

QUÉBEC'S ECONOMIC AND FINANCIAL SUMMARY

Tuesday, March 10, 2020

HIGHLIGHTS OF THE BUDGET 2020-2021

ECONOMIC OUTLOOK

In 2019, real GDP growth in Québec stood out with an increase of 2.8%. This remarkable performance contrasts with that of Canada for the same period.

- Real GDP growth is expected to be 2.0% in 2020 and 1.5% in 2021.
- As a result, in 2020, Québec's real GDP growth is expected to exceed that of Canada for a third consecutive year.

In 2019, 77 700 jobs were created, an increase of 1.8%. In comparison, an annual average of 38 900 jobs were created in 2018 (+0.9%). The unemployment rate fell to 5.1% in 2019, reaching an all-time low for a fourth consecutive year.

Productivity gains and full use of the available labour force will be required to support economic growth over the next few years.

ECONOMIC OUTLOOK FOR QUÉBEC

(percentage change, unless otherwise indicated)

	2019	2020	2021
Real gross domestic product	2.8	2.0	1.5
Exports	1.6	1.9	1.8
Consumer price index	2.1	2.2	2.2
Housing starts (thousands of units)	48.0	47.6	45.2
Job creation (thousands)	77.7	37.2	25.8
Unemployment rate (%)	5.1	5.0	4.9
Canadian financial markets (%)			
Target for the overnight rate	1.8	1.8	1.8
Canadian Treasury bills – 3 months	1.7	1.7	1.9
Canada bonds – 10 years	1.6	1.7	2.0
Canadian dollar (in U.S. cents)	75.6	76.8	77.8

A BALANCED FINANCIAL FRAMEWORK

The financial framework presents a budgetary balance, within the meaning of the *Balanced Budget Act*, of \$1.9 billion in 2019-2020. The government forecasts a balanced budget in 2020-2021. The favourable economic situation makes it possible for the government to announce additional initiatives to further meet its commitments.

Consolidated revenue amounts to \$121.3 billion in 2020-2021, with growth of 2.8%. Growth will reach 3.2% in 2021-2022. Consolidated expenditure amounts to \$118.6 billion in 2020-2021, with growth of 5.1%. It will stand at 3.1% in 2021-2022.

CONSOLIDATED FINANCIAL FRAMEWORK, 2019-2020 TO 2024-2025

(millions of dollars)

	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
Own-source revenue	92 846	95 603	98 859	102 094	105 623	109 061
% change	1.3	3.0	3.4	3.3	3.5	3.3
Federal transfers	25 097	25 692	26 293	26 529	26 598	26 808
% change	8.6	2.4	2.3	0.9	0.3	0.8
Total revenue	117 943	121 295	125 152	128 623	132 221	135 869
% change	2.8	2.8	3.2	2.8	2.8	2.8
Portfolio expenditures	-104 962	-110 300	-113 617	-116 837	-120 375	-123 664
% change	7.4	5.1	3.0	2.8	3.0	2.7
Debt service	-7 845	-8 266	-8 630	-8 683	-8 420	-8 460
% change	-10.1	5.4	4.4	0.6	-3.0	0.5
Total expenditure	-112 807	-118 566	-122 247	-125 520	-128 795	-132 124
% change	6.0	5.1	3.1	2.7	2.6	2.6
Estimated losses on the CSeries investment	-603	—	—	—	—	—
Shortfall to be offset ⁽¹⁾	—	—	125	250	250	250
SURPLUS	4 533	2 729	3 030	3 353	3 676	3 995
BALANCED BUDGET ACT						
Deposits of dedicated revenues in the Generations Fund	-2 633	-2 729	-3 030	-3 353	-3 676	-3 995
BUDGETARY BALANCE⁽²⁾	1 900	—	—	—	—	—

(1) Measures will be identified over the next few years to offset a shortfall of \$125 million in 2021-2022 and \$250 million from 2022-2023 to 2024-2025.

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

DEBT REDUCTION

As at March 31, 2020, the gross debt will stand at \$197.7 billion, or 43,0% of GDP. The objective to reduce the gross debt to 45% of GDP is being achieved six years earlier than expected. The objective to reduce the debt representing accumulated deficits to 17% of GDP is expected to be achieved by March 31, 2023, three years earlier than expected. These targets will have been achieved thanks to economic growth, which is helping to ease the debt burden, the maintenance of budgetary balance and deposits to the Generations Fund.

THE GOVERNMENT'S FINANCING PROGRAM, 2019-2020 TO 2024-2025

(millions of dollars)

	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
Net financial requirements	3 125	9 843	10 377	10 238	11 382	9 632
Repayments of borrowings	16 742	10 364	16 680	14 433	16 057	18 968
Use of the Generations Fund to repay borrowings	-2 000	—	—	—	—	—
Withdrawal from the Accumulated Sick Leave Fund	-100	—	—	—	—	—
Use of pre-financing	-5 949	-6 299	—	—	—	—
Change in cash position	-743	—	—	—	—	—
Deposits in the Retirement Plans Sinking Fund (RPSF) ⁽¹⁾	1 500	—	—	—	—	—
Transactions under the credit policy ⁽²⁾	355	—	—	—	—	—
Pre-financing	6 299	—	—	—	—	—
TOTAL	19 229⁽³⁾	13 908	27 057	24 671	27 439	28 600

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 February 14, 2020.

For 2019-2020, the program amounts to \$19.2 billion, which is \$7.4 billion more than what was projected in the March 2019 budget. In 2019-2020, the government has so far carried out 36% of its borrowings on foreign markets, whereas the average for the past ten years is 21%:

- US\$3.5 billion (CAN\$4.6 billion);
- €1 billion (CAN\$1.5 billion);
- £250 million (CAN\$407 million);
- SEK1.7 billion (CAN\$245 million);
- AU\$100 million (CAN\$95 million);
- NZ\$66 million (CAN\$59 million).

To date, approximately 68% of the borrowings contracted in 2019-2020 had a maturity of 10 years or more.

As at March 31, 2020, the average maturity of the debt is expected to be 11 years.

Five issues totalling \$2.8 billion have been made since the Green Bond program was launched, including a \$500 million issue in February 2020.

CREDIT RATINGS

Six credit rating agencies evaluate Québec's rating. On November 12, 2019, the DBRS Morningstar credit rating agency raised Québec's credit rating by one notch, from "A (high)" to "AA (low)". A rating in the "AA" category from DBRS is a first for Québec.

THE QUÉBEC GOVERNMENT'S CREDIT RATINGS

Credit rating agency	2018	2020
Moody's	Aa2	Aa2
Standard & Poor's (S&P)	AA-	AA-
Fitch	AA-	AA-
DBRS Morningstar (DBRS)	A (high)	AA (low)
Japan Credit Rating Agency (JCR)	AA+	AA+
China Chengxin International (CCXI) ⁽¹⁾	AAA	AAA

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

