

QUÉBEC'S ECONOMIC AND FINANCIAL SUMMARY

Thursday, March 21, 2019

HIGHLIGHTS OF THE BUDGET 2019-2020

ECONOMIC OUTLOOK

Economic activity has been particularly dynamic in Québec in recent years. Real gross domestic product (GDP) growth reached 2.8% in 2017 and 2.3% in 2018.

Although the economic context remains favourable, more moderate growth is expected in the coming years. Real GDP growth is expected to stand at 1.8% in 2019 and at 1.5% in 2020.

Job creation slowed down in 2018, limited by the tightening of the available labour pool due in part to the aging of the population. After a strong increase of 90 200 jobs in 2017, an average of 38 900 jobs were created in 2018.

The unemployment rate fell from 6.1% in 2017 to 5.5% in 2018, an all-time annual low.

ECONOMIC OUTLOOK FOR QUÉBEC

(percentage change, unless otherwise indicated)

	2018	2019	2020
Real gross domestic product	2.3	1.8	1.5
Exports	2.9	2.6	2.2
Consumer price index	1.7	1.4	2.0
Housing starts (thousands of units)	46.9	42.8	40.7
Job creation (thousands)	38.9	38.8	27.1
Unemployment rate (%)	5.5	5.4	5.3
Canadian financial markets (%)			
Target for the overnight rate	1.4	1.9	2.2
Treasury bills – 3 months	1.4	1.9	2.2
Canada bonds – 10 years	2.3	2.3	2.8
Canadian dollar (in U.S. cents)	76.9	76.7	78.6

A BALANCED FINANCIAL FRAMEWORK

The financial framework presents a budgetary balance within the meaning of the *Balanced Budget Act* of \$2.5 billion in 2018-2019. The government forecasts a balanced budget from 2019-2020 to 2021-2022, and small surpluses in 2022-2023 and 2023-2024. The strong economic performance since March 2018 has made it possible to put money back into Quebecers' pockets and encourage business investment.

Consolidated revenue amounts to \$115.6 billion in 2019-2020, with growth of 1.8%. Growth will reach 3.2% in 2020-2021. Consolidated expenditure amounts to \$113.0 billion in 2019-2020, with growth of 4.7%. It will stand at 3.2% in 2020-2021.

CONSOLIDATED FINANCIAL FRAMEWORK, 2018-2019 TO 2023-2024

(millions of dollars)

	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Own-source revenue	90 146	90 714	93 789	97 034	100 443	103 895
% change	4.9	0.6 ⁽¹⁾	3.4	3.5	3.5	3.4
Federal transfers	23 411	24 924	25 600	25 950	26 589	27 251
% change	4.1	6.5	2.7	1.4	2.5	2.5
Consolidated revenue	113 557	115 638	119 389	122 984	127 032	131 146
% change	4.8	1.8	3.2	3.0	3.3	3.2
Portfolio expenditures	-99 052	-104 038	-107 467	-110 645	-113 911	-117 287
% change	5.1	5.0	3.3	3.0	3.0	3.0
Debt service	-8 899	-8 996	-9 138	-9 292	-9 661	-9 727
% change	-3.7	1.1	1.6	1.7	4.0	0.7
Consolidated expenditure	-107 951	-113 034	-116 605	-119 937	-123 572	-127 014
% change	4.3	4.7	3.2	2.9	3.0	2.8
Contingency reserve	—	-100	-100	-100	-100	-100
SURPLUS⁽²⁾	5 606	2 504	2 684	2 947	3 360	4 032

BALANCED BUDGET ACT

Deposits of dedicated revenues in the Generations Fund	-3 106	-2 504	-2 684	-2 947	-3 260	-3 582
BUDGETARY BALANCE⁽³⁾	2 500	—	—	—	100	450

(1) The change in own-source revenue excluding revenue from government enterprises is 1.0% and in own-source revenue from government enterprises, -5.8%. The minor change of 0.6% in own-source revenue is primarily attributable to the revenue measures implemented in recent years.

(2) Balance within the meaning of the Public Accounts.

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

DEBT REDUCTION

Standing at 46.1% of GDP as at March 31, 2019, Québec's gross debt burden is at its lowest level in over twenty years. The objective to reduce the gross debt to 45% of GDP will be achieved in 2020-2021, five years earlier than forecast. Budget 2019-2020 provides for a gradual decrease of the debt burden due to continued fiscal balance, deposits in the Generations Fund and economic growth.

THE GOVERNMENT'S FINANCING PROGRAM, 2018-2019 TO 2023-2024

(millions of dollars)

	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
GENERAL FUND						
Net financial requirements	1 254	1 826	2 750	3 087	3 325	3 369
Repayments of borrowings	11 294	4 823	3 848	9 293	8 326	5 928
Use of the Generations Fund to repay borrowings	-8 000	-2 000	—	—	—	—
Change in cash position	-9 747	-4 167	—	—	—	—
Deposits in the Retirement Plans Sinking Fund (RPSF) ⁽¹⁾ and other funds related to retirement plans	1 205	—	—	—	—	—
Contributions to the Sinking Fund for borrowings	1 500	—	—	—	—	—
Transactions under the credit policy ⁽²⁾	827	—	—	—	—	—
Pre-financing	4 167	—	—	—	—	—
GENERAL FUND	2 500	482	6 598	12 380	11 651	9 297
FINANCING FUND	11 900	9 400	9 000	9 000	9 300	11 000
FINANCEMENT-QUÉBEC	1 200	1 900	1 800	2 700	2 000	1 700
TOTAL	15 600⁽³⁾	11 782	17 398	24 080	22 951	21 997
Including: repayments of borrowings	19 601	11 066	11 528	14 231	13 277	12 820

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

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

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

(3) This data is based on borrowings contracted as at March 6, 2019.

The government's financing program for 2019-2020 will amount to \$11.8 billion. For the four subsequent years, from 2020-2021 to 2023-2024, it will average \$21.6 billion per year.

In 2018-2019, the government carried out 17.0% of its borrowings on foreign markets, a level comparable to the average for the past 10 years (19.2%):

- €1 billion (CAN\$1.5 billion);
- £500 million (CAN\$868 million);
- AU\$160 million (CAN\$154 million);
- NZ\$115 million (CAN\$103 million).

Over 76% of the borrowings contracted in 2018-2019 had a maturity of 10 years or more.

As at March 31, 2019, the average maturity of the debt should be 11 years.

Four issues totalling \$2.3 billion have been made since the Green Bond program was launched.

CREDIT RATINGS

Six credit rating agencies evaluate Québec's credit rating. These six agencies have assigned a stable outlook to Québec's credit rating.

THE QUÉBEC GOVERNMENT'S CREDIT RATINGS

Credit rating agency	Credit rating	Outlook
Moody's	Aa2	Stable
Standard & Poor's (S&P)	AA-	Stable
Fitch	AA-	Stable
DBRS	A (high)	Stable
Japan Credit Rating Agency (JCR)	AA+	Stable
China Chengxin International (CCXI)	AAA ⁽¹⁾	Stable

(1) Credit rating for the issuance of bonds on the Chinese market.

