

2024 Quebec Budget

Near-term Fiscal Position to Worsen

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Highlights

- In its 2024 budget, the Quebec government is projecting an \$8.8 billion deficit (before deposits into the Generations Fund) in FY 2024/25 – clocking in at a relatively lofty 1.5% of GDP.
- Despite expectations for weak real GDP growth, nominal GDP is forecast to advance at a reasonably healthy pace over the next few years, underpinning revenue gains. In our view, there’s some downside risk to the government’s growth projections, particularly for next year. Fortunately, policy makers are planning ample contingencies to deal with any unexpected economic weakness.
- Program spending growth is forecast at nearly 5% this year, boosted by recently negotiated public sector wage settlements. This solid spending projection comes at a time when Quebec’s economy is struggling.

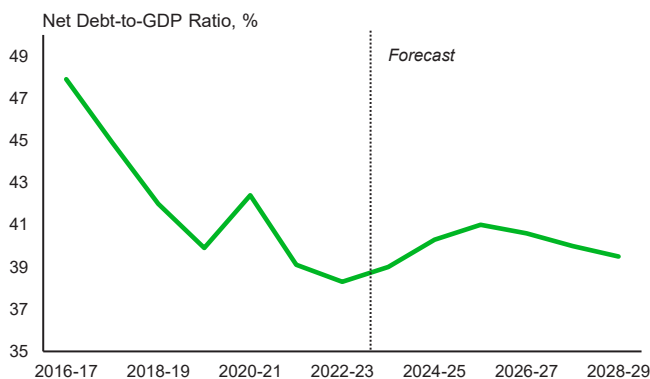
In Budget 2024, the Quebec government is projecting a \$4 billion deficit in FY 2023/24 (before deposits into the Generations Fund). This is about \$2.5 billion larger than expected in the November 2023 fiscal update, on the back of both a weaker revenue intake and higher-than-anticipated spending. For this fiscal year, the province’s shortfall is projected to swell to \$8.8 billion (or a meaty 1.5% of GDP) on the back of weaker revenues, trend-like program spending growth and beefed-up amounts set aside for contingencies. Excluding contingencies, Quebec is now expecting to hit balance by FY 2027/28 – two years after what was expected in last fall’s update. Notably, there are no new major tax initiatives in this budget.

Weak Growth Year in the Cards in 2024

The government estimates that Quebec’s economy expanded at a puny 0.2% rate last year, although they chalk some of this weakness up to temporary factors, like forest fires. For this year, real GDP growth is forecast at 0.6%, marking another sub-trend year. However, nominal GDP is expected to advance 4%, which is not too far off the long-term trend. We’re generally in line with the government in terms of the 2024 outlook. However, our Quebec growth projections for next year are notably softer than the government’s, as they are for Canada overall.

The Quebec government’s reasonably healthy nominal GDP growth projection underpins its decent own-source revenue growth expectations for this fiscal year. However, overall revenue growth is forecast to be tepid as federal transfers pullback after a hefty gain in FY 2023/24. The government chalks this up to

Chart 1: Capital Spending, Deficit to Drive Near-term Rise in Debt-to-GDP



Source: Québec Budget 2024, TD Economics.

Québec Economic Assumptions - Baseline Scenario			
[% change unless otherwise noted]			
Calendar Year	2024 Budget		
	2023	2024	2025
Real GDP	0.2	0.6	1.6
Nominal GDP	3.9	4.0	3.8
Employment Rate (%)	95.5	94.8	95.1
Unemployment Rate (%)	4.5	5.2	4.9
Population (000s)	8,875	9,124	9,185
Housing Starts (000s)	38.9	42.7	43.7
3-month T-bills (%)	4.8	4.6	3.5
10-year Bonds (%)	3.3	3.3	3.1

Source: Québec Budget 2024.

a decline in equalization payments after the federal government made changes to its program in its 2023 budget. The government will also be asking departments to look for savings, reducing certain tax assistance measures for businesses (including the elimination of a tax credit to foster the retention of experienced workers, which has not worked out as intended), and raising taxes on tobacco products. Those latter measures are expected to bring in a cumulative \$2.9 billion in revenues by 2028-29.

On the opposite end of the ledger, program spending growth is pegged a nearly 5% in FY 2024/25. The recently negotiated public sector wage increases are expected to add materially (to the tune of \$3 billion a year) to the government’s expenditure tally.

