Maintaining the trajectory towards a balanced budget for 2027–2028
By Daren King / Matthieu Arseneau

Highlights

- **Economic outlook:** Despite the numerous waves of Covid-19, which resulted in health measures that were often more restrictive and lengthier than in other Canadian provinces, Quebec’s economy recovered quickly from the crisis. Indeed, the province’s real GDP grew by 6.3% in 2021, exceeding its pre-pandemic level and outpacing the 4.6% growth observed in Canada. The labour market is also performing well, as employment was above its pre-pandemic level in February and the unemployment rate reached an all-time low of 4.5% percent. As a result of this strong recovery, the Quebec economy is now expected to grow at a pace closer to its potential in the coming years. For 2022, the budget is based on real GDP growth of 2.7%, in line with our forecast, but cautious compared to the average of 3.1% for private sector forecasts. Economic growth is expected to be supported by the deployment of household savings accumulated during the pandemic and the reduction of pandemic-related uncertainties. However, persistent problems in supply chains, the conflict in Ukraine, and labor shortages will be headwinds to growth and will have an upward impact on inflation. Real GDP is then expected to grow by 2.0% in 2023, slightly below our forecast of 2.3%, and by 1.5% from 2024 to 2026. After growing by a strong 11.3% in 2021, nominal GDP is expected to grow by a robust 6.4% in 2022, which is excellent news for the province’s finances. Nominal GDP growth is then expected to reach 3.5% in 2023 and 3.4% from 2024 to 2026. Given the already tight labour market, employment growth is expected to be weak in the coming years. After growing by 2.3% in 2022, employment is expected to grow by 1.4% in 2023 and between 0.5% and 0.6% from 2024 to 2026. The unemployment rate is expected to continue to decline slightly, from 5.0% in 2022 to 4.3% in 2026. The last two years have also been marked by a strong real estate market. However, recent price growth and rising interest rates are expected to slow the province’s housing market in the coming quarters.

- **Budget deficit:** A deficit of $6.1 billion is estimated for 2021–2022, $507 million higher than anticipated in the November 2021 economic update, but a far cry from the $12.3 billion deficit projected in last spring’s budget. Put in perspective, the deficit represents 4.5% of revenues or 1.2% of GDP. Revenues totalled $135.5 billion, $4.4 billion higher than forecasted in November and $12.9 billion higher than budgeted in 2021-22. Expenditures were $130.3 billion, $3.6 billion higher than in the November update and $4.8 billion higher than projected in the last budget due in part to the introduction of the exceptional cost of living benefit announced last fall.

- **Medium-term budget outlook (2022–2023 and beyond):** For the fiscal year 2022–2023, which has just begun, the budget forecasts a deficit of $6.45 billion (1.2% of GDP) after payment to the Generations Fund and use of the stabilization reserve. The structural deficit has been reduced from $6.5 billion to $2.8 billion in one year thanks to robust economic growth. As indicated in last year’s budget, the fiscal framework still calls for a return to a balanced budget in 2027–2028. By then, the size of the deficit is expected to continue to decline to $3.9 billion in 2023–2024 (0.7% of GDP), $3.75 billion in 2024–2025 (0.7% of GDP), $3.0 billion in 2025–2026 (0.5% of GDP) and $2.75 billion in 2026–2027 (0.5% of GDP). It should be noted that, excluding payment to the Generations Fund, a budgetary surplus is reached as early as the 2023-2024 fiscal year, i.e. earlier than anticipated in the last update and the last budget.
• **New measures:** The 2022–2023 budget provides for $22.7 billion in additional initiatives by 2026–2027, including $3.4 billion that has already been incurred in the 2021–2022 budget year and $3.8 billion that will be incurred this year. These measures are aimed initially at addressing the rising cost of living. To this end, the government is announcing a one-time payment in addition to the exceptional cost of living benefit announced last fall, so that 6.4 million Quebecers will be entitled to an additional amount of up to $500 if their net income is less than $100,000. These two measures will total $3.2 billion for the 2021-2022 and 2022-2023 fiscal years. In addition, to address the rising cost of living, $633.6 million has been announced by 2027 to increase the supply of social and affordable housing and improve housing quality.

