

## Quebec's mid-year update in 10 charts

By Warren Lovely

We're knee-deep in mid-year reporting season for Canada's provinces. Notwithstanding some idiosyncratic considerations, fresh updates continue to dramatically recast the budgetary backdrop/trajectory all across the country. We've been keeping something of a running tally of the announced fiscal beats relative to 2021 budgets, and the cumulative total is frankly staggering. Hint: The multi-year improvement across all provinces starts with a '9', followed by ten zeros. Check out our latest breakdown [here](#).

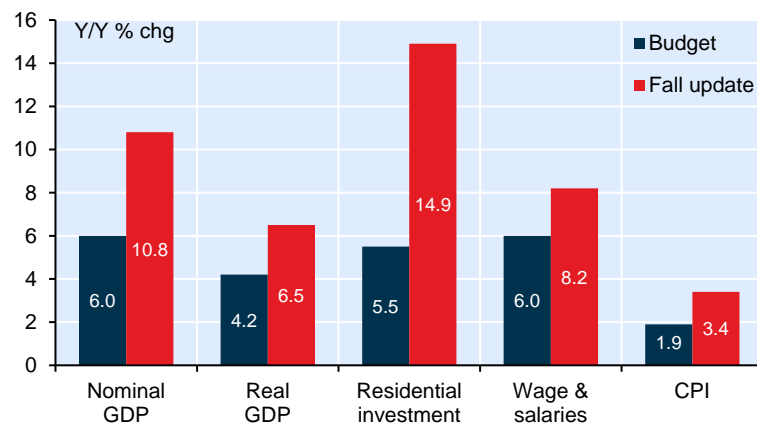
For its part, Quebec's mid-year reinforced this 'better than budget' and credit positive narrative. Deficits are smaller (even after offering up new initiatives), debt is lower and borrowing needs are down vs. spring-time guidance. Our colleagues in Economics and Strategy have compiled a comprehensive review of the stimulative mid-year report, which you can access on our [website](#). But for the more visual of learners out there... or simply for those that appreciate a good chart (or 10)... we've compiled this picture profile of Quebec's evolving financial situation.

*Note: The following charts draw from Quebec's 2020-21 Public Accounts and the Fall 2021 Economic and Financial Update. In many instances, we have compared actuals and the latest forecasts with what was estimated in Budget 2021 (presented in March). We have focused on Quebec's individual outlook here, with cross-provincial economic, fiscal, financing comparisons and related RV analysis provided separately.*

### 10 charts (and some brief comments) drawn from Quebec's fresh economic/financial outlook

**Chart 1: Economy has defied expectations in 2021**

Growth in select Quebec economic indicators: 2021

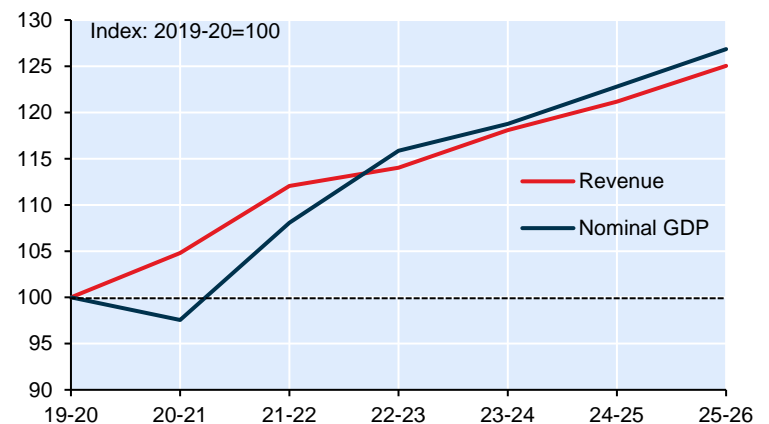


Source: NBF, Quebec

As we've seen in other jurisdictions, economic growth (particularly in nominal terms) has defied expectations in Quebec. Housing activity had been exceptionally brisk, while household income has advanced strongly. Inflation has perked up, here and elsewhere in Canada.

