

QUÉBEC'S ECONOMIC AND FINANCIAL SUMMARY

Tuesday, March 27, 2018

HIGHLIGHTS OF THE 2018-2019 BUDGET

ECONOMIC OUTLOOK

Québec's economy is going full throttle. Growth in real gross domestic product (GDP) accelerated from 1.4% in 2016 to 3.0% in 2017. Economic activity has not been this strong since 2000.

Growth is being driven by the good financial shape of households and by growth in non-residential business investment. Real GDP is expected to increase by 2.1% in 2018 and 1.7% in 2019.

In 2017, 90 200 jobs were created on average in Québec relative to 2016. Of that number, 65 400 were full-time jobs. Québec created nearly 27% of all new jobs in Canada.

Québec's unemployment rate has dropped significantly in the past few years, to an average of 6.1% in 2017. This is a historic annual record and a rate lower than that of Canada (6.3%). Québec's unemployment rate is expected to drop to 5.4% in 2018 and 5.3% in 2019.

QUÉBEC'S ECONOMIC OUTLOOK

(variation in per cent, unless otherwise indicated)

	2017	2018	2019
Real gross domestic product	3.0	2.1	1.7
Exports	1.7	2.7	2.4
Consumer price index	1.0	1.8	1.8
Housing starts (thousands of units)	46.5	40.3	33.8
Job creation (thousands)	90.2	60.6	30.1
Unemployment rate (%)	6.1	5.4	5.3
Canadian financial markets (%)			
Target for the overnight rate	0.7	1.5	2.0
Canadian Treasury bills – 3 months	0.7	1.4	2.1
Canada bonds – 10 years	1.8	2.5	2.9
Canadian dollar (in U.S. cents)	77.1	81.4	80.4

BUDGETARY SITUATION

The March 2018 Québec Economic Plan projects a budgetary surplus of \$850 million for 2017-2018. A balanced budget is projected for 2018-2019 and subsequent years. The improvement in Québec's economic and financial situation and use of a portion of the budgetary surpluses achieved allow the government to announce additional investments for the benefit of all Quebecers.

Consolidated revenue is expected to grow by 2.2% in 2018-2019 and 3.4% in 2019-2020. Consolidated expenditure is expected to grow by 4.5% and 2.6%, respectively, over the next two years.

THE QUÉBEC GOVERNMENT'S CONSOLIDATED FINANCIAL FRAMEWORK

(millions of dollars)

	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
Consolidated revenue						
Own-source revenue	84 527	85 923	88 595	91 544	94 616	97 745
Federal transfers	22 669	23 674	24 764	25 296	25 621	26 001
Total consolidated revenue	107 196	109 597	113 359	116 840	120 237	123 746
% change	4.2	2.2	3.4	3.1	2.9	2.9
Consolidated expenditure						
Mission expenditure	-94 817	-99 313	-102 066	-104 696	-107 294	-110 480
Debt service	-9 237	-9 380	-9 422	-9 532	-9 578	-9 664
Total consolidated expenditure	-104 054	-108 693	-111 488	-114 228	-116 872	-120 144
% change	5.6	4.5	2.6	2.5	2.3	2.8
Contingency reserve	—	—	-100	-100	-100	-100
SURPLUS	3 142	904	1 771	2 512	3 265	3 502
BALANCED BUDGET ACT						
Deposits of dedicated revenues in the Generations Fund	-2 292	-2 491	-2 707	-2 991	-3 265	-3 502
Use of the stabilization reserve	—	1 587	936	479	—	—
BUDGETARY BALANCE⁽¹⁾	850	—	—	—	—	—

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

DEBT REDUCTION

The gross debt burden has decreased for the third year in a row. As at March 31, 2018, the gross debt will stand at \$204.5 billion. As a proportion of the economy, this is equivalent to 49.6% of GDP. The ratio of gross debt to GDP will stand at 45.0% as at March 31, 2023. The gross debt reduction objective stipulated in the Act will thus have been achieved.

The March 2018 Québec Economic Plan provides for the use of a sum of \$2 billion a year from the Generations Fund for 2018-2019 and subsequent years to repay maturing borrowings.

THE GOVERNMENT'S FINANCING PROGRAM FROM 2017-2018 TO 2022-2023

(millions of dollars)

	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
GENERAL FUND						
Net financial requirements ⁽¹⁾	11	5 012	2 556	3 628	2 764	4 953
Repayments of borrowings	5 782	8 252	8 215	7 674	11 969	9 467
Use of the Generations Fund to repay maturing borrowings	—	-2 000	-2 000	-2 000	-2 000	-2 000
Change in cash position ⁽²⁾	-7 932	-9 342	—	—	—	—
Deposits in the Retirement Plans Sinking Fund (RPSF) ⁽³⁾	1 500	—	—	—	—	—
Transactions under the credit policy ⁽⁴⁾	-577	—	—	—	—	—
Contributions to the Sinking Fund for borrowings	1 684	—	—	—	—	—
Pre-financing	9 342	—	—	—	—	—
GENERAL FUND	9 810	1 922	8 771	9 302	12 733	12 420
FINANCING FUND	7 200	10 100	7 500	7 400	6 300	5 700
FINANCEMENT-QUÉBEC	900	1 400	2 300	1 400	700	300
TOTAL	17 910⁽⁵⁾	13 422	18 571	18 102	19 733	18 420
Including: repayments of borrowings	11 300	16 559	14 079	11 580	15 335	12 628

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

(1) These amounts exclude the net financial requirements of consolidated entities funded through the Financing Fund. They are adjusted to take into account, in particular, the non-receipt of revenues of the RPSF and of funds dedicated to other employee future benefits.

(2) The change in cash position corresponds to pre-financing carried out the previous year.

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

(4) 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.

(5) This data is based on borrowings contracted as at March 14, 2018.

The financing program was \$17.9 billion for 2017-2018. It will be \$13.4 billion for 2018-2019.

With regard to financing on foreign markets, 2017-2018 was an exceptional year. The government has carried out 39.5% of its borrowings on foreign markets:

- €2.25 billion (CAN\$3.4 billion);
- US\$2.5 billion (CAN\$3.2 billion);
- 300 million pounds sterling (CAN\$521 million).

Québec also issued a second issue of green bonds, for \$500 million, on February 22, 2018.

In 2017-2018, more than two thirds of borrowings contracted had a maturity of 10 years or more.

As at March 31, 2018, the average maturity of the debt is expected to be 11 years.

CREDIT RATINGS

In June 2017, rating agency Standard & Poor's (S&P) upgraded Québec's credit rating from "A+" to "AA-". The upgrade stems from the government's responsible management of public finances. It should be recalled that in June 2016, Fitch had upgraded Québec's credit rating outlook, raising it from "negative" to "stable" due to the return to a balanced budget.

THE QUÉBEC GOVERNMENT'S CREDIT RATINGS

Rating agencies	2015		→	2017	
	Credit rating	Outlook		Credit rating	Outlook
Moody's	Aa2	Stable		Aa2	Stable
Standard & Poor's (S&P)	A+	Stable		AA-	Stable
Fitch	AA-	Negative		AA-	Stable
DBRS	A (high)	Stable		A (high)	Stable
Japan Credit Rating Agency (JCR)	AA+	Stable		AA+	Stable