The pandemic has exposed many gaps and weaknesses in the health care system. Not surprisingly, $8.9 billion in additional spending over five years was announced to restore the healthcare system and improve services for the public. The money to restore the healthcare system will be used to improve management of work, continue the culture change in the organization of work, modernize the healthcare system, have more fluid management of data and improve health and social services infrastructures. In terms of enhancing care and services to the population, spending is allocated to strengthen care for seniors and caregivers, improve accessibility and quality of services, and improve services for vulnerable people.

Third, a $2.8 billion initiative over five years will be used to invest in education/higher education. Of this total, $1.55 billion is allocated to support student success and retention by improving school buildings, providing additional resources to give students the means to reach their full potential, increasing the retention of school personnel and promoting physical exercise. The remaining $1.25 billion will be used to improve access to higher education and graduation.

It should also be noted that $4.2 billion over 5 years will be invested to stimulate economic growth. These funds will be used to support innovation, promote the digital shift, stimulate investment in new technologies, foster entrepreneurship/exports, strengthen the integration of immigrants into the workforce, back regional development and support the recovery and enhancement of the cultural sector.

The fifth axis of the budget's initiatives aims to strengthen community action and support communities through expenditures totalling $2.2 billion over five years. This money will be used to increase support for community organizations, support equality between women and men, combat sexual and domestic violence, support Aboriginal communities, and improve access to justice.

Finally, an additional $357 million by 2027 will be allocated to continue actions for the environment. The budget includes funding for decontamination, updating the 2030 Green Economy Plan, rolling out the first green hydrogen strategy and supporting sustainable practices.
### Financial impact of Budget 2022-2023 initiatives

(millions of dollars)

<table>
<thead>
<tr>
<th></th>
<th>2021-2022</th>
<th>2022-2023</th>
<th>2023-2024</th>
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<td>Coping with the rising cost of living</td>
<td>-3,245</td>
<td>-256</td>
<td>-89</td>
<td>-83</td>
<td>-88</td>
<td>-45</td>
<td>-3,826</td>
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<tr>
<td>Restoring the health care system</td>
<td>-1,259</td>
<td>-1,566</td>
<td>-1,834</td>
<td>-1,996</td>
<td>-2,203</td>
<td>-8,899</td>
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<td></td>
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<tr>
<td>Investing in education and higher education</td>
<td>-522</td>
<td>-545</td>
<td>-578</td>
<td>-578</td>
<td>-581</td>
<td>-2,804</td>
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<tr>
<td>Stimulating economic growth</td>
<td>-73</td>
<td>-1,069</td>
<td>-1,134</td>
<td>-959</td>
<td>-475</td>
<td>-444</td>
<td>-4,184</td>
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<tr>
<td>Continuing efforts relating to the environment(1)</td>
<td>-3</td>
<td>-63</td>
<td>-64</td>
<td>-87</td>
<td>-70</td>
<td>-50</td>
<td>-357</td>
<td>F</td>
</tr>
<tr>
<td>Strengthening community action and supporting communities</td>
<td>-97</td>
<td>-481</td>
<td>-342</td>
<td>-389</td>
<td>-441</td>
<td>-451</td>
<td>-2,200</td>
<td>G</td>
</tr>
</tbody>
</table>

Note: Totals may not add due to rounding.

(1) The financial framework of the 2022-2027 implementation plan will benefit from $1 billion more than the current implementation plan, thanks in particular to anticipated additional revenues from the carbon market.

- **Revenue outlook** – For 2022-2023, revenues are expected to grow by only 2.2% to $138.5 billion. This increase will be slowed by a 2.6% decrease in federal transfers due to the non-recurrence of pandemic-related agreements with the federal government. With the uncertainties of the pandemic dissipating and household savings yet to be deployed, the amount collected in consumption taxes should jump by 8.8% in 2022-2023. Revenues from government enterprises (mainly Hydro-Québec and Loto-Québec) are also expected to grow by a more modest 2.4%, following a 22.3% increase last year to $5.6 billion. All in all, own-source revenues should be up 3.6% to $109.7 billion. Total revenue growth is then expected to be 2.8% in 2023, 3.8% in 2024, 3.5% in 2025 and 3.4% in 2026.

