

QUÉBEC'S ECONOMIC AND FINANCIAL SUMMARY

Thursday, March 25, 2021

HIGHLIGHTS OF THE BUDGET 2021-2022

ECONOMIC OUTLOOK

Québec and Canada have not been spared by the health crisis in 2020. Output contractions of 5.2% and 5.4%, respectively, were recorded for the full year.

After major pullbacks in economic activity in March and April 2020, Québec's economy is back on the path to growth. Real GDP is forecast to grow by 4.2% in 2021 and 4.0% in 2022.

In February 2021, Québec's employment stood at 96.8% of its pre-pandemic level. For the same period, Ontario's employment level was 95.9% of what it was in February 2020, and Canada's was 96.9%.

Since the peak in April 2020, Québec's unemployment rate has dropped 11.2 percentage points, to 6.4% in February 2021. This is the lowest level across all Canadian provinces (9.2% in Ontario and 8.2% in Canada).

ECONOMIC OUTLOOK FOR QUÉBEC

(percentage change, unless otherwise indicated)

	2020	2021	2022
Real gross domestic product	-5.2	4.2	4.0
Exports	-10.5	3.1	4.5
Consumer price index	0.8	1.9	2.2
Housing starts (thousands of units)	54.1	50.4	48.8
Job creation (thousands)	-208.5	148.9	75.5
Unemployment rate (per cent)	8.9	6.4	6.0
Canadian financial markets			
Target for the overnight rate	0.5	0.3	0.3
Treasury bills – 3 months	0.4	0.1	0.3
Bonds – 10 years	0.7	1.4	1.6
Canadian dollar (in U.S. cents)	74.6	79.8	80.6

QUÉBEC'S BUDGETARY SITUATION

In 2021-2022, the budgetary balance shows a deficit of \$12.3 billion. Provisions of \$1.3 billion for economic risks and other support and recovery measures in 2021-2022 and 2022-2023, \$750 million in 2023-2024 and \$500 million annually thereafter are included in the financial framework. Fiscal balance is expected to be restored by 2027-2028.

Revenue will stand at \$122.6 billion in 2021-2022, which represents growth of 1.9%. Expenditure will stand at \$125.5 billion in 2021-2022. Consolidated expenditure will grow by 5.9% in 2021-2022.

CONSOLIDATED FINANCIAL FRAMEWORK FROM 2020-2021 TO 2025-2026

(billions of dollars)

	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	AAGR ⁽¹⁾
Own-source revenue	90.0	95.7	100.3	104.1	107.8	111.2	
% change	-1.9	6.3	4.8	3.8	3.6	3.1	
Federal transfers	30.3	26.9	26.2	26.8	26.4	27.0	
% change	20.0	-11.1	-2.8	2.4	-1.3	2.0	
Total revenue	120.3	122.6	126.4	130.8	134.3	138.1	
% change	2.8	1.9	3.2	3.5	2.6	2.9	2.8
Portfolio expenditures	-110.8	-116.6	-119.6	-123.8	-126.6	-130.5	
% change	4.1	5.4	2.3	3.5	2.3	3.1	3.5
Debt service	-7.7	-8.6	-9.0	-9.0	-9.4	-9.3	
% change	-0.1	12.4	4.5	-0.1	4.8	-1.3	3.2
Total expenditure	-118.5	-125.5	-128.6	-132.7	-136.0	-139.8	
% change	3.9	5.9	2.5	3.3	2.5	2.8	3.4
COVID-19 support and recovery measures	-11.9	-4.3	-1.2	-0.1	—	—	
Change in application of the accounting standard respecting transfer payments	-0.6	-0.7	-0.7	-0.5	-0.6	-0.6	
Provision for economic risks and other support and recovery measures	-1.3	-1.3	-1.3	-0.8	-0.5	-0.5	
Shortfall to be offset	—	—	—	1.3	2.6	3.9	
SURPLUS (DEFICIT)	-12.0	-9.2	-5.3	-1.9	-0.3	1.1	
BALANCED BUDGET ACT							
Deposits of dedicated revenues in the Generations Fund	-3.0	-3.1	-3.2	-3.8	-4.1	-4.2	
BUDGETARY BALANCE BEFORE USE OF THE STABILIZATION RESERVE	-15.0	-12.3	-8.5	-5.7	-4.4	-3.1	
Use of the stabilization reserve	8.8	—	—	—	—	—	
Budgetary balance⁽²⁾	-6.2	-12.3	-8.5	-5.7	-4.4	-3.1	

(1) Average annual growth rate, or geometric mean, from 2020-2021 to 2022-2023.

(2) Budgetary balance within the meaning of the *Balanced Budget Act*, after use of the stabilization reserve.

DEBT REDUCTION

As at March 31, 2021, the gross debt will stand at \$219.0 billion, or 49.5% of GDP. A stabilization of the gross debt-to-GDP ratio is expected starting in 2021-2022. The gross debt burden is expected to gradually decrease in the coming years, reaching 47.0% of GDP as at March 31, 2026.

- The *Act to reduce the debt and establish the Generations Fund* stipulates that for fiscal 2025-2026, the gross debt must not exceed 45% of GDP, while the debt representing accumulated deficits must not exceed 17% of GDP. Given the substantial increase in the debt in 2020-2021 because of the public health crisis, it is not expected that these targets will be met. Reducing the debt burden nevertheless remains a priority for the government. It is a matter of intergenerational fairness.

In 2021-2022, deposits in the Generations Fund will stand at \$3.1 billion.

FINANCING

For 2020-2021, the financing program amounts to \$38.4 billion, which is \$24.5 billion more than what was forecast in the March 2020 budget. For 2021-2022, the financing program amounts to \$28.5 billion. For the four subsequent years, from 2022-2023 to 2025-2026, it will average \$31.3 billion per year.

THE GOVERNMENT'S FINANCING PROGRAM, 2020-2021 TO 2025-2026

(millions of dollars)

	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
Net financial requirements	24 144	20 065	17 931	16 144	12 284	12 610
Repayments of borrowings	14 388	12 688	14 317	15 963	19 079	16 959
Use of the Generations Fund to repay borrowings	—	—	—	—	—	—
Withdrawal from the Accumulated Sick Leave Fund	-150	—	—	—	—	—
Use of pre-financing	-7 988	-4 292	—	—	—	—
Transactions under the credit policy ⁽¹⁾	3 717	—	—	—	—	—
Pre-financing	4 292	—	—	—	—	—
TOTAL	38 403⁽²⁾	28 461	32 248	32 107	31 363	29 569

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

(1) 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.

(2) This data is based on borrowings contracted as at March 12, 2021.

Thus far in 2020-2021, the government has contracted 32% of its borrowings on foreign markets, compared to an average of 21% for the past 10 years.

- US\$4.75 billion (CAN\$6.4 billion);
- €3.85 billion (CAN\$6.0 billion).

To date, approximately 76% of the borrowings contracted in 2020-2021 had a maturity of ten years or more.

As at March 31, 2021, the average maturity of the debt is expected to be 11 years.

CREDIT RATINGS

Québec's credit rating is evaluated by six credit rating agencies. In 2020, these six credit rating agencies confirmed Québec's credit rating and assigned it a stable outlook.

QUÉBEC'S CREDIT RATINGS

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

Note: Québec's credit ratings as at March 12, 2021.

(1) Credit rating for bond issues on the Chinese market.