Otherwise, expenditures are focused on the priority areas of education and healthcare, with the former seeing a near double-digit bounce. In the education space, funds will go towards enhancing the success and retention of university students and supporting training in priority fields. A chunk of healthcare spending will go towards improving access to care and services, and to ensuring the quality of care for seniors. Other priority areas include spending to support Quebec’s vulnerable population, and to enhance strategic sectors and economic growth. A contingency reserve of \$7.5 billion over 5 years also adds to the government’s expenditure projections and will help provide a buffer against economic uncertainties.

Debt servicing charges are seen as advancing at a modest 1.2% rate this year. The Retirement Plans Sinking Fund (designed to help pay the benefits of public and parapublic sector employees), is expected to see growth in its investment income this year, and this is subtracted from debt servicing charges in the government’s calculations. As a share of revenues, debt servicing is expected to total 6.5% in FY 2024/25. This “interest bite” is forecast to climb modestly to 6.7% by FY 2028/29 – still below the 10-year average of 8.3%.

Net Debt Burden to Rise Over Next Few Years

Quebec’s debt burden is forecast at 39% in FY 2023/24 - higher than in the fall update. It is seen as increasing through FY 2025/26, driven by public sector investments and deficits, before falling back to around 39.5% of GDP by FY 2028/29. Note that the recently released capital spending survey points to a healthy gain in public sector capital investment of about 7% in 2024. The government also plans to stay the course on its objective to reduce its debt-to-GDP ratio to 30% by FY 2037/38.

Borrowing requirements are expected to total \$36.5 billion this fiscal year, up from \$21.5 billion. This jump comes on the back of capital spending needs, the deficit and expenses related to the renewal collective agreements recorded in FY 2023/24.

Bottom Line

Quebec’s fiscal situation looks materially worse than what was presented only a few months ago, even with decent nominal GDP projections. Program spending is set for a healthy increase this year – propped up by public sector wage contracts – which could offer some support to growth at a time when Quebec’s economy is struggling. Our own growth forecasts would suggest some downside risk to the government’s revenue projections, especially in 2025. However, the government is planning ample contingencies to cover any unexpected shortfalls.

Québec Government Fiscal Position						
[Billions CAD unless otherwise noted]						
Fiscal Year	2024 Budget					
	23-24	24-25	25-26	26-27	27-28	28-29
Revenues	146.8	150.3	156.6	163.8	168.5	172.8
% Change	1.7	2.4	4.2	4.6	2.9	2.6
Own-Source	115.5	120.9	126.1	131.9	136.4	140.8
Federal Transfers	31.3	29.4	30.4	31.9	32.1	32.0
Expenditures	151.0	157.6	162.1	165.6	170.1	174.6
% Change	2.5	4.4	2.9	2.2	2.7	2.6
Program Expenditures	141.3	147.8	152.5	155.5	159.1	163.0
Debt Charges	9.7	9.8	9.6	10.1	11.0	11.6
Total Consolidated Entities	-4.2	-7.3	-5.5	-1.8	-1.6	-1.8
Contingency Reserves	-	1.5	1.5	1.5	1.5	1.5
Surplus (Deficit)	-4.2	-8.8	-6.3	-1.8	-1.4	-1.3
% Of GDP	-0.7	-1.5	-1.0	-0.3	-0.2	-0.2
Generations Fund Deposits	-2.1	-2.2	-2.2	-2.4	-2.6	-2.7
Budgetary Balance*	-6.3	-11.0	-8.5	-4.2	-3.9	-3.9
% Of GDP	-1.1	-1.9	-1.4	-0.7	-0.6	-0.6
Net Debt	221.1	237.8	250.9	257.5	263.5	269.4
% Of GDP	39.0	40.3	41.0	40.6	40.0	39.5
Gross Debt	226.1	235.5	257.8	273.8	284.2	294.4
% Of GDP	41.4	41.5	43.7	44.7	44.8	44.7
Accumulated Deficits	118.8	127.2	133.1	134.6	135.6	136.5
% Of GDP	20.9	21.6	21.7	21.2	20.6	20.0

*Budgetary balance within the meaning of the *Balanced Budget Act*, after contributions towards the Generations Fund.
Source: Quebec 2024 budget.

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