- **Spending outlook** – For 2022-2023, spending (excluding support and stimulus spending due to Covid-19) will increase by 4.8% to $136.6 billion. This increase is due in part to a 4.8% increase in debt service. In addition, portfolio spending will also increase by 4.9% to $127.8 billion. In the coming years, spending is expected to increase by 2.9% in 2023, 2.5% in 2024, 3.4% in 2025 and 2.7% in 2026. Pandemic support and stimulus spending is expected to reach $2.4 billion in 2022, $462 million in 2023, and $18 million in 2024.

- **Debt burden** – Quebec’s gross debt, which corresponds to the debt on the financial markets plus the commitments related to the pension plans and minus the balance of the Generations Fund, should be in the order of $215.3 billion as of March 31, 2022. It is projected to increase by 6.1% in 2022-2023 to reach $228.3 billion – the equivalent of 42.9% of GDP, compared to 43.1% in March 2022 and 46.8% the previous year. This ratio had deteriorated to 54.1% in 2015 following the 2008-2009 recession. Over the next few years, the gross debt-to-GDP ratio is expected to gradually decrease from 43.1% in 2022 to 41.2% in 2027, thus reaching the target of 45% provided for in the Act to reduce the debt and establish the Generations Fund. The maintenance of payments to the Generations Fund and the improvement of the province’s financial situation will contribute to the stabilization of the gross debt-to-GDP ratio over this horizon. Despite this, the gross debt outstanding is projected to increase by nearly $35.7 billion, from $215.3 billion to $251 billion by 2026-2027. This increase will mainly reflect the projected budget deficits as well as investment expenditures in public infrastructure. In this regard, the government is forecasting net capital investment of $25.1 billion over the fiscal years 2022-2023 to 2026-2027 inclusive.

Due to low interest rates, the share of revenues devoted to debt service will be 6.4% in 2022-2023 and will gradually decline to 5.6% of revenues on average over the subsequent four years.

Net debt, which is defined as gross debt less financial assets, net of other liabilities, will be $199.0 billion (38.8% of GDP) as of March 31, 2022. The net debt-to-GDP ratio is projected to decline gradually over the projection horizon to 36.6% of GDP in 2026-2027. The debt-to-GDP ratio has declined by 0.8 percentage points to 21.7% as of March 31, 2022. This ratio should continue its downward trend to reach 18.3% as of March 31, 2026, thus missing the target of 17% provided for in the Act to reduce the debt and establish the Generations Fund.

The government has announced its intention to review this law in the next budget. It would appear that the government wants to simplify the law by setting only a debt target, probably favouring a net debt target in order to make it easier to compare with the other Canadian provinces.
Borrowing requirements: Borrowing activity in the outgoing year (2021-2022) will be $22.9 billion, $5.6 billion less than anticipated in the March 2021 budget. Net financial requirements have been revised downward due to the better-than-expected budget balance. To date, 37% of borrowing has been done in foreign financial markets – in contrast to the 10-year average of 24%. The favorable terms available in these markets have justified these choices. The government uses a range of financial instruments to limit the risks associated with exchange rate and interest rate fluctuations. After considering swaps, the gross debt is entirely denominated in Canadian dollars.

The government’s financing program calls for borrowing of $27.6 billion in 2022-2023. In subsequent years, borrowing requirements will average $30.4 billion per year.

Current long-term credit ratings – S&P: AA-, Stable | Moody’s: Aa2, Stable | DBRS: AA(Low), Stable | Fitch: AA-, Stable
(See our Provincial Ratings Snapshot for complementary information on special factors and considerations entering into credit ratings.)

Conclusion

Minister Girard’s fourth budget presents good news for both the economy and the government’s public finances. The strength of the economy and high inflationary pressures have inflated government revenues and give the government room to manoeuvre in this election year to announce no less than $23 billion in spending. Among the new measures proposed, one aims at mitigating the effects of inflation on more than 6 million Quebecers which should support consumption in the coming months. While we understand that it is difficult for governments to resist the temptation to act in this way, there is reason to wonder whether running deficits for this purpose in a context of full employment might not put additional pressure on prices, especially since other levels of government might follow suit.

