

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.

