

QUÉBEC'S ECONOMIC AND FINANCIAL SUMMARY

Thursday, March 26, 2015

HIGHLIGHTS OF THE 2015-2016 BUDGET

ECONOMIC OUTLOOK

After standing at 1.5% in 2014, Québec's economic growth rate will accelerate and is expected to be 2.0% in 2015 and 2.0% in 2016. Economic growth will continue to benefit from a significant contribution from foreign trade and a greater contribution from domestic demand over the next two years.

Job creation is expected to regain vigor, in line with the improvement in economic growth. A total of 37 000 jobs should be created in 2015 and 35 600 in 2016.

The unemployment rate should continue its gradual improvement. After averaging 7.7% in 2014, it is expected to decline to 7.5% in 2015 and 7.3% in 2016.

QUÉBEC'S ECONOMIC OUTLOOK

(percentage change, unless otherwise indicated)

	2014	2015	2016
Real gross domestic product	1.5	2.0	2.0
Exports	2.5	3.7	3.0
Consumer price index	1.4	1.4	2.3
Housing starts (thousands of units)	38.8	36.8	35.7
Job creation (thousands)	-1.1	37.0	35.6
Unemployment rate (%)	7.7	7.5	7.3
Canadian financial markets (%)			
Target for the overnight rate	1.0	0.6	0.8
Canada Treasury bills – 3 months	0.9	0.6	0.9
Canada bonds – 10 years	2.2	1.7	2.6
Canadian dollar (U.S. cents)	90.2	78.1	77.1

RETURN TO A BALANCED BUDGET

The budget tabled today by the Minister of Finance confirms that fiscal balance will be restored in 2015-2016 and maintained in the years thereafter. The deficit forecast for 2014-2015 remains at \$2 350 million. Government spending will continue to increase, but at a rate below that of revenue.

Consolidated expenditure will grow by 1.5% in 2015-2016 and 2.1% in 2016-2017. For the same two years, revenue will grow by 4.3% and 3.1% respectively.

MEASURES TO FOSTER ECONOMIC DEVELOPMENT

The Minister of Finance also announces certain measures in the budget to foster economic development, namely, a reduction in the tax burden of individuals and businesses, and an enhancement of the work incentive for experienced workers. These measures will come into effect following the return to a balanced budget.

REDUCTION OF THE DEBT

The government is maintaining its debt reduction objectives for 2025-2026, i.e. 45% of GDP for the gross debt and 17% of GDP for the debt representing accumulated deficits. The year 2015-2016 marks an important milestone: the weight of the debt in the economy will decrease, after rising steadily since 2009.

Deposits in the Generations Fund are expected to total \$1 253 million in 2014-2015, \$1 586 million in 2015-2016 and \$2 236 million in 2016-2017.

THE QUÉBEC GOVERNMENT'S CONSOLIDATED FINANCIAL FRAMEWORK

(millions of dollars)

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
Consolidated revenue						
Own-source revenue	77 293	80 716	83 362	85 547	87 646	89 939
Federal transfers	18 720	19 444	19 929	20 337	20 674	21 143
Total consolidated revenue	96 013	100 160	103 291	105 884	108 320	111 082
% change	3.0	4.3	3.1	2.5	2.3	2.5
Consolidated expenditure						
Expenditure	-86 777	-88 091	-89 721	-91 590	-93 462	-95 669
Debt service	-10 333	-10 483	-10 934	-11 129	-11 373	-11 567
Total consolidated expenditure	-97 110	-98 574	-100 655	-102 719	-104 835	-107 236
% change	2.3	1.5	2.1	2.1	2.1	2.3
Contingency reserve	—	—	-400	-400	-400	-400
SURPLUS (DEFICIT)	-1 097	1 586	2 236	2 765	3 085	3 446
BALANCED BUDGET ACT						
Deposits of dedicated revenues in the Generations Fund	-1 253	-1 586	-2 236	-2 765	-3 085	-3 446
BUDGETARY BALANCE⁽¹⁾	-2 350	—	—	—	—	—

(1) Budgetary balance within the meaning of the *Balanced Budget Act*.

