

QUÉBEC'S ECONOMIC AND FINANCIAL SUMMARY

Tuesday, December 2, 2014

Update on Québec's Economic and Financial Situation

ECONOMIC OUTLOOK

Economic growth in Québec should reach 1.6% in 2014 and 1.9% in 2015. It was 1.0% in 2013.

The rise in real GDP in 2014 and 2015 will be underpinned by exports, which should increase by over 3% a year. Strong exports will stimulate growth in domestic demand.

Job creation is expected to firm up in 2015, given the positive performance of exports and continued steady consumption.

The unemployment rate is expected to drop to 7.7% in 2015, after averaging 7.8% in 2014.

QUÉBEC'S ECONOMIC OUTLOOK

(percentage change, unless otherwise indicated)

	2013	2014	2015
Real gross domestic product	1.0	1.6	1.9
Exports	0.4	3.1	3.5
Consumer price index	0.7	1.5	2.1
Housing starts (thousands of units)	37.8	38.3	36.2
Job creation (thousands)	47.8	-1.6	31.8
Unemployment rate (%)	7.6	7.8	7.7
Canadian financial markets (%)			
Target for the overnight rate	1.0	1.0	1.0
Canada Treasury bills – 3 months	1.0	0.9	1.1
Canada bonds – 10 years	2.3	2.3	2.8
Canadian dollar (U.S. cents)	96.6	90.5	86.2

IMPROVED MANAGEMENT OF PUBLIC FINANCES

The gradual recovery of the Québec economy enables the government to stay the course with the budgetary objectives in the previous budget, namely, reducing the deficit to \$2 350 million for 2014-2015, and restoring fiscal balance in 2015-2016 and subsequently maintaining it.

Nearly 85% of the measures to balance the budget in 2015-2016 have now been identified.

Consolidated expenditure growth will be 2.2% in 2014-2015 and 1.2% in 2015-2016. Revenue growth will be 2.9% and 4.1%, respectively, for these two years.

DEBT REDUCTION

The debt reduction objectives set forth in the *Act to reduce the debt and establish the Generations Fund* are maintained. For fiscal year 2025-2026, the gross debt may not exceed 45% of GDP and the debt representing accumulated deficits may not exceed 17% of GDP.

For 2014-2015, 2015-2016 and 2016-2017, dedicated Generations Fund revenues are expected to reach \$1 285 million, \$1 617 million and \$2 288 million, respectively.

QUÉBEC GOVERNMENT'S CONSOLIDATED FINANCIAL FRAMEWORK – FALL 2014

(millions of dollars)

	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
Consolidated revenue						
Own-source revenue	74 681	77 108	80 501	83 223	85 859	88 153
Federal transfers	18 550	18 805	19 249	19 717	20 357	20 873
Total consolidated revenue	93 231	95 913	99 750	102 940	106 216	109 026
Consolidated expenditure						
Expenditure	-84 336	-86 332	-87 058	-88 658	-90 647	-92 494
Debt service	-10 598	-10 646	-11 075	-11 594	-11 893	-12 295
Total consolidated expenditure	-94 934	-96 978	-98 133	-100 252	-102 540	-104 789
Contingency reserves	—	—	—	-400	-400	-400
SURPLUS (DEFICIT)	-1 703	-1 065	1 617	2 288	3 276	3 837
BALANCED BUDGET ACT						
Deposits of dedicated revenues in the Generations Fund	-1 121	-1 285	-1 617	-2 288	-2 826	-3 162
BUDGETARY BALANCE⁽¹⁾	-2 824	-2 350	—	—	450	675

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

THE GOVERNMENT'S FINANCING PROGRAM FROM 2014-2015 TO 2016-2017

(millions of dollars)

	2014-2015 ^F					2015-2016 ^F	2016-2017 ^F
	June 2014 budget	Revisions	Revised program	Contracted ⁽¹⁾	To be contracted		
GENERAL FUND							
Net financial requirements ^{(2),(3)}	4 165	9	4 174			1 996	717
Repayments of borrowings	7 701	274	7 975			7 082	10 533
Change in cash position ⁽⁴⁾	-5 610	-195	-5 805			—	—
Deposits in the Retirement Plans Sinking Fund ⁽⁵⁾	—	500	500			—	—
Transactions under the credit policy ⁽⁶⁾	-55	142	87			—	—
Additional contributions to the Sinking Fund for borrowings	300	—	300			—	—
GENERAL FUND	6 501	730	7 231			9 078	11 250
FINANCING FUND	7 533	-500	7 033			8 703	6 998
Subtotal – General fund and financing fund	14 034	230	14 264	13 476	788	17 781	18 248
FINANCEMENT-QUÉBEC	1 000	—	1 000	—	1 000	1 000	1 000
TOTAL	15 034	230	15 264	13 476	1 788	18 781	19 248
Including: repayments of borrowings ⁽⁷⁾	12 363	320	12 683			10 215	14 898

F: Forecasts.

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

(1) Borrowings contracted or negotiated as of November 21, 2014.

(2) These amounts exclude the net financial requirements of consolidated entities funded through the financing fund.

(3) Net financial requirements are adjusted to take into account the non-receipt of revenues of the RPSF and of funds dedicated to future employee benefits.

(4) Corresponds to pre-financing for the previous year.

(5) Deposits in the RPSF are optional. They are recorded in the financing program only once they are made.

(6) 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.

(7) These amounts include repayments of borrowings, for 2014-2015 to 2016-2017, of the general fund (\$7 975 million, \$7 082 million and \$10 533 million), the financing fund (\$1 197 million, \$1 253 million and \$1 257 million) and Financement-Québec (\$3 511 million, \$1 880 million and \$3 108 million).

The government borrows at the lowest possible cost, by relying on a strategy for diversifying sources of funding by market, financial instrument and maturity.

In 2014-2015, the government has carried out to date 19.4% of its borrowings on foreign markets:

- one issue of US\$1 600 million (CAN\$1 788 million) in October 2014;
- three issues totalling AUS\$400 million (CAN\$387 million) in September 2014;
- one issue of CHF\$375 million (CAN\$433 million) in November 2014.

For borrowings carried out to date in 2014-2015, 20.9% had a maturity of less than 10 years, 50.7% had a maturity of 10 years and 28.4% had a maturity of 30 years or more.

The government carried out pre-financing of \$5 805 million in 2013-2014. The average of the last 10 years was \$4 452 million a year.

The financing program amounts to \$15 264 million in 2014-2015, and should amount to \$18 781 million in 2015-2016 and \$19 248 million in 2016-2017.

As at March 31, 2014, the average maturity of the debt was a little over 11 years.

QUÉBEC GOVERNMENT'S CREDIT RATINGS

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

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