Moreover, we are surprised by the decision to keep the date for achieving a balanced budget at 2027-2028 despite an economy that is running at full speed as evidenced by the unemployment rate at a record low of 4.5%. There are still risks at this point in time, but with such a long time horizon, there is an increased probability of experiencing another recession while still in a deficit situation. That would be a first since the balanced budget Act was put in place.

Undoubtedly, the pandemic has highlighted vulnerabilities in Quebec’s health care system. More restrictive health measures which slowed economic growth had to be put in place due to a rapidly overburdened health system. This vulnerability must be questioned in a context where demographic changes will put increasing pressure on the system and public finances. Lacklustre value for money in public services could jeopardize our ability to attract talent and capital, which is a necessary condition for the government to meet the standard of living of Ontarians. We therefore welcome the desire to overhaul the healthcare system, and this may mean short-term costs for long-term benefits. The $9 billion in new health care spending announced over 5 years can be amply justified, but it seems crucial to us to begin a process of benchmarking the system against other jurisdictions, both internationally and provincially. This would ensure accountability to taxpayers.

Lastly, we believe that other structuring expenditures are timely, particularly those related to education and those aimed at increasing the productivity of the Quebec economy. The government must position Quebec and leverage the assets it already possesses to benefit from the current context. The latter characterized by the fight against climate change and a reorganization...
of the global supply chain due to the pandemic and the armed conflict in Ukraine. These initiatives will help maintain the supply of services to the population and a debt-to-GDP ratio on a downward trend.

**Quebec: Gross debt outlook**

Gross debt as % of nominal GDP

NBF Economics and Strategy (data via Ministère des Finances Québec)
### CONSOLIDATED FINANCIAL FRAMEWORK FROM 2021-2022 TO 2026-2027

(millions of dollars)

<table>
<thead>
<tr>
<th></th>
<th>2021-2022</th>
<th>2022-2023</th>
<th>2023-2024</th>
<th>2024-2025</th>
<th>2025-2026</th>
<th>2026-2027</th>
<th>AAGR(^{(1)})</th>
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<tbody>
<tr>
<td>Own-source revenue</td>
<td>105 914</td>
<td>109 691</td>
<td>112 774</td>
<td>117 042</td>
<td>121 085</td>
<td>125 151</td>
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<tr>
<td>% change</td>
<td>15.3</td>
<td>3.6</td>
<td>2.8</td>
<td>3.8</td>
<td>3.5</td>
<td>3.4</td>
<td>3.4</td>
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<tr>
<td>Federal transfers</td>
<td>29 547</td>
<td>28 790</td>
<td>29 748</td>
<td>29 118</td>
<td>30 968</td>
<td>31 434</td>
<td></td>
</tr>
<tr>
<td>% change</td>
<td>-3.8</td>
<td>-2.6</td>
<td>3.3</td>
<td>-2.1</td>
<td>6.4</td>
<td>1.5</td>
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<td>Total revenue</td>
<td>135 461</td>
<td>138 481</td>
<td>142 522</td>
<td>146 160</td>
<td>152 053</td>
<td>156 585</td>
<td></td>
</tr>
<tr>
<td>% change</td>
<td>10.5</td>
<td>2.2</td>
<td>2.9</td>
<td>2.6</td>
<td>4.0</td>
<td>3.0</td>
<td>2.9</td>
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<tr>
<td>Portfolio expenditures</td>
<td>-121 874</td>
<td>-127 789</td>
<td>-131 800</td>
<td>-136 219</td>
<td>-140 343</td>
<td>-144 063</td>
<td></td>
</tr>
<tr>
<td>% change</td>
<td>14.8</td>
<td>4.9</td>
<td>3.1</td>
<td>2.6</td>
<td>3.8</td>
<td>2.6</td>
<td>3.4</td>
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<tr>
<td>Debt service</td>
<td>-8 441</td>
<td>-8 842</td>
<td>-8 725</td>
<td>-8 793</td>
<td>-8 588</td>
<td>-8 828</td>
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<tr>
<td>% change</td>
<td>9.8</td>
<td>4.8</td>
<td>-1.3</td>
<td>0.8</td>
<td>-2.3</td>
<td>2.8</td>
<td>0.9</td>
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<tr>
<td>Total expenditure</td>
<td>-130 315</td>
<td>-136 631</td>
<td>-140 525</td>
<td>-144 012</td>
<td>-148 931</td>
<td>-152 881</td>
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<tr>
<td>% change</td>
<td>14.5</td>
<td>4.8</td>
<td>2.9</td>
<td>2.5</td>
<td>3.4</td>
<td>2.7</td>
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<tr>
<td>COVID-19 support and recovery measures</td>
<td>-9 043</td>
<td>-2 355</td>
<td>-462</td>
<td>-18</td>
<td>—</td>
<td>—</td>
<td></td>
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<tr>
<td>Provision for economic risks and other support and recovery measures</td>
<td>—</td>
<td>-2 500</td>
<td>-1 500</td>
<td>-1 500</td>
<td>—</td>
<td>—</td>
<td>—</td>
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<tr>
<td><strong>SURPLUS (DEFICIT)</strong></td>
<td>-3 897</td>
<td>-3 005</td>
<td>35</td>
<td>630</td>
<td>1 622</td>
<td>2 204</td>
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**BALANCED BUDGET ACT**

