Quebec
Economic Fall Statement

Quebec Fall Economic Statement—Deliberate Choices Maintain the $11B Deficit

The $11 billion deficit estimate for the fiscal year (FY) 2024–25, unveiled in the 2024 budget, could be the highest in Quebec's history in real dollar terms. In addition to using half of the $1.5B contingency reserve to keep the deficit at $11B, the Quebec government will send additional funding to public transport corporations and cover costs related to tropical storm Debby. To mitigate the extra spending, the government will make modifications to the tax credit for career extension: raising the eligibility from 60 to 65 years old in 2025 and removing high-income earners from eligibility, thus saving the government a significant amount of money.

Quebec's Economy Has Been Performing Better Than Expected

The short-term economic performance echoes midyear updates released by other provinces. The real GDP annual growth forecast has been revised upward to 1.2% for 2024, up from the earlier 0.6% budget estimate. Key factors driving this growth include a positive "wealth effect" as a result of appreciation in home prices. This is in contrast with the pullback observed in B.C. and Ontario, where home prices have decreased or stagnated. Unemployment remains below 6% (5.7% in recent months, including October)—more than a full percentage point below Ontario and Alberta and similar to B.C. Employee compensation is also higher than projected. The 2025 real GDP growth forecast has been reduced by 0.1 pp to 1.5% reflecting changes in the immigration policy.

Government Spending and Deficit Controls

Despite efforts to control spending, total spending for FY2024–25 has increased. This comes even after the Quebec government's recent directives to various entities and departments to limit spending and prevent further budgetary slippage following the $11B deficit revealed in the 2024 budget.

The new health agency, Santé Québec, is expected to find $1 billion in savings and a freeze on public sector hiring was implemented in early November as another savings measure.

Of course, market participants will note the actual deficit for FY2024–25 is lower ($8.8B) after accounting for deposits into the Generations Fund. The Generations Fund will reach $16.7B by the end of FY2024–25, or 7.0% of net debt.

Modest Improvement to 5-Year Outlook

Quebec's 5-year fiscal outlook shows slight improvements, according to the 5-year fiscal outlook. The structural deficit estimate has been reduced by $0.7B to $3.2B. This amount is manageable and represents 0.5% of nominal GDP. Changes to the career extension tax credit are one factor behind this improvement. Markets and credit agencies will have to wait until the release of the 2025 Budget to see how the province tackles the $3.2 billion structural deficit. The government plans further changes to reduce a portion of the 277 tax expenditures, costing the government $49 billion annually. In a recent report, the research chair on taxation and public finances at the Université de Sherbrooke identified inefficient tax deductions for individuals and businesses that could be abolished or modified.

Despite better-than-expected economic performance and modest positive adjustment to the nominal GDP, this $11B deficit is too big, representing 1.8% of Quebec's GDP. As a result, the net debt-to-GDP ratio will rise by a full percentage to 39%, by the end of 2024–25. The medium-term outlook is better, with this key ratio peaking next year at 39.8% instead of the 41% previously forecasted in the 2024 budget. This change keeps Quebec's net debt-to-GDP ratio close to Ontario's, staying near the 38% mark in the coming years.

Reduced Bond Issuance and Borrowing Plans Ahead

Quebec has reduced its bond issuance program for FY2024–25 to $32.5 billion, a decrease of $3.9B. This amount is between the recent low of $22 billion borrowed in FY2023–24 and the pandemic-related peak of $38.5 billion.

Quebec has finished its FY 2024-25 borrowing program and pre-financed $3.1 billion for FY 2025–26. About two thirds of the bonds were issued domestically in FY2024–25—in line with the provincial average. The average maturity of bonds has increased moderately to 15.9 years. For example, about 83% of the borrowings contracted in FY2024–25 had a maturity of 10 years or more, versus 71% the prior year.

In the medium-term, bond issuance is expected to stay near $30 billion annually, which is slightly better ($2B) than what was planned in the 2024 budget. Fewer bonds than usual will mature in the next 2–3 years, allowing Quebec's borrowing program to stay just below $30 billion in the medium term.

The 2025 Budget Will Be Pivotal

The government is aware that it must avoid further fiscal setbacks. Market participants and credit agencies are expecting bold policy decisions in the 2025 budget to establish a credible plan for returning to a balanced budget. Meanwhile, market participants continue to monitor developments related to the financial struggles of the Swedish battery developer and manufacturer, Northvolt AB. Quebec has invested $0.5B in the $7 billion battery plant project, located on the south shore of Montreal.

Takeaway: Fiscal Challenges and the Critical Role of the 2025 Budget

Quebec is facing a large fiscal deficit, but recent economic growth and strategic adjustments in government spending and taxation offer some hope for improvement. The 2025 budget will be a critical moment for addressing the province's long-term fiscal challenges and ensuring a path to a balanced budget.