

ECONOMIC OUTLOOK

Inflation and rapidly rising interest rates have slowed economic growth in recent months. Accordingly, economic activity in Québec is expected to slow from 2.8% in 2022 to 0.6% in 2023.

In Canada, real GDP growth is expected to be 0.8% in 2023 following a 3.4% increase in 2022.

The year 2023 will represent a period of transition. Efforts to keep inflation stable and predictable will help restore an environment conducive to sustainable growth in 2023 and 2024, when real GDP growth is expected to be 1.4% in Québec.

Following an average creation of 129 700 jobs in 2022 (+3.0%), 63 200 new jobs (+1.4%) are expected in 2023.

The unemployment rate is expected to climb temporarily to an average of 4.6% in 2023, while still remaining close to the annual low of 4.3% recorded in 2022.

ECONOMIC OUTLOOK IN QUÉBEC

(annual average, percentage change, unless otherwise indicated)

	2022	2023	2024
Real GDP	2.8	0.6	1.4
Exports in real terms	2.4	1.5	3.7
Consumer price index	6.7	3.5	2.2
Housing starts (thousands of units)	57.1	50.1	46.2
Job creation (thousands)	129.7	63.2	25.2
Unemployment rate (per cent)	4.3	4.6	4.2
Canadian financial markets (average annual percentage rate, unless otherwise indicated)			
Overnight rate target	2.0	4.5	3.5
3-month Treasury bill	2.3	4.4	3.5
10-year bond	2.8	3.1	3.0
Canadian dollar (in U.S. cents)	76.6	75.0	76.8

QUÉBEC'S BUDGETARY SITUATION

In accordance with the *Balanced Budget Act*, the government will eliminate the deficit over the next five years. Accordingly, the \$5.0 billion deficit projected for 2022-2023 will be gradually reduced at a rate of \$1 billion per year. The financial framework provides for a contingency reserve totalling \$6.5 billion, including \$1.5 billion in 2023-24, \$1.0 billion in 2024-2025 and 2025-2026, and \$1.5 billion in 2026-2027 and 2027-2028.

Revenue amounts to \$147.7 billion in 2023-2024, with growth of 1.8%. Growth will increase to 2.8% in 2024-2025. Expenditure amounts to \$147.9 billion in 2023-2024, with growth of 0.7%. Growth will reach 2.4% in 2024-2025.

CONSOLIDATED FINANCIAL FRAMEWORK, 2022-2023 TO 2027-2028

(millions of dollars)

	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	AAGR ⁽¹⁾
Own-source revenue	115 873	117 989	122 055	126 045	130 874	134 375	
% change	5.7	1.8	3.4	3.3	3.8	2.7	3.0
Federal transfers	29 226	29 742	29 741	30 908	32 011	33 197	
% change	0.1	1.8	0.0	3.9	3.6	3.7	2.6
Total revenue	145 099	147 731	151 796	156 953	162 885	167 572	
% change	4.5	1.8	2.8	3.4	3.8	2.9	2.9
Portfolio expenditures	-136 716	-138 392	-141 468	-145 445	-149 138	-152 095	
% change ⁽²⁾	7.4	1.2	2.2	2.8	2.5	2.0	2.2
Debt service	-10 053	-9 464	-9 925	-9 964	-10 516	-11 135	
% change	16.4	-5.9	4.9	0.4	5.5	5.9	2.1
Total expenditure	-146 769	-147 856	-151 393	-155 409	-159 654	-163 230	
% change ⁽²⁾	7.9	0.7	2.4	2.7	2.7	2.2	2.1 ⁽³⁾
Contingency reserve	—	-1 500	-1 000	-1 000	-1 500	-1 500	
SURPLUS (DEFICIT)	-1 670	-1 625	-597	544	1 731	2 842	
BALANCED BUDGET ACT							
Deposits of dedicated revenues in the Generations Fund	-3 351	-2 373	-2 387	-2 524	-2 707	-2 833	
BUDGETARY BALANCE BEFORE USE OF THE STABILIZATION RESERVE	-5 021	-3 998	-2 984	-1 980	-976	9	
Use of the stabilization reserve	449	—	—	—	—	—	
BUDGETARY BALANCE WITHIN THE MEANING OF THE BALANCED BUDGET ACT	-4 572	-3 998	-2 984	-1 980	-976	9	

Note: Totals may not add due to rounding.

