

# QUÉBEC'S ECONOMIC AND FINANCIAL SUMMARY

Wednesday, June 4, 2014

## HIGHLIGHTS OF THE 2014-2015 BUDGET – June 2014

### ECONOMIC OUTLOOK

Québec's economy slowed in 2013, with real GDP gaining 1.1% following a rise of 1.5% in 2012. Economic growth is expected to rebound in 2014 and 2015, with real GDP growth reaching 1.8% and 2.0% respectively. The cyclical factors that contributed to the weak economic results in 2013 should dissipate.

Job creation is expected to regain vigor, in line with the improvement in economic growth.

Job creation should amount to 31 300 jobs in 2014 and rise to 46 300 in 2015.

The unemployment rate should continue its gradual improvement. From 7.6% in 2013, it is expected to decline to 7.5% in 2014 and 7.2% in 2015.

### QUÉBEC'S ECONOMIC OUTLOOK

(percentage change unless otherwise indicated)

	2013	2014	2015
Real gross domestic product	1.1	1.8	2.0
Exports	3.8	3.0	3.8
Consumer price index	0.7	1.3	2.1
Housing starts (thousands of units)	37.8	37.5	35.7
Job creation (thousands)	47.8	31.3	46.3
Unemployment rate (%)	7.6	7.5	7.2
<b>Canadian financial markets (%)</b>			
Target for the overnight rate	1.0	1.0	1.4
3-month Treasury bills	1.0	0.9	1.4
10-year bonds	2.3	2.9	3.8
Canadian dollar (in U.S. cents)	96.6	89.5	87.9

### CHANGE IN THE BUDGETARY SITUATION

The budget will be balanced as of 2015-2016. The deficit will amount to \$3 100 million in 2013-2014 and \$2 350 million in 2014-2015. Once fiscal balance has been restored, half of each year's budget surplus will be allocated to debt reduction and the other half to tax relief.

For the next two years, average growth in consolidated expenditure will be roughly 1.5%, while growth in consolidated revenue will average 3.2%.

### DEBT REDUCTION OBJECTIVES MAINTAINED

The debt reduction objectives for 2025-2026 are maintained, i.e. 45% of GDP for the gross debt and 17% of GDP for the debt representing accumulated deficits. Deposits to the Generations Fund will reach \$1 301 million in 2014-2015 and \$1 583 million in 2015-2016.

### QUÉBEC GOVERNMENT'S CONSOLIDATED FINANCIAL FRAMEWORK

(millions of dollars)

	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
<b>Consolidated revenue</b>						
Own-source revenue	74 847	77 790	80 540	83 401	86 288	88 671
Federal transfers	18 820	18 607	19 276	19 556	20 033	20 634
<b>Total consolidated revenue</b>	<b>93 667</b>	<b>96 397</b>	<b>99 816</b>	<b>102 957</b>	<b>106 321</b>	<b>109 305</b>
<b>Consolidated expenditure</b>						
Expenditure	-85 038	-86 615	-87 700	-89 195	-91 010	-93 009
Debt service	-10 608	-10 831	-11 183	-11 758	-12 171	-12 620
<b>Total consolidated expenditure</b>	<b>-95 646</b>	<b>-97 446</b>	<b>-98 883</b>	<b>-100 953</b>	<b>-103 181</b>	<b>-105 629</b>
Québec Taxation Review Committee	—	—	650	650	650	650
Contingency reserves	—	—	—	-400	-400	-400
<b>SURPLUS (DEFICIT)</b>	<b>-1 979</b>	<b>-1 049</b>	<b>1 583</b>	<b>2 254</b>	<b>3 390</b>	<b>3 926</b>
<b>BALANCED BUDGET ACT</b>						
Deposits of dedicated revenue in the Generations Fund	-1 121	-1 301	-1 583	-2 254	-2 790	-3 126
<b>BUDGETARY BALANCE<sup>(1)</sup></b>	<b>-3 100</b>	<b>-2 350</b>	<b>—</b>	<b>—</b>	<b>600</b>	<b>800</b>

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

## THE GOVERNMENT'S FINANCING PROGRAM FROM 2013-2014 TO 2016-2017

(millions of dollars)

