The 2017 Quebec budget confirms that the economy and government finances are in good shape

From the start, the combination of higher than expected fiscal revenues and both lower debt service and current expenditures would have allowed for a surplus of $1.35B in FY 2016-17. With this sum, the government proposes new fiscal measures including the retroactive elimination of the health tax contribution by taxpayers in 2016 and accelerated payments on certain projects. At the end of the day, the government will register a surplus of 250M$ for FY2016-17 that will end on March 31st 2017.

Given, the recent good performance of the Quebec economy (real GDP growth is forecast at 1.7% for a second consecutive year in 2017), the government adopts in this budget a series of concrete measures aimed at improving services in education and health and increasing investment in technology, public transit and worker skills.

Moreover, the budget provides tax cuts to individuals starting in 2017. The basic personal exemption is increased to $14 890 in 2017; it was $14 544 previously. This will mean a permanent annual reduction of $55 per person for almost 4.3M taxpayers for a total of $295M starting this year. The budget also confirms the reimbursement in 2017 of the health tax levied in 2016, further lowering the tax burden of Quebecers by $441M. The tax credit RénoVert is also extended until March 31st 2018.

The budget also contains its share of good news for businesses, including the extension of the fiscal holiday for large investment projects until 2020, additional capital cost allowance where a business acquires manufacturing or processing equipment and computer equipment before April 2019 and investments of $800M in innovation over 5 years.

All these measures are announced while maintaining a balanced budget for the next five years. Total government expenditures are projected at $103.7B in FY 2017-18 (up 3.6% versus 2016-17) while total revenues are expected to be $106.3B (up 3.7% versus 2016-17). This surplus will be dedicated, as required, to the Generations Fund. The annual payments to the Fund will increase over time from $2.0B in FY 2016-17 to $2.5B in FY 2017-18 and reach $3.9B in FY 2021-22. An increasing share of the sums dedicated to the Fund will come from returns on investments; a phenomenon to be expected given that the Fund – which book value today is $10.6B – should in principle double in size within 5 years ($26.7B in FY 2021-22). These expectations are based on relatively conservative assumptions as to the rates of return of the Fund over the next several years. Moreover, the market value of the Fund is higher than its book value by approximately $1B and enhances the credibility of the government's objective to reduce the debt-to-GDP ratio from 52.7% on March 31th 2017 to 45.0% in 2026. It remains to been seen whether if this downward trend in the gross debt-to-NGDP ratio will convince credit agencies to improve the Province's credit rating; in particular, S&P which has a positive outlook on the actual A+ credit rating.

Financial markets will also view positively that borrowing requirements of the Quebec government will be relatively limited this year. After having reached $22.7B in FY 2016-17 due to important pre-financing activities, the financing needs are projected to be $11.3B in FY 2017-18. However, under favorable market conditions, it is likely that the government will maintain its pre-financing activities next year; these have averaged $7.3B during the last 4 years.

In summary, the government proposes a balanced budget for a third consecutive year. Fiscal integrity is back since FY 2015-16 and the objective is to keep the house in order for the foreseeable future. In other words, the government is acting prudently by proposing concrete fiscal measures without compromising public finances over a longer horizon. This prudent behaviour is justified by several factors. First, there is still a lot of uncertainty surrounding trade and fiscal policies of the new federal administration in Washington and their potential impacts on the Quebec economy. Second, the Province is not sheltered from an eventual global economic slowdown. Third, government borrowing costs could increase if interest rates rise. Finally, the shrinking pool of labour and the increase in the costs of the health system will remain long-term fiscal challenges.

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