

QUÉBEC'S ECONOMIC AND FINANCIAL SUMMARY

Tuesday, March 28, 2017

HIGHLIGHTS OF THE 2017-2018 BUDGET

ECONOMIC OUTLOOK

The Québec economy has picked up pace considerably. Growth in real gross domestic product (GDP) accelerated from 1.2% in 2015 to 1.7% in 2016, the biggest expansion of economic activity since 2011.

Economic conditions will remain favourable in the coming years. Real GDP growth is forecast at 1.7% in 2017 and 1.6% in 2018.

The faster pace of economic growth in 2016 translated into strong job creation. In 2016, Québec created an average of 36 100 jobs compared to 2015.

Québec's unemployment rate has fallen gradually in recent years, dropping from 7.7% in 2014 to a historic low of 7.1% in 2016.

QUÉBEC'S ECONOMIC OUTLOOK

(percentage change, unless otherwise indicated)

	2016	2017	2018
Real gross domestic product	1.7	1.7	1.6
Exports	0.2	2.2	2.2
Consumer price index	0.7	1.6	1.9
Housing starts (thousands of units)	38.9	36.4	34.0
Job creation (thousands)	36.1	40.0	30.0
Unemployment rate (%)	7.1	6.6	6.4
Canadian financial markets (%)			
Target for the overnight rate	0.5	0.5	0.8
Canada Treasury bills – 3 months	0.5	0.5	0.8
Canada bonds – 10 years	1.3	2.0	2.4
Canadian dollar (in U.S. cents)	75.6	74.1	76.4

BUDGETARY SITUATION

The March 2017 Québec Economic Plan provides for continued fiscal balance in 2017-2018 and subsequent years. The government is providing for new initiatives to improve Quebecers' living standards, in particular by easing the tax burden on taxpayers. It is also providing for measures to support Québec's economy and the workforce.

Consolidated spending is expected to grow by 3.6% in 2017-2018 and 2.5% in 2018-2019. Consolidated revenue is expected to grow by 3.7% and 2.7%, respectively, over the next two years.

THE QUÉBEC GOVERNMENT'S CONSOLIDATED FINANCIAL FRAMEWORK

(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
Consolidated revenue						
Own-source revenue	81 968	84 279	87 004	89 690	92 452	95 042
Federal transfers	20 498	22 029	22 221	22 553	23 156	24 235
Total consolidated revenue	102 466	106 308	109 225	112 243	115 608	119 277
% change	2.3	3.7	2.7	2.8	3.0	3.2
Consolidated expenditure						
Mission expenditures	-90 387	-93 852	-96 533	-98 917	-101 133	-103 554
Debt service	-9 687	-9 868	-9 758	-10 010	-10 448	-10 834
Total consolidated expenditure	-100 074	-103 720	-106 291	-108 927	-111 581	-114 388
% change	3.7	3.6	2.5	2.5	2.4	2.5
Contingency reserve	-100	-100	-100	-100	-400	-900
SURPLUS	2 292	2 488	2 834	3 216	3 627	3 989
BALANCED BUDGET ACT						
Deposits of dedicated revenues in the Generations Fund	-2 042	-2 488	-2 834	-3 216	-3 627	-3 989
BUDGETARY BALANCE⁽¹⁾	250	—	—	—	—	—

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

REDUCING THE DEBT BURDEN

As at March 31, 2017, the gross debt is expected to amount to \$207 billion. As a proportion of the economy, it will stand at 52.7% of GDP, which represents a decrease compared to the previous year. The debt burden will continue to fall in the coming years, settling at 45% of GDP in 2026.

THE QUÉBEC GOVERNMENT'S FINANCING PROGRAM, 2016-2017 TO 2021-2022

(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
GENERAL FUND						
Net financial requirements ⁽¹⁾	781	3 013	1 911	1 069	2 138	2 328
Repayments of borrowings	9 914	5 484	7 748	7 712	6 565	11 628
Change in cash position ⁽²⁾	-8 513	-5 433	—	—	—	—
Deposits in the Retirement Plans Sinking Fund (RPSF) ⁽³⁾	1 500	—	—	—	—	—
Transactions under the credit policy ⁽⁴⁾	2 238	—	—	—	—	—
Contributions to the Sinking Fund for borrowings	2 308	—	—	—	—	—
Pre-financing	5 433	—	—	—	—	—
GENERAL FUND	13 661	3 064	9 659	8 781	8 703	13 956
FINANCING FUND	7 758	7 000	9 500	7 500	7 000	4 500
FINANCEMENT-QUÉBEC	1 256	1 200	1 400	1 600	1 100	600
TOTAL	22 675	11 264	20 559	17 881	16 803	19 056
Including: repayments of borrowings	14 615	10 992	16 042	13 566	10 468	15 000

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

(1) These amounts exclude the net financial requirements of consolidated entities funded through the Financing Fund. They are adjusted to take into account, in particular, the non-receipt of revenues of the RPSF and of employee future benefits funds.

(2) The change in cash position corresponds to pre-financing carried out the previous year.

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

(4) 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.

The financing program will stand at \$11 264 million in 2017-2018.

In 2016-2017, the government carried out 31.1% of its borrowings on foreign markets:

- US\$5 billion (CAN\$6.4 billion);
- AU\$510 million (CAN\$526 million);
- HK\$540 million (CAN\$89 million).

In 2016-2017, 38.4% of contracted borrowings had a maturity of less than 10 years, 42.3% a maturity of 10 years and 19.3% a maturity of 30 years or more.

As at March 31, 2017, the average maturity of the debt, that is, of all borrowings contracted, is expected to be 11 years.

CREDIT RATINGS

In June 2016, Standard & Poor's (S&P) and Fitch improved the outlook related to Québec's credit rating. S&P raised it from "stable" to "positive" and Fitch, from "negative" to "stable." These improvements are due to the return to a balanced budget.

THE QUÉBEC GOVERNMENT'S CREDIT RATINGS

Credit rating agency	Rating	Outlook in 2015	→	Outlook in 2016
Moody's	Aa2	Stable		Stable
Standard & Poor's (S&P)	A+	Stable		Positive
Fitch	AA-	Negative		Stable
DBRS	A (high)	Stable		Stable
Japan Credit Rating Agency (JCR)	AA+	Stable		Stable

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