Market View
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Quebec's (and the ruling CAQ's) ever-improving hand

By Warren Lovely

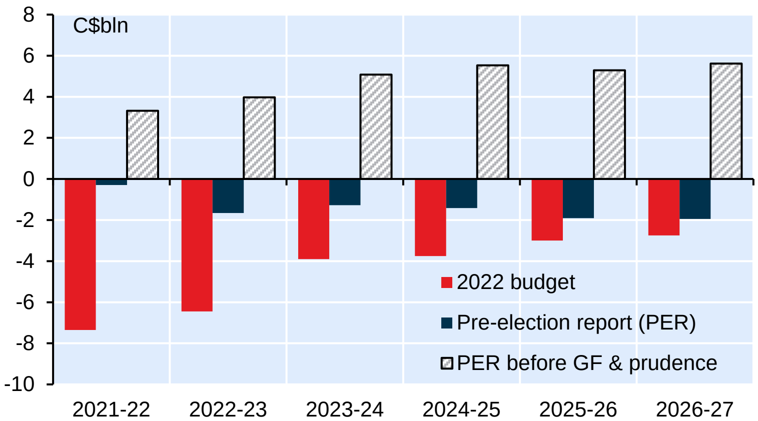
As required by law, Quebec has presented a *Pre-Election Report* outlining the (improving) state of the province's finances ahead of an October 3rd general election. Continuing a well-established trend there was good fiscal news here, notwithstanding non-trivial uncertainties. Consistent with unofficial results presented in late June, Quebec's 2021-22 budget balance has improved significantly. The $7 billion-plus deficit estimated as recently as March has been all-but-erased (Chart 1). Refer to our earlier analysis here. As for the current fiscal year (2022-23), the pre-election report suggests Quebec is tracking towards a $1.7 billion deficit before use of a stabilization reserve. That's a none-too-trivial upgrade relative to the $6½ billion shortfall projected in Budget 2022. Additional positive adjustments were made to the medium-term outlook, a combined $18.7 billion in red ink erased over six years since spring. The figures were deemed "plausible" in all material respects by the AG.

Quebec's budgetary boost builds on what had already been a fairly radical transformation (for the better) since the initial dark days of the pandemic. Stronger balances have been made possible in spite of significant new measures, including in Budget 2022. See our analysis here. Note that the modest remaining deficits are *after* significant (and rising) deposits to the province's Generations Fund (GF), which is earmarked exclusively for debt reduction. The book value of the GF ended 2021-22 at ~$16 billion and could more than double by 2025-26 (to $32.6 billion). In a nod to a still-uncertain outlook, incremental prudence has been set aside, reserves and provisions now exceeding $2 billion/year.

An improved fiscal track owes in part to a resilient economy. The pre-election report outlined (another) shift higher in the trajectory for nominal output vs. prior thinking (Chart 2). Stronger budget balances and inflated nominal GDP are a nice combo when it comes to the debt burden, where Quebec looks to be further ahead of its legislated targets (Chart 3). True, central bank rate hikes mean borrowing costs have increased—with monetary tightening a key aspect of today's elevated risk profile—but stronger budget balances mean less to borrow. Witness the ~$6 billion cut to Quebec's 2022-23 gross bond requirement to $21.6 billion, with 38% completed (matching the time elapsed in the fiscal year).

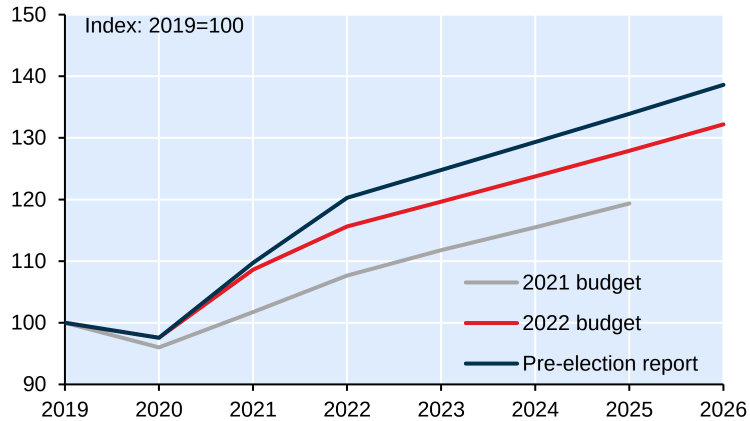
Quebec then outlines yet another nifty improvement to its fiscal fortunes, all while flagging some key risks to be navigated. If anything, it suggests the province may have marginal room for new measures/investments as October's vote comes into focus. As for the election itself, it could well be a landslide in favour of the ruling CAQ, at least based on current public opinion polling (Chart 4). FYI, it's T-48 days to the vote.

Chart 1: Improved fiscal footing in Quebec (again)
Quebec budget balance: Budget 2022 to Pre-Election Report



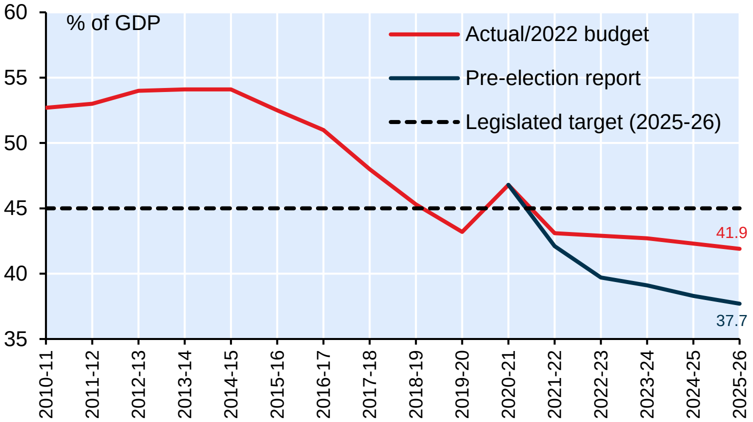
Source: NBF, Quebec

Chart 2: Economic resilience on display (despite uncertainty)
Index of Quebec nominal GDP: Prior budgets to Pre-Election Report



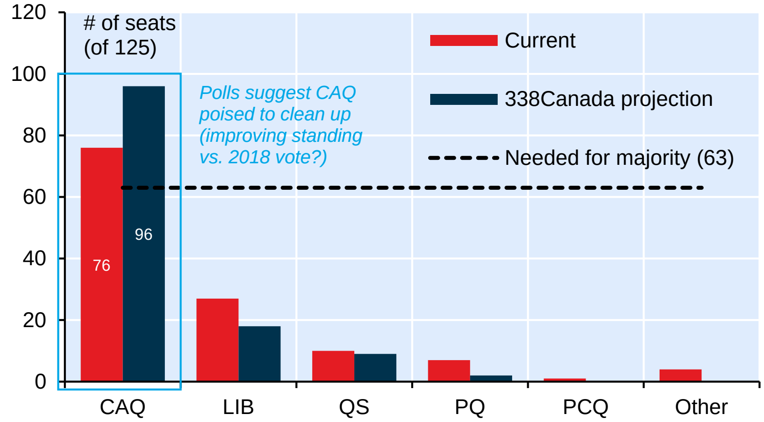
Source: NBF, Quebec

Chart 3: Debt burden moving further below legislated target
Quebec gross debt-to-GDP ratio: Actual/projections vs. legislated target



Source: NBF, Quebec | Note: Separate objective exists for accumulated deficit vs. GDP

Chart 4: An electoral slam dunk for CAQ? Polls lean that way
Quebec party standings & current seat projections for October 3rd election



Source: NBF, ANQ, 338Canada (projections from 12-Aug)

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