

ECONOMIC OUTLOOK

The Québec economy stagnated in 2023, and real GDP growth will remain modest in 2024 (+0.6%).

Economic conditions are expected to improve in the second half of 2024 due to a gradual decline in both inflation and interest rates. Real GDP growth will accelerate to 1.6% in 2025.

In 2023, monthly data showed that employment was fairly stable. As for the unemployment rate, it rose from 4.3% on average in 2022, a historic annual low, to 4.5% on average in 2023. The pace of hiring will continue to slow over the next few years, and the unemployment rate will stand at 5.2% in 2024 and 4.9% in 2025.

In Canada, real GDP growth will decelerate to 0.7% in 2024 before resuming at a more sustained pace in 2025 (+1.9%), while in the United States, real GDP is expected to rise by 1.5% in 2024 and 1.6% in 2025.

ECONOMIC OUTLOOK IN QUÉBEC

(annual average, percentage change, unless otherwise indicated)

	2023	2024	2025
Real GDP	0.2	0.6	1.6
Exports in real terms	2.3	2.0	2.2
Consumer price index	4.5	2.8	2.2
Housing starts (thousands of units)	38.9	42.7	43.7
Job creation (thousands)	103.3	43.8	28.0
Unemployment rate (per cent)	4.5	5.2	4.9
Canadian financial markets			
(average annual percentage rate, unless otherwise indicated)			
Overnight rate target	4.8	4.6	3.6
3-month Treasury bill	4.8	4.6	3.5
10-year bond	3.3	3.3	3.1
Canadian dollar (in U.S. cents)	74.2	75.5	77.6

QUÉBEC'S BUDGETARY SITUATION

The budgetary balance within the meaning of the *Balanced Budget Act*, after deposits of dedicated revenues in the Generations Fund, presents deficits of \$11.0 billion in 2024-2025 and \$3.9 billion in 2028-2029. The financial framework includes a contingency reserve of \$1.5 billion per year starting in 2024-2025, that is, \$7.5 billion over five years to offset the effects of a temporary decline in economic activity, should one occur.

A balanced budget within the meaning of the *Balanced Budget Act* will be achieved by 2029-2030 at the latest. Given the uncertain economic context, the government is adopting a gradual approach whereby it is taking immediate action and will table a plan to restore fiscal balance in 2025-2026.

Revenue amounts to \$150.3 billion in 2024-2025, with growth of 2.4%, rising to 4.2% by 2025-2026.

Expenditure amounts to \$157.6 billion in 2024-2025, with growth of 4.4%, which will reach 2.9% in 2025-2026.

FINANCIAL FRAMEWORK, 2023-2024 TO 2028-2029

(millions of dollars, unless otherwise indicated)

	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029	AAGR ⁽¹⁾
Own-source revenue	115 486	120 904	126 130	131 937	136 391	140 839	
% change	-0.1	4.7	4.3	4.6	3.4	3.3	4.0
Federal transfers	31 290	29 397	30 428	31 883	32 112	32 006	
% change ⁽²⁾	8.9	-6.0	3.5	4.8	0.7	-0.3	0.5
Total revenue	146 776	150 301	156 558	163 820	168 503	172 845	
% change	1.7	2.4	4.2	4.6	2.9	2.6	3.3
Portfolio expenditures	-141 347	-147 815	-152 492	-155 493	-159 140	-162 972	
% change	3.0	4.6	3.2	2.0	2.3	2.4	2.9
Debt service	-9 650	-9 762	-9 583	-10 117	-11 003	-11 642	
% change ⁽³⁾	-4.1	1.2	-1.8	5.6	8.8	5.8	3.8
Total expenditure	-150 997	-157 577	-162 075	-165 610	-170 143	-174 614	
% change	2.5	4.4	2.9	2.2	2.7	2.6	2.9
Gap to be bridged for achieving fiscal balance in operations	—	—	750	1 500	1 750	2 000	
Contingency reserve	—	-1 500	-1 500	-1 500	-1 500	-1 500	
SURPLUS (DEFICIT) FROM OPERATIONS	-4 221	-8 776	-6 267	-1 790	-1 390	-1 269	
BALANCED BUDGET ACT							
Deposits of dedicated revenues in the Generations Fund	-2 081	-2 222	-2 219	-2 419	-2 554	-2 671	
BUDGETARY BALANCE WITHIN THE MEANING OF THE BALANCED BUDGET ACT	-6 302	-10 998	-8 486	-4 209	-3 944	-3 940	

Note: Totals may not add due to rounding.