**Chart 2: Revenue survived pandemic, with assist from feds**

Quebec revenue & nominal GDP

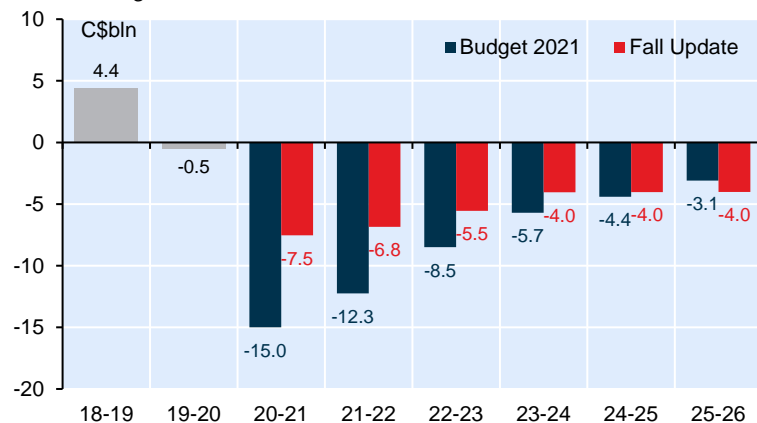


Source: NBF, Quebec

Notwithstanding COVID (or is it because of it?), nominal GDP has been placed on a firmer trajectory than previously envisioned. Importantly, revenue actually grew last fiscal year, as own-source streams proved resilient and the feds kicked in plenty of extraordinary support.

**Chart 3: Lower/flatter deficit profile now vs. budget**

Quebec budget balance outlook

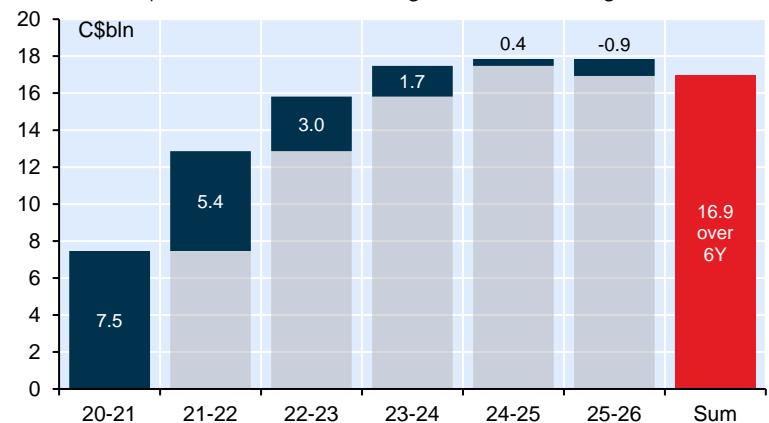


Source: NBF, Quebec | Note: Revised figure is actual for 2020-21

The public accounts (out yesterday too) essentially cut the 2020-21 deficit in half. This positive base effect plus the strong nominal output story makes for an improved deficit trajectory... at least near term. The current fiscal year's shortfall is down to C\$6.8bln (vs. C\$12.3bln in budget).

**Chart 4: In total, roughly \$17bln of red ink erased**

Cumulative improvement in Quebec budget balance vs. Budget 2021

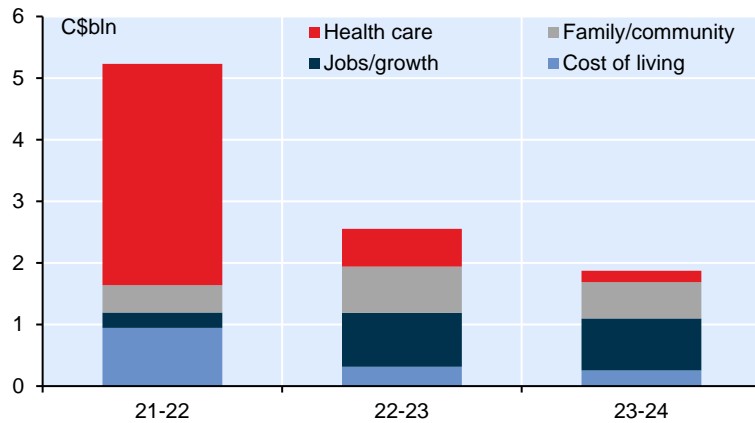


Source: NBF, Quebec

While the outlook remains uncertain, Quebec's public accounts + fall update erased a cumulative C\$16.9bln in budgetary red ink over six years. That's part of a C\$92.8bln multi-year fiscal improvement registered by all provinces relative to 2021 budget estimates. Heady stuff.