<table>
<thead>
<tr>
<th>Deposits of dedicated revenues in the Generations Fund</th>
<th>-3 457</th>
<th>-3 445</th>
<th>-3 935</th>
<th>-4 380</th>
<th>-4 622</th>
<th>-4 954</th>
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<tr>
<td><strong>BUDGETARY BALANCE BEFORE USE OF THE STABILIZATION RESERVE</strong></td>
<td>-7 354</td>
<td>-6 450</td>
<td>-3 900</td>
<td>-3 750</td>
<td>-3 000</td>
<td>-2 750</td>
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<td>Use of the stabilization reserve</td>
<td>1 221</td>
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<tr>
<td><strong>BUDGETARY BALANCE WITHIN THE MEANING OF THE BALANCED BUDGET ACT</strong></td>
<td>-6 133</td>
<td>-6 450</td>
<td>-3 900</td>
<td>-3 750</td>
<td>-3 000</td>
<td>-2 750</td>
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</tbody>
</table>

Note: Totals may not add due to rounding.

\(^{(1)}\) Average annual growth rate, corresponding to the geometric mean over five years, from 2022-2023 to 2026-2027.

### THE GOVERNMENT’S FINANCING PROGRAM, 2021-2022 TO 2026-2027

(millions of dollars)

<table>
<thead>
<tr>
<th></th>
<th>2021-2022</th>
<th>2022-2023</th>
<th>2023-2024</th>
<th>2024-2025</th>
<th>2025-2026</th>
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<tr>
<td>Net financial requirements</td>
<td>11 037</td>
<td>19 096</td>
<td>14 136</td>
<td>14 698</td>
<td>15 488</td>
<td>14 868</td>
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<tr>
<td>Repayments of borrowings</td>
<td>13 117</td>
<td>14 444</td>
<td>15 927</td>
<td>19 138</td>
<td>17 041</td>
<td>10 156</td>
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<tr>
<td>Use of the Generations Fund to repay borrowings</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
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<tr>
<td>Withdrawal from the Accumulated Sick Leave Fund</td>
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<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
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<tr>
<td>Use of pre-financing</td>
<td>-8 552</td>
<td>-5 925</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
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<tr>
<td>Transactions under the credit policy(^{(1)})</td>
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<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
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<tr>
<td>Pre-financing</td>
<td>5 925</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td><strong>22 887(^{(2)})</strong></td>
<td><strong>27 615</strong></td>
<td><strong>30 063</strong></td>
<td><strong>33 836</strong></td>
<td><strong>32 529</strong></td>
<td><strong>25 024</strong></td>
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</tbody>
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Note: A negative entry indicates a source of financing and a positive entry, a financial requirement.

\(^{(1)}\) Under the credit policy, which is designed to limit financial risk with respect to counterparties, the government disburses or receives amounts following, in particular, movements in exchange rates. These amounts have no effect on the debt.

\(^{(2)}\) This data is based on borrowings contracted as at March 7, 2022.
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