(1) Average annual growth rate, corresponding to the geometric mean over five years, from 2024-2025 to 2028-2029.

(2) The significant increase in federal transfers in 2023-2024 is due, in particular, to the additional amounts for health care announced by the federal government in February 2023 (nearly \$1.1 billion more in 2023-2024, including a non-recurring amount of \$447 million), the change in the value of the special Québec abatement (\$310 million) and the housing agreement (\$900 million over four years, including \$225 million in 2023-2024). The decrease in 2024-2025 is due, among other things, to a decline in equalization resulting from changes made to the program by the federal government in its 2023 budget.

(3) The -4.1% change in debt-servicing costs in 2023-2024 is due, in particular, to the non-recurrence of losses on the disposal of assets as part of the activities of the Sinking Fund for Government Borrowing in 2022-2023.

DEBT REDUCTION

As at March 31, 2024, Québec's net debt will stand at \$221.1 billion, or 39.0% of GDP. This is lower than the pre-pandemic level of 40.9% of GDP as at March 31, 2020. The government is staying the course on its objective to reduce the net debt burden to 30% of GDP by 2037-2038.¹

In 2024-2025, dedicated revenues in the Generations Fund will stand at \$2.2 billion. They will rise to \$2.7 billion in 2028-2029 and \$4.2 billion in 2037-2038.

FINANCING

For 2023-2024, the financing program amounts to \$21.5 billion, which is \$8.1 billion less than what was forecast in the March 2023 budget. The financing program will amount to \$36.5 billion in 2024-2025. For the four subsequent years, from 2025-2026 to 2028-2029, it will average \$28.4 billion per year.

GOVERNMENT'S FINANCING PROGRAM, 2023-2024 TO 2028-2029

(millions of dollars)

	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029
Net financial requirements ⁽¹⁾	14 767	28 472	22 591	17 540	17 409	16 208
Repayment of borrowings	13 663	16 904	17 155	14 025	13 086	14 254
Use of pre-financing	-2 233	—	—	—	—	—
Use of the Generations Fund to repay borrowings	-2 500	-4 400	-2 500	—	—	—
Withdrawal from the Accumulated Sick Leave Fund	-160	—	—	—	—	—
Change in cash position	295	—	—	—	—	—
Transactions under the credit policy ⁽²⁾	-372	—	—	—	—	—
Withdrawal from the Retirement Plans Sinking Fund	—	-2 500	-2 500	-3 500	-4 000	-4 000
Increase in the outstanding amount of Québec Treasury bills	-2 000	-2 000	-2 000	—	—	—
TOTAL	21 460	36 476	32 746	28 065	26 495	26 462

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

(1) The high level of net financial requirements in 2024-2025 is mainly due to the outflow of funds in 2024-2025 for expenditures tied to the renewal of collective agreements in 2023-2024, as well as to the budgetary deficit and higher net capital investments than in subsequent years.

(2) 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. The amounts transacted have no effect on the debt.

Thus far in 2023-2024, the government has contracted 34% of its borrowings on foreign markets, compared to an average of 27% for the last 10 years:

- US\$5 billion (CAD\$6 702 million);
- CHF390 million (CAD\$586 million).

In June 2023, Québec made a Green Bonds issue in the amount of CAD\$600 million.

Nine Green Bonds issues totalling CAD\$5.7 billion have been made since the program was launched in 2017.

To date, approximately 71% of the borrowings contracted in 2023-2024 had a maturity of 10 years or more, while the average for the last 10 years stood at 77%.

The average maturity of the debt was 12 years as at March 31, 2023.

CREDIT RATINGS

In 2023, all of the agencies confirmed Québec's 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)	AAA	Stable

Note: Québec's credit ratings as at February 23, 2024.

¹ The Act to reduce the debt and establish the Generations Fund provides that, for fiscal 2037-2038, the net debt presented in the government's financial statements may not exceed 32.5% of GDP. This ratio corresponds to the upper limit of a net debt reduction target of 30% of GDP announced in Budget Speech 2023-2024.

