
FALL 2015 QUÉBEC FISCAL AND ECONOMIC UPDATE

TD Economics



November 26, 2015

BALANCED BUDGET IN CLEAR SIGHT

- The Québec government released its 2015 Fall Fiscal Update. The Update showed that Quebec's deficit last fiscal year (\$1.1 billion or 0.3% of GDP) was roughly half of what the government had expected in its 2015 spring budget. For the current year, the government indicated that it is still on track to record a balanced budget.
- Quebec's borrowing requirements have eased and net debt is expected to ease to 49.7% of GDP this fiscal year, after peaking at 50.1% in FY 2014-15.
- Québec effectively registered a modest operating surplus in FY2014-15. However, a \$1.2 billion investment in the Generations Fund nudged the province into deficit territory.
- A \$1.25 billion reduction in program spending and other consolidated expenses helped bring last year's deficit down faster than previously anticipated.
- The government's improved starting point will help to counterbalance the negative fiscal impact of a downgrade to the province's near-term economic outlook. The government lowered its economic expectations modestly for the next few years. Real GDP is now expected to grow by 1.5% in 2015 and 1.7% in 2016, compared to an average annual pace of 2.0% expected in the March Budget. Nominal GDP is now forecast to grow by 2.4% in 2015-16, versus the 3.8% expected in March. Expected revenue gains were lowered modestly in tandem.
- The Province found itself with some wiggle room to raise outlays relative to the budget plan. In particular, an additional \$20 million will be allocated to education in FY2015-16 and \$80 million in FY2017-16. Expenses are on track to rise by 2.7% in FY2015-16, compared to the 1.5% included in the March Budget plan.
- Beyond the near term, the outlook for expenses, revenues and economic growth remain largely unchanged.

Implications

- Supported in part by its better-than-expected near-term financial performance, the government appears well positioned to continue to push ahead its busy agenda. This includes providing \$140 million in tax relief to small business owners by FY2015-16 and reducing the tax burden of Quebecers by \$2 billion (with the health contribution expected to be eliminated for all households by 2019). Above all, some \$88.4 billion is planned for infrastructure investment between 2016 and 2026 and \$3.4 billion dollars over the next five years.
- The Québec government is also on track to invest an average of \$2.5 billion per year into the Generations Fund between FY 2015-16 and FY 2019-20 and bring down its debt burden. Net debt is expected to gradually trend lower relative to the size of the economy, reaching just 42.9% of GDP by the end of FY2019-20.

TABLE 1: QUÉBEC GOVERNMENT FISCAL POSITION
 [C\$ millions unless otherwise noted]

Fiscal Year	2015 Budget					
	14-15	15-16	16-17	17-18	18-19	19-20
REVENUES	95,937	99,864	103,119	105,613	107,982	110,906
% change	2.9	4.1	3.3	2.4	2.2	2.7
Own-source	77,398	80,513	82,989	85,001	87,130	89,482
% change	--	4.0	3.1	2.4	2.5	2.7
Federal transfers	18,539	19,351	20,130	20,612	20,852	21,424
% change	--	4.4	4.0	2.4	1.2	2.3
EXPENDITURES	95,801	98,368	100,561	102,552	104,557	107,120
% change	0.9	2.7	2.2	2.0	2.0	2.3
Program expenditures	85,531	88,091	89,860	91,738	93,514	95,788
% change	--	3.0	2.0	2.1	1.9	2.4
% of GDP	23.1	23.2	23.0	22.7	22.4	22.2
Debt charges	10,270	10,277	10,701	10,814	11,043	11,332
% change	--	0.1	4.1	1.1	2.1	2.6
Contingency Reserve	-	-	-400	-400	-400	-400
SURPLUS (DEFICIT)	136	1,496	2,158	2,661	3,025	3,386
% of GDP	0.0	0.4	0.6	0.7	0.7	0.8
Generations Fund deposits	1,279	1,496	2,158	2,661	3,025	3,386
BUDGETARY BALANCE*	-1,143	0	0	0	0	0
% of GDP	-0.3	0.0	0.0	0.0	0.0	0.0
NET DEBT	185,580	188,150	189,276	188,549	187,320	185,329
% of GDP	50.1	49.7	48.4	46.6	44.8	42.9
GROSS DEBT	203,957	208,498	213,603	215,885	217,741	218,322
% of GDP	55.1	55.0	54.6	53.3	52.1	50.5
ACCUMULATED DEFICITS	121,161	119,665	117,507	114,846	111,821	108,435
% of GDP	32.7	31.6	30.0	28.4	26.7	25.1

* Budgetary balance within the meaning of the *Balanced Budget Act* after contributions towards the Generations Fund.

Sources: Québec Fall Fiscal and Economic Update 2015.

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