THE GOVERNMENT'S FINANCING PROGRAM FROM 2014-2015 TO 2017-2018

(millions of dollars)

	2014-2015			2015-2016 ^F	2016-2017 ^F	2017-2018 ^F
	June 2014 budget	Revisions	Revised program ⁽¹⁾			
GENERAL FUND						
Net financial requirements ^{(2),(3)}	4 165	524	4 689	1 891	727	1 033
Repayments of borrowings	7 701	527	8 228	7 370	10 455	5 996
Change in cash position ⁽⁴⁾	-5 610	-195	-5 805	-8 952	-4 000	-4 000
Deposits in the Retirement Plans Sinking Fund ⁽⁵⁾	—	1 500	1 500	—	—	—
Transactions under the credit policy ⁽⁶⁾	-55	-1 780	-1 835	—	—	—
Additional contributions to the Sinking Fund for borrowings	300	300	600	—	—	—
Subtotal	6 501	876	7 377	309	7 182	3 029
Pre-financing	—	8 952	8 952	4 000	4 000	4 000
GENERAL FUND	6 501	9 828	16 329	4 309	11 182	7 029
FINANCING FUND	7 533	-2 007	5 526	7 406	8 007	7 911
Subtotal – General fund and Financing Fund	14 034	7 821	21 855	11 715	19 189	14 940
FINANCEMENT-QUÉBEC	1 000	-1 000	—	500	700	1 400
TOTAL	15 034	6 821	21 855	12 215	19 889	16 340
Including: repayments of borrowings ⁽⁷⁾	12 363	585	12 948	10 525	14 841	11 130

F: Forecasts.

Note: A negative entry indicates a source of financing and a positive entry, a financial requirement.

(1) Preliminary results based on borrowings contracted or negotiated as at March 17, 2015.

(2) These amounts exclude the net financial requirements of consolidated entities funded through the Financing Fund.

(3) Net financial requirements are adjusted to take into account the non-receipt of revenues of the RPSF and of funds dedicated to future employee benefits.

(4) Corresponds to pre-financing made the previous year.

(5) Deposits in the RPSF are optional. They are recorded in the financing program only once they are made.

(6) Under the credit policy, which is designed to limit financial risk with respect to counterparties, the government disburses or receives amounts because of movements in exchange rates. These amounts have no effect on the debt.

(7) These amounts include repayments of borrowings, for 2014-2015 to 2017-2018, of the general fund (\$8 228 million, \$7 370 million, \$10 455 million and \$5 996 million), the Financing Fund (\$1 209 million, \$1 275 million, \$1 278 million and \$ 2 038 million) and Financement-Québec (\$3 511 million, \$1 880 million, \$3 108 million and \$3 096 million).

In 2014-2015, the government's financing program amounted to \$21 855 million. In 2014-2015, the government carried out 24.1% of its borrowings on foreign markets, i.e.:

- one issue of €1 750 million (CAN\$2 404 million) in January 2015;
- one issue of US\$1 600 million (CAN\$1 788 million) in October 2014;
- six issues totalling AUS\$650 million (CAN\$647 million) on various dates;
- one issue of CHF 375 million (CAN\$433 million) in November 2014.

However, the government keeps no exposure to foreign currencies.

For borrowings contracted in 2014-2015, 20.5% had a maturity of less than 10 years, 55.3% a maturity of 10 years and 24.2% a maturity of 30 years or more.

As at March 31, 2015, the average maturity of the debt is expected to be 12 years.

In 2014-2015, the government contracted pre-financing of \$8 952 million.

The government's financing program is expected to reach \$12 215 million in 2015-2016, \$19 889 million in 2016-2017 and \$16 340 million in 2017-2018.

THE QUÉBEC GOVERNMENT'S CREDIT RATINGS

Credit rating agency	Credit rating	Outlook
Moody's	Aa2	Stable
Standard & Poor's (S&P)	A+	Stable
DBRS	A (high)	Stable
Fitch	AA-	Negative
Japan Credit Rating Agency (JCR)	AA+	Stable

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