	2014-2015 <sup>P</sup>						2016-2017 <sup>P</sup>
	2013-2014 <sup>P</sup>	Financial situation as at February 20, 2014	Revisions	Revised program	Completed <sup>(1)</sup>	2015-2016 <sup>P</sup>	
<b>GENERAL FUND</b>							
Net financial requirements <sup>(2),(3)</sup>	1 988	2 649	1 516	4 165		1 062	219
Repayments of borrowings	4 767	7 597	104	7 701		7 115	10 697
Use of the Generations Fund to repay maturing borrowings	-1 000	—	—	—		—	—
Change in cash position <sup>(4)</sup>	-3 485	-4 421	-1 189	-5 610		—	—
Deposits in the Retirement Plans Sinking Fund <sup>(5)</sup>	1 000	—	—	—		—	—
Transactions under the credit policy <sup>(6)</sup>	-1 216	—	-55	-55		—	—
Additional contributions to the Sinking Fund for borrowings	3 538	—	300	300		—	—
Pre-financing	5 610	—	—	—		—	—
<b>GENERAL FUND</b>	<b>11 202</b>	<b>5 825</b>	<b>676</b>	<b>6 501</b>		<b>8 177</b>	<b>10 916</b>
<b>FINANCING FUND</b>	<b>7 384</b>	<b>8 554</b>	<b>-1 021</b>	<b>7 533</b>		<b>8 703</b>	<b>6 998</b>
<b>Subtotal – General Fund and Financing Fund</b>	<b>18 586</b>	<b>14 379</b>	<b>-345</b>	<b>14 034</b>	<b>4 698</b>	<b>16 880</b>	<b>17 914</b>
<b>FINANCEMENT-QUÉBEC</b>	<b>1 000</b>	<b>1 000</b>	<b>—</b>	<b>1 000</b>	<b>—</b>	<b>1 000</b>	<b>1 000</b>
<b>TOTAL</b>	<b>19 586</b>	<b>15 379</b>	<b>-345</b>	<b>15 034</b>	<b>4 698</b>	<b>17 880</b>	<b>18 914</b>
Including: repayments of borrowings <sup>(7)</sup>	9 741	12 261	102	12 363	—	10 201	15 017

P: Preliminary results for 2013-2014 and forecasts for subsequent years.

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

(1) Borrowings contracted or negotiated as of May 29, 2014.

(2) These amounts exclude the net financial requirements of consolidated entities funded through the Financing Fund.

(3) Net financial requirements are adjusted to take into account the non-receipt of revenues of the RPSF and of funds dedicated to employee future benefits.

(4) Corresponds to pre-financing made the previous year.

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

(6) 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.

(7) These amounts include repayments of borrowings, for 2013-2014 to 2016-2017, of the general fund (\$4 767 million, \$7 701 million, \$7 115 million and \$10 697 million), the Financing Fund (\$1 252 million, \$1 151 million, \$1 206 million and \$1 212 million) and Financement-Québec (\$3 722 million, \$3 511 million, \$1 880 million and \$3 108 million).

Borrowings completed during 2013-2014 amounted to \$19.6 billion, i.e. \$12.5 billion through public issues, \$5.5 billion through private borrowings and \$1.6 billion through other types of borrowings.

In 2013-2014, the government carried out 16.2% of its borrowings on foreign markets:

- a public bond issue of €1 000 million (CAN\$1 358 million) in July 2013;
- a public bond issue of €1 000 million (CAN\$1 485 million) in January 2014;
- a public bond issue of 200 million Swiss francs (CAN\$244 million) in February 2014;
- a borrowing of €65 million (CAN\$88 million) in June 2013.

For borrowings completed in 2013-2014, 41.3% had a maturity of less than 10 years, 38.5% had a maturity of 10 years and 20.2% had a maturity of 30 years or more.

The government carried out pre-financing for an amount of \$5.6 billion during 2013-2014.

The financing program should amount to \$15 034 million in 2014-2015, \$17 880 million in 2015-2016 and \$18 914 million in 2016-2017.

As at March 31, 2014, the average maturity of the debt was about 11 years.

### THE QUÉBEC GOVERNMENT'S CREDIT RATINGS

Agency	Rating	Outlook
Moody's	Aa2	Stable
Standard & Poor's (S&P)	A+	Stable
DBRS	A (high)	Stable
Fitch	AA-	Negative
Japan Credit Rating Agency (JCR)	AA+	Stable

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