment of pension benefits to government employees. Overall, these withdrawals will help decrease the financing program, reaching $4.0bn in reduction by 2028/29.

Looking further ahead, borrowing requirements are forecasted to decrease in 2025/26 to $32.7bn. That is due to lower net financial requirements, an increase again in short-term debt outstanding, as well as further withdrawals from the Generations Funds and the RPSF. Over the time horizon, lower net financial requirements and repayment of borrowings, as well as increasing RPSF withdrawals, sees total borrowing decreasing to $26.5bn by 2028/29.

Table 4: Borrowing requirements (C$billions)

Borrowing requirements	2023/24E	2024/25F	2025/26F	2026/27F	2027/28F	2028/29F
Net financial requirements	14.8	28.5	22.6	17.5	17.4	16.2
Repayments of borrowings	13.7	16.9	17.2	14.0	13.1	14.3
Withdrawal from sick leave fund	-0.2	-	-	-	-	-
Use of pre-financing	-2.2	-	-	-	-	-
Change in cash positions	0.3	-	-	-	-	-
Transactions under credit policy[1]	-0.4	-	-	-	-	-
Increase in ST debt	-2.0	-2.0	-2.0	-	-	-
Use of Generations Fund	-2.5	-4.4	-2.5	-	-	-
Retirement Plans Sinking Fund withdrawals	-	-2.5	-2.5	-3.5	-4.0	-4.0
Total	21.5	36.5	32.7	28.1	26.5	26.5

Net debt-to-GDP increasing over the next two years

Driven by the deficit and investments in public infrastructure, net debt is forecasted to increase by $12.4bn to $221.1bn as at March 31, 2024. That growth will cause the net debt-to-GDP ratio to increase to 39.0% by the end of this outgoing fiscal year. Compared to last year's budget estimate for this outgoing year, it is higher than the 37.9% forecasted due to higher net debt.

As for this upcoming year, net debt is projected to increase by $16.6bn to $237.8bn, due to the same factors as mentioned above. Meanwhile, slower growth in GDP relative to the increase in net debt sees that ratio increasing to 40.3% in 2024/25. That ratio increases again to 41.0% in 2025/26, despite a slower increase in net debt as GDP growth is also forecasted to slow.

From there, the forecast horizon depicts further, but slower, increases in net debt, reaching $269.4bn by March 31, 2029. Those projections for net debt show a steady decline in the GDP ratio, falling to 39.5% by the end of the horizon. Although the ratio is expected to rise in the short-term, the government stated that it maintains its objective to reduce the net debt burden to 30.0% of GDP by 2037/38.

[1] Payments to / (from) counterparties to reduce exposure.

Capital spending increasing again over 10 years

Québec's 10-year capital spending program, referred to as the Québec Infrastructure Plan (QIP) calls for $153bn in cumulative investments ($15.3bn/year avg), up from $150bn last year. Over the past six years, the QIP has been increased each year, up from $100.4bn in March 2018. About 62% of the total investments under the plan will be used primarily to maintain the building inventory, while the remaining 38% will be new infrastructure.

The QIP allocates considerable sums to health and social services, education and higher education networks, as well as public transit and its road network. Of that total amount in the QIP, $80.8bn (53%) is planned over the next five years.

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