**Chart 5: New measures offered ahead of 2022 election**

New fiscal initiatives included in Quebec fall update

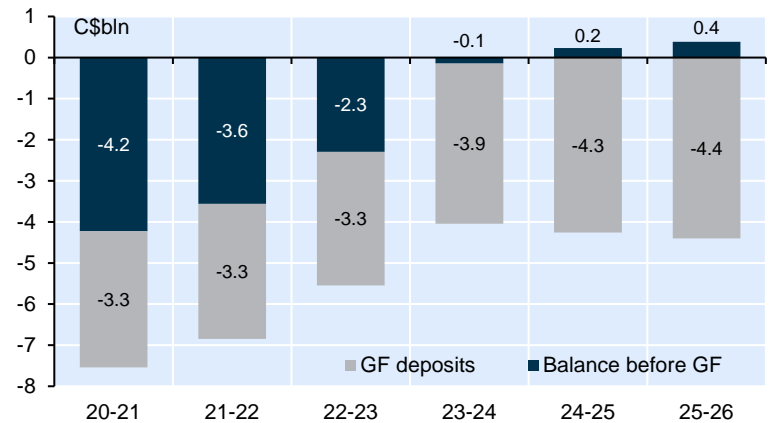


Source: NBF, Quebec

Deficits could have been even smaller, but the government opted for C\$10.7bn in new initiatives ahead of a 2022 provincial election. This new stimulus hits an economy with limited slack.

**Chart 6: Excl. GF, budget looks to be balanced by 2023-24**

Quebec budget balance before/after Generations Fund deposits

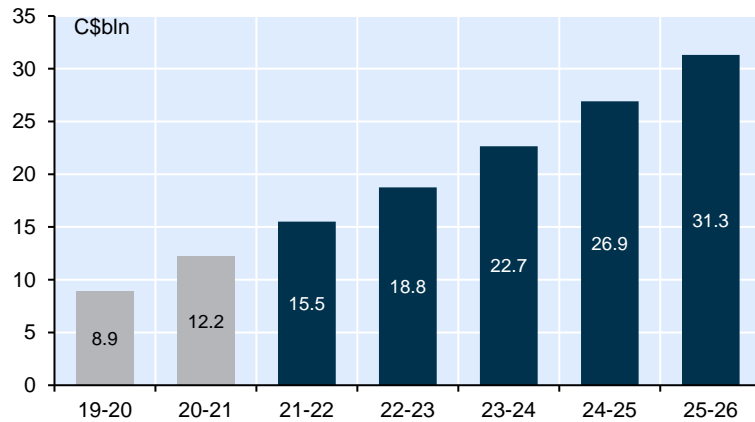


Source: NBF, Quebec

The deficits shown on page 1 are after Generations Fund (GF) deposits. Excluding these GF contributions (north of C\$3bn/year), Quebec's budget looks to be balanced by 2023-24.

