

# QUÉBEC'S ECONOMIC AND FINANCIAL SUMMARY

Monday, December 3, 2018

## Update on Québec's Economic and Financial Situation

### ECONOMIC OUTLOOK

Québec, like Canada, saw robust economic growth in 2017. Québec's real GDP rose by 2.8%, after increasing by 1.4% in 2016.

Households have been the main driver of growth in recent years. They will continue contributing to economic activity in 2018 and 2019, but at a slower pace. Real GDP is expected to expand by 2.5% in 2018 and 1.8% in 2019.

The labour market progressed favourably in 2017, seeing the creation of 90 200 jobs on average. A total of 43 700 jobs should be created in 2018 and 40 200 in 2019.

The unemployment rate fell to 6.1% in 2017, an annual record since Statistics Canada began its Labour Force Survey in 1976. It was lower than Canada's unemployment rate for the same year (6.3%). Québec's unemployment rate is expected to fall to 5.5% in 2018 and 5.4% in 2019.

### QUÉBEC'S ECONOMIC OUTLOOK

(percentage change, unless otherwise indicated)

	2017	2018	2019
Real gross domestic product	2.8	2.5	1.8
Exports	1.2	2.3	2.3
Consumer price index	1.0	2.0	2.0
Housing starts (thousands of units)	46.5	47.9	43.6
Job creation (thousands)	90.2	43.7	40.2
Unemployment rate (%)	6.1	5.5	5.4
<b>Canadian financial markets (%)</b>			
Target for the overnight rate	0.7	1.4	2.1
Canada Treasury bills – 3-months	0.7	1.4	2.2
Canada bonds – 10 years	1.8	2.3	2.8
Canadian dollar (in U.S. cents)	77.1	77.5	78.1

### QUÉBEC'S FINANCIAL FRAMEWORK IS BALANCED

The financial framework indicates a budgetary balance within the meaning of the *Balanced Budget Act*, with a surplus of \$1.7 billion in 2018-2019, a balanced surplus in 2019-2020 and a surplus of \$0.2 billion in 2020-2021. The strong economic performance since March 2018 makes it possible to put money back in the pockets of Quebecers and spur business investment.

In 2018-2019, consolidated revenue totals \$112.5 billion, up 3.8% relative to the previous year. In 2019-2020, it will grow by 2.2%. Consolidated expenditure stands at \$108.0 billion in 2018-2019, a growth of 4.3%. It will increase by 4.1% in 2019-2020.

### CONSOLIDATED FINANCIAL FRAMEWORK, 2017-2018 TO 2022-2023

(millions of dollars)

	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
Own-source revenue	85 919	88 471	89 748	92 707	95 850	99 182
% change	3.6	3.0	1.4	3.3	3.4	3.5
Federal transfers	22 485	23 999	25 215	25 514	25 562	26 212
% change	11.4	6.7	5.1	1.2	0.2	2.5
<b>Consolidated revenue</b>	<b>108 404</b>	<b>112 470</b>	<b>114 963</b>	<b>118 221</b>	<b>121 412</b>	<b>125 394</b>
% change	<b>5.2</b>	<b>3.8</b>	<b>2.2</b>	<b>2.8</b>	<b>2.7</b>	<b>3.3</b>
Mission expenditures	-94 249	-98 837	-103 143	-105 789	-108 286	-111 418
% change	5.7	4.9	4.4	2.6	2.4	2.9
Debt service	-9 240	-9 132	-9 221	-9 495	-9 673	-9 981
% change	-3.0	-1.2	1.0	3.0	1.9	3.2
<b>Consolidated expenditure</b>	<b>-103 489</b>	<b>-107 969</b>	<b>-112 364</b>	<b>-115 284</b>	<b>-117 959</b>	<b>-121 399</b>
% change	<b>4.8</b>	<b>4.3</b>	<b>4.1</b>	<b>2.6</b>	<b>2.3</b>	<b>2.9</b>
Contingency reserve	—	—	-100	-100	-100	-100
<b>SURPLUS</b>	<b>4 915</b>	<b>4 501</b>	<b>2 499</b>	<b>2 837</b>	<b>3 353</b>	<b>3 895</b>
<b>BALANCED BUDGET ACT</b>						
Deposits of dedicated revenues in the Generations Fund	-2 293	-2 851	-2 499	-2 687	-2 953	-3 245
<b>BUDGETARY BALANCE<sup>(1)</sup></b>	<b>2 622</b>	<b>1 650</b>	<b>—</b>	<b>150</b>	<b>400</b>	<b>650</b>

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

## DEBT REDUCTION

As at March 31, 2018, the gross debt stood at \$201.1 billion, or 48.2% of GDP. The debt burden is expected to gradually and steadily decline over the five-year forecast period. The objective of reducing the gross debt to 45% of GDP will be achieved in 2020-2021, five years earlier than planned. The update provides for accelerated repayment of the debt from the Generations Fund, i.e. \$8 billion in 2018-2019 and \$2 billion in 2019-2020.

## THE GOVERNMENT'S FINANCING PROGRAM, 2018-2019 TO 2022-2023

(millions of dollars)

	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
<b>GENERAL FUND</b>					
Net financial requirements <sup>(1)</sup>	2 464	527	1 879	1 966	2 190
Repayments of borrowings	11 352	3 506	6 153	10 152	7 882
Use of the Generations Fund to repay borrowings	-8 000	-2 000	—	—	—
Change in cash position <sup>(2)</sup>	-9 747	-416	—	—	—
Deposits in the Retirement Plans Sinking Fund (RPSF) <sup>(3)</sup>	1 000	—	—	—	—
Contributions to the sinking fund for borrowings	1 000	—	—	—	—
Transactions under the credit policy <sup>(4)</sup>	657	—	—	—	—
Pre-financing	416	—	—	—	—
<b>GENERAL FUND</b>	<b>-858</b>	<b>1 617</b>	<b>8 032</b>	<b>12 118</b>	<b>10 072</b>
<b>FINANCING FUND</b>	<b>11 900</b>	<b>9 800</b>	<b>9 200</b>	<b>8 800</b>	<b>8 600</b>
<b>FINANCEMENT-QUÉBEC</b>	<b>1 300</b>	<b>1 800</b>	<b>1 700</b>	<b>1 500</b>	<b>1 100</b>
<b>TOTAL</b>	<b>12 342<sup>(5)</sup></b>	<b>13 217</b>	<b>18 932</b>	<b>22 418</b>	<b>19 772</b>
Including: repayments of borrowings	19 614	11 154	11 641	15 398	13 448

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 November 21, 2018.

Thus far in 2018-2019, the government has carried out 21.4% of its borrowings on foreign markets:

- €1 billion (CAN\$1.5 billion);
- £500 million (CAN\$868 million);
- AU\$160 million (CAN\$154 million);
- NZ\$115 million (CAN\$103 million).

Over 80% of borrowings contracted thus far in 2018-2019 have a maturity of over 10 years.

As at March 31, 2018, the average maturity of the debt was 10.4 years.

**Québec made a third issue of Green Bonds, totalling \$500 million, on June 28, 2018.**

The government's financing program will amount to \$13.2 billion in 2019-2020. For the following three years, from 2020-2021 to 2022-2023, it will average \$20.4 billion a year.

## CREDIT RATINGS

Québec's credit rating is evaluated by six credit rating agencies. These six agencies have currently assigned a stable outlook to Québec's credit rating.

### THE QUÉBEC GOVERNMENT'S CREDIT RATINGS

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

