

ECONOMIC OUTLOOK

The Québec economy accelerated sharply over the last two years. In 2017, real gross domestic product (GDP) growth will be 2.6%, an upward adjustment of 0.9 percentage point from the March 2017 forecast.

Growth is being driven primarily by higher household consumption and growth in non-residential business investment. Real GDP is expected to increase by 1.8% in 2018.

During the first ten months of 2017, Québec gained 90 700 jobs compared to the same period in 2016. It thus contributed nearly 30% of the total number of new jobs created in Canada over the same period.

After falling to a historic one-year low of 7.1% in 2016, Québec's unemployment rate is expected to drop further, to 6.1% in 2017 and 5.9% in 2018.

QUÉBEC'S ECONOMIC OUTLOOK

(percentage change, unless otherwise indicated)

	2016	2017	2018
Real gross domestic product	1.4	2.6	1.8
Exports	1.7	1.1	2.5
Consumer price index	0.7	1.0	1.6
Housing starts (thousands of units)	38.9	42.5	39.7
Job creation (thousands)	36.1	85.3	41.0
Unemployment rate (%)	7.1	6.1	5.9
Canadian financial markets (%)			
Target for the overnight rate	0.5	0.7	1.6
Canadian Treasury bills – 3 months	0.5	0.8	1.7
Canada bonds – 10 years	1.3	1.8	2.6
Canadian dollar (in U.S. cents)	75.6	78.2	81.7

BUDGETARY SITUATION

The November 2017 update of the Québec Economic Plan provides for continued fiscal balance in 2017-2018 and subsequent years. The surpluses over the last two years make it possible for the government to announce additional investments for the benefit of Quebecers, in particular an easing of the personal tax burden.

Consolidated revenue growth is forecast at 3.5% in 2017-2018 and 2.0% in 2018-2019. Growth in consolidated expenditure is forecast at 5.7% and 2.9% for the same two years.

THE QUÉBEC GOVERNMENT'S CONSOLIDATED FINANCIAL FRAMEWORK

(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
Consolidated revenue							
Own-source revenue	82 728	83 677	86 255	89 189	92 005	94 847	97 542
Federal transfers	20 179	22 793	22 391	23 220	23 669	24 290	24 953
Total consolidated revenue	102 907	106 470	108 646	112 409	115 674	119 137	122 495
% change	2.8	3.5	2.0	3.5	2.9	3.0	2.8
Consolidated expenditure							
Mission expenditures	-89 018	-94 662	-97 628	-100 276	-102 436	-104 837	-107 501
Debt service	-9 527	-9 508	-9 613	-9 753	-10 017	-10 193	-10 469
Total consolidated expenditure	-98 545	-104 170	-107 241	-110 029	-112 453	-115 030	-117 970
% change	2.1	5.7	2.9	2.6	2.2	2.3	2.6
Contingency reserve	—	-100	-100	-100	-100	-200	-200
SURPLUS	4 362	2 200	1 305	2 280	3 121	3 907	4 325
BALANCED BUDGET ACT							
Deposits of dedicated revenues in the Generations Fund	-2 001	-2 450	-2 712	-3 031	-3 465	-3 907	-4 325
Use of the stabilization reserve	—	250	1 407	751	344	—	—
BUDGETARY BALANCE⁽¹⁾	2 361	—	—	—	—	—	—

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

REDUCTION IN THE DEBT BURDEN

As at March 31, 2017, the gross debt stood at \$203.5 billion, this is equivalent to 51.9% of GDP. The debt burden has declined over the last two years. It will continue to decline in the coming years, shrinking to 45% of GDP by 2026.

THE GOVERNMENT'S FINANCING PROGRAM, 2017-2018 TO 2021-2022

(millions of dollars)

	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
GENERAL FUND					
Net financial requirements ⁽¹⁾	1 852	4 750	2 031	2 984	2 413
Repayments of borrowings	5 618	8 141	8 126	7 601	11 913
Change in cash position ⁽²⁾	-7 932	-4 450	—	—	—
Deposits in the Retirement Plans Sinking Fund (RPSF) ⁽³⁾	1 000	—	—	—	—
Transactions under the credit policy ⁽⁴⁾	-183	—	—	—	—
Contributions to the Sinking Fund for borrowings	1 684	—	—	—	—
Pre-financing	4 450	—	—	—	—
GENERAL FUND	6 489	8 441	10 157	10 585	14 326
FINANCING FUND	7 500	10 100	7 800	7 200	6 100
FINANCEMENT-QUÉBEC	800	1 800	2 000	1 000	900
TOTAL	14 789⁽⁵⁾	20 341	19 957	18 785	21 326
Including: repayments of borrowings	11 141	16 455	13 999	11 516	15 288

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 other employee future benefits funds.

(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 figure is based on borrowings contracted or negotiated as at November 2, 2017.

The government's financing program for 2017-2018 amounts to \$14.8 billion.

Thus far in 2017-2018, the government has carried out 47.8% of its borrowings on foreign markets:

- €2.25 billion (CAD\$3.4 billion);
- US\$2.5 billion (CAD\$3.2 billion);
- £300 million (CAD\$521 million).

Thus far in 2017-2018, 29.9% of contracted borrowings have a maturity of less than 10 years, 51.0%, a maturity of 10 years, and 19.1%, a maturity of 30 years or more.

As at March 31, 2017, the average maturity of the debt, that is, of all borrowings contracted, was 11 years.

CREDIT RATINGS

In June 2017, rating agency Standard & Poor's (S&P) announced that it was upgrading 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

Credit rating agency	2015		2017	
	Rating	Outlook	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