

# QUÉBEC'S ECONOMIC AND FINANCIAL SUMMARY

Tuesday, October 25, 2016

THE QUÉBEC ECONOMIC PLAN  
OCTOBER 2016 UPDATE

## ECONOMIC OUTLOOK

Québec is benefiting from favourable economic conditions. Economic growth is accelerating. After increasing by 1.1% in 2015, real GDP is expected to grow by 1.4% in 2016 and 1.5% in 2017.

Growth will be driven by consumption and renewed investment.

The labour market performed well in 2015. Employment growth will continue due to the acceleration in economic activity. It is anticipated that 29 000 new jobs will be created in 2016.

The unemployment rate is falling. After standing at 7.6% in 2015, it is projected to fall to 7.2% in 2016 and 6.9% in 2017.

## QUÉBEC'S ECONOMIC OUTLOOK

(percentage change, unless otherwise indicated)

	2015	2016	2017
Real gross domestic product	1.1	1.4	1.5
Exports	2.3	0.2	2.2
Consumer price index	1.1	0.7	1.7
Housing starts (thousands of units)	37.9	36.3	34.4
Job creation	0.9	0.7	0.6
Unemployment rate (%)	7.6	7.2	6.9
<b>Canadian financial markets (%)</b>			
Target for the overnight rate	0.6	0.5	0.5
3-month Treasury bills	0.5	0.5	0.6
Canada bonds – 10 years	1.5	1.2	1.6
Canadian dollar (in U.S. cents)	77.5	75.8	76.7

## STRONGER PUBLIC FINANCES

The Update of the Québec Economic Plan confirms that the budget will remain balanced in 2016-2017 and the coming years. In addition, sound public finances now make it possible to announce additional investments of \$2.2 billion to strengthen the funding of public services. The government is also eliminating the health contribution ahead of schedule, on January 1, 2017.

Consolidated expenditure will grow by 3.8% in 2016-2017 and 2.3% in 2017-2018. For the same two years, revenue will grow by 2.2% and 2.7%, respectively.

## THE QUÉBEC GOVERNMENT'S CONSOLIDATED FINANCIAL FRAMEWORK

(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
<b>Consolidated revenue</b>						
Own-source revenue	81 222	82 070	84 271	86 800	89 326	92 007
Federal transfers	18 901	20 264	20 828	21 448	21 669	22 231
<b>Total consolidated revenue</b>	<b>100 123</b>	<b>102 334</b>	<b>105 099</b>	<b>108 248</b>	<b>110 995</b>	<b>114 238</b>
<b>% change</b>	<b>4.4</b>	<b>2.2</b>	<b>2.7</b>	<b>3.0</b>	<b>2.5</b>	<b>2.9</b>
<b>Consolidated expenditure</b>						
Expenditure	-86 470	-90 138	-92 346	-94 904	-96 984	-99 380
Debt service	-10 009	-10 047	-10 149	-10 376	-10 639	-10 989
<b>Total consolidated expenditure</b>	<b>-96 479</b>	<b>-100 185</b>	<b>-102 495</b>	<b>-105 280</b>	<b>-107 623</b>	<b>-110 369</b>
<b>% change</b>	<b>0.7</b>	<b>3.8</b>	<b>2.3</b>	<b>2.7</b>	<b>2.2</b>	<b>2.6</b>
Contingency reserve	—	-150	-150	-150	-150	-250
<b>SURPLUS (DEFICIT)</b>	<b>3 644</b>	<b>1 999</b>	<b>2 454</b>	<b>2 818</b>	<b>3 222</b>	<b>3 619</b>
<b>BALANCED BUDGET ACT</b>						
Deposits of dedicated revenues in the Generations Fund	-1 453	-1 999	-2 454	-2 818	-3 222	-3 619
<b>BUDGETARY BALANCE<sup>(1)</sup></b>	<b>2 191</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

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

## DEBT REDUCTION

In 2015-2016, the gross debt decreased by \$610 million. This decrease was the first since the late 1950s. It is due to the combined effort of returning to a balanced budget and making deposits in the Generations Fund.

The government is maintaining its debt reduction objectives by continuing to make deposits in the Generations Fund. These deposits are projected to total \$2.0 billion in 2016-2017 and \$2.5 billion in 2017-2018.

## THE QUÉBEC GOVERNMENT'S FINANCING PROGRAM – 2016-2017 TO 2020-2021

(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
<b>GENERAL FUND</b>					
Net financial requirements <sup>(1)</sup>	1 914	1 477	762	734	2 367
Repayments of borrowings	9 815	5 294	7 636	7 711	6 639
Change in cash position <sup>(2)</sup>	-8 513	—	—	—	—
Transactions under the credit policy <sup>(3)</sup>	-867	—	—	—	—
Contributions to the Sinking Fund for borrowings	2 175	—	—	—	—
<b>GENERAL FUND</b>	<b>4 524</b>	<b>6 771</b>	<b>8 398</b>	<b>8 445</b>	<b>9 006</b>
<b>FINANCING FUND</b>	<b>8 500</b>	<b>7 500</b>	<b>9 000</b>	<b>7 000</b>	<b>6 000</b>
<b>FINANCEMENT-QUÉBEC</b>	<b>500</b>	<b>1 000</b>	<b>1 200</b>	<b>1 200</b>	<b>500</b>
<b>TOTAL</b>	<b>13 524<sup>(4)</sup></b>	<b>15 271</b>	<b>18 598</b>	<b>16 645</b>	<b>15 506</b>
Including: repayments of borrowings	14 466	10 693	15 819	13 453	10 429

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 mainly the non-receipt of revenues of the RPSF and of funds dedicated to employee future benefits.

(2) Corresponds to pre-financing carried out the previous year.

(3) 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.

(4) The financing program is less than repayments of borrowings primarily because of the level of pre-financing carried out in 2015-2016.

The government's financing program for 2016-2017 stands at \$13 524 million, which is \$454 million less than forecast in the March 2016 budget. By October 19, 2016, 91.0% of the financing program, i.e. \$12 306 million, had been realized.

In 2016-2017, the government has thus far carried out 34.5% of its borrowings on foreign markets:

- US\$2 900 million (CAN\$3 693 million);
- AU\$455 million (CAN\$468 million);
- HK\$540 million (CAN\$89 million).

In 2016-2017, 36.9% of the borrowings contracted thus far had a maturity of less than 10 years, 49.4% a maturity of 10 years and 13.7% a maturity of 30 years or more.

As at March 31, 2016, the average maturity of the debt was 12 years.

## CREDIT RATINGS

In June 2016, Standard & Poor's (S&P) and Fitch improved the outlook related to Québec's credit rating. S&P raised it from "stable" to "positive" and Fitch, from "negative" to "stable." These improvements are due to the return to a balanced budget.

### THE QUÉBEC GOVERNMENT'S CREDIT RATINGS

Credit rating agency	Credit rating	Outlook for 2015 →	Outlook for 2016
Moody's	Aa2	Stable	Stable
Standard & Poor's (S&P)	A+	Stable	Positive
DBRS	A (high)	Stable	Stable
Fitch	AA-	Negative	Stable
Japan Credit Rating Agency (JCR)	AA+	Stable	Stable