(1) Average annual growth rate, corresponding to the geometric mean over five years, from 2023-2024 to 2027-2028.

(2) In 2023-2024, excluding the impact of COVID-19 support and recovery measures, growth in portfolio expenditures is 5.1% and growth in total expenditure is 4.3%.

(3) Excluding the impact of COVID-19 support and recovery measures, annual growth in expenditure is 2.9% on average.

DEBT REDUCTION

As at March 31, 2023, the gross debt-to-GDP ratio will stand at 40.2%, which is below the 45% objective set out in the *Act to reduce the debt and establish the Generations Fund*. This is also lower than the level that prevailed before the pandemic, which was 43.5% of GDP as at March 31, 2020. A new objective has been established, namely, to reduce the net debt to 30% of GDP by 2037-2038. The net debt will be 37.4% of GDP as at March 31, 2023.

The government will continue to make deposits in the Generations Fund. They will amount to \$2.4 billion in 2023-2024 and gradually increase to stand at \$2.8 billion in 2027-2028.

FINANCING

For 2022-2023, the financing program stands at \$24.2 billion, which is \$3.5 billion less than projected in the March 2022 budget. The program will amount to \$29.5 billion in 2023-2024. For the four subsequent years, from 2024-2025 to 2027-2028, it will average \$26.4 billion per year.

GOVERNMENT'S FINANCING PROGRAM, 2022-2023 TO 2027-2028

(millions of dollars)

	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028
Net financial requirements	12 703	18 647	15 671	14 899	14 101	15 227
Repayment of borrowings	19 006	13 396	16 477	16 630	13 666	12 915
Use of pre-financing	-7 147	—	—	—	—	—
Use of the Generations Fund to repay borrowings	—	-2 500	-2 500	—	—	—
Retirement Plans Sinking Fund withdrawals	—	—	-1 000	-2 500	-3 500	-4 500
Withdrawal from the Accumulated Sick Leave Fund	-155	—	—	—	—	—
Change in cash position	713	—	—	—	—	—
Transactions under the credit policy ⁽¹⁾	1 047	—	—	—	—	—
Increase in the outstanding of Québec Treasury bills	-2 000	—	—	—	—	—
TOTAL	24 167⁽²⁾	29 543	28 648	29 029	24 267	23 642

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

(1) The credit policy is designed to limit financial risk with respect to counterparties. Under this policy, the government disburses or receives sums that fluctuate with the market value of the contracts. The amounts traded do not affect the debt.

(2) Borrowings contracted as at March 1, 2023.

While the average for the last 10 years is 27%, the government has contracted 19% of its borrowings on foreign markets so far for the year 2022-2023:

- €2.25 billion (CAD\$3 241 million);
- £750 million (CAD\$1 189 million);
- AU\$60 million (CAD\$56 million).

To date, approximately 90% of the borrowings contracted in 2022-2023 had a maturity of 10 years or more.

As at March 31, 2022, the average maturity of the debt was 11 years.

In 2022-2023, Québec carried out two green bond issues totalling CAD\$1.8 billion.

Since the program was launched in 2017, CAD\$5.1 billion in green bonds have been issued.

CREDIT RATINGS

Québec's credit rating is evaluated by six credit rating agencies. In July 2022, Japan Credit Rating Agency (JCR) raised Québec's credit rating from AA+ to AAA, the highest possible rating. The five other agencies that rate Québec have confirmed its credit rating, with 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)	AAA	Stable
China Chengxin International (CCXI) ⁽¹⁾	AAA	Stable

Note: Québec's credit ratings as at March 1, 2023.

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