**Chart 7: Generations Fund poised for meaningful growth**

Balance of Quebec Generations Fund

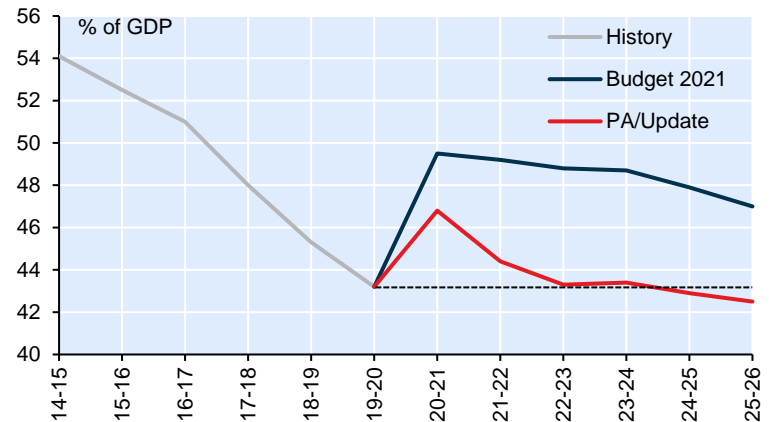


Source: NBF, Quebec

GF deposits will contribute to steady growth in the Fund, which is dedicated to debt reduction. At some point, we may see another withdrawal to actively pay down debt. We'll see.

**Chart 8: Debt burden back on downward track**

Quebec debt-to-GDP ratio

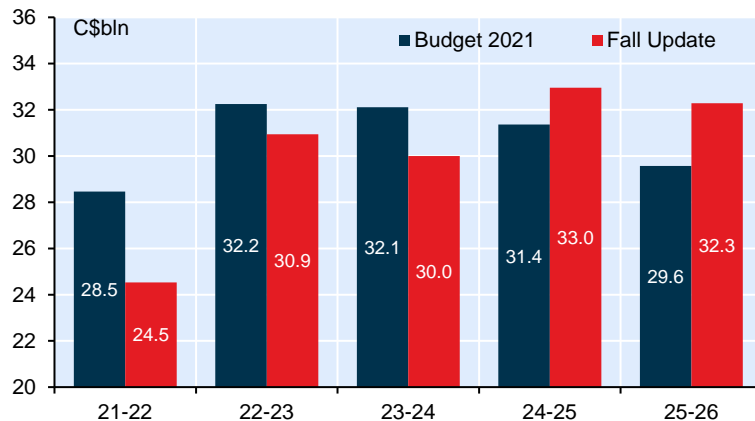


Source: NBF, Quebec

Smaller deficits + faster GDP growth = a brighter debt picture. Debt-to-GDP is falling again, getting back to the pre-COVID level by 2022-23 but placed on a shallower plane longer term.

**Chart 9: Less borrowing to do (but future financing needs non-trivial)**

Quebec gross borrowing requirement

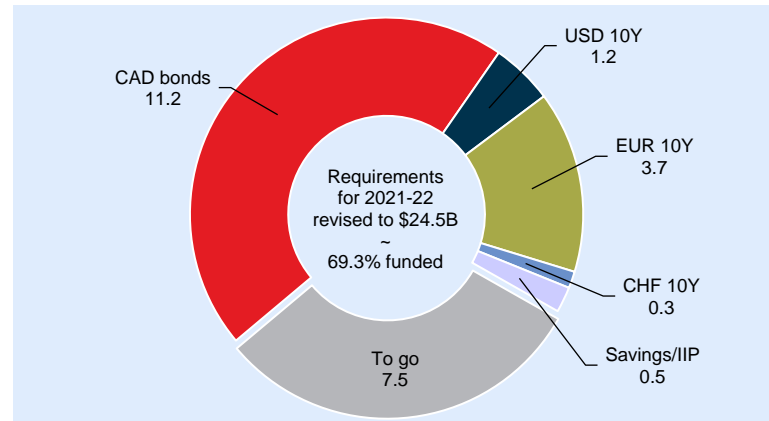


Source: NBF, Quebec

Even as the deficit shrinks there will still be borrowing to do... for capital investments, loans/advances, pensions, GF deposits, etc. This fiscal year's gross requirement has been cut C\$4bn to C\$24.5bn, with a bit less to be done in the next two years (hovering around C\$30bn).

**Chart 10: Ready market access at home & abroad**

Distribution of Quebec borrowing by currency/type: 2021-22



Source: NBF, Quebec | Note: All figures converted to CAD

Just under 70% of this year's program is complete as the two-thirds mark of the FY approaches. Quebec has so far tapped international markets for 32% of borrowing, highlighting the following this large/liquid issuer has globally. Debt continues to be locked in, insulating against rate hikes.



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