Provincial Update

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An analysis of the latest provincial fiscal news | **December 3, 2018**

Quebec

Quebec's Fiscal Strength Intact

Robert Kavcic, Senior Economist • robert.kavcic@bmo.com • 416-359-8329

The **Province of Quebec is projecting a $4.5 billion surplus in FY18/19** (1% of GDP), in the first update since the new government took office. This is much larger than the $1.9 billion surplus projected in the August pre-election framework, as a stronger economy has lifted revenues almost across the board. Indeed total revenues are now tracking $2 billion higher, with the bulk of the increase coming from higher tax receipts. Meantime, program spending has run $727 million lower, and lower debt service costs have helped as well. The **FY17/18 public accounts** reported a $4.9 billion surplus, $320 million larger than previously expected.

Note that the improvement comes despite a meaningful dose of tax relief/benefit increases (see below) totalling $292 million this fiscal year. That said, the cost of those measures will rise to $806 million next fiscal year, and therefore pull the path of the surplus down relative to the prior projection. But, the Province is still projecting surpluses of $2.5 billion or greater through FY22/23.

Summary of major new measures:

-Accelerated depreciation allowances: A 100% allowance for computer hardware, manufacturing, clean energy and intellectual property through 2024, with a 30% additional rate that will remain permanent thereafter. Other classes will see the allowance triple through 2028. This will cost $448 million in FY19/20.

-Enhanced family allowance that will raise the payment for those with two or three children—the maximum increase will be $500 per year (per child), phased out based on income level (no increase if family above $145k in income). Assistance for **low-income seniors** also gets a boost. Combined, this will cost $358 million in FY19/20. **Daycare rates** will also be frozen.

-Accelerated debt repayment: The Province will use $8 billion of Generations Fund savings to pay down debt by spring 2019, in addition to the $2 billion already paid.

Fall Fiscal Update
($ millions)

	18/19 Prior	18/19 Updated	18/19 Change
Revenues	110,519	**112,470**	1,951
Expenditures	108,665	**107,969**	-696
Program Spending	99,379	**98,837**	-542
Debt Service	9,286	**9,132**	-154
Public Accounts Balance	1,854	**4,501**	2,647
Generations Fund	(2,491)	**(2,851)**	-360
Stabilzation Reserve	637	**0**	-637
Budgetary Balance*	0	**1,650**	1,650

Medium Term Outlook
($ millions)

	19/20	20/21	21/22
Revenues	114,963	118,221	121,412
Expenditures	112,364	115,284	117,959
Program Spending	103,143	105,789	108,286
Debt Service	9,221	9,495	9,673
Contingency	(100)	(100)	(100)
Public Accounts Balance	2,499	2,837	3,353
Generations Fund	(2,499)	(2,687)	(2,953)
Budgetary Balance*	0	150	400

Source: Province of Quebec *For puposes of the Balanced Budget Act

-Reporting: The Province will now release full-year budget balance estimates on a quarterly basis, as is the norm in most other provinces.

Quebec's **borrowing requirements** have been reduced to $12.3 billion in FY18/19, down from $13.4 billion in the budget plan. Because of the much bigger use of the Generations Fund, borrowing in the General Fund will actually be slightly negative this year, with the Financing Fund ($11.9 billion) and Financement-Quebec ($1.3 billion) adding to the total. Borrowing will remain relatively low at $13.2 billion in FY19/20, before rising back near $19 billion in the following year. **Net debt** is now expected to finish FY18/19 at $175.2 billion, or just over 40% of GDP (roughly 3 ppts lower than the budget plan), before falling to 39% of GDP in FY19/20. This year could very well see Quebec's net debt-to-GDP ratio fall below that in Ontario for the first time on record.

Quebec's **economic outlook** remains solid, though growth is expected to moderate after a torrid two-year run. The Province is assuming 2.5% real GDP growth this year and 1.8% in 2019, roughly in-line with our call of 2.6% and 1.9%, respectively. Business confidence and investment remain solid, and could get a boost by the combined federal/provincial depreciation measures, the labour market is solid with the jobless rate just above a record low, and Montreal's housing market is arguably the strongest in Canada among the major cities.

The Bottom Line: Quebec's fiscal position has steadily improved in both absolute and relative terms in recent years, and this first fiscal update by the new government suggests that the momentum will not change anytime soon. The province's fiscal and economic backdrops both continue to look very solid.