QUEBEC FALL ECONOMIC UPDATE 2018

December 3, 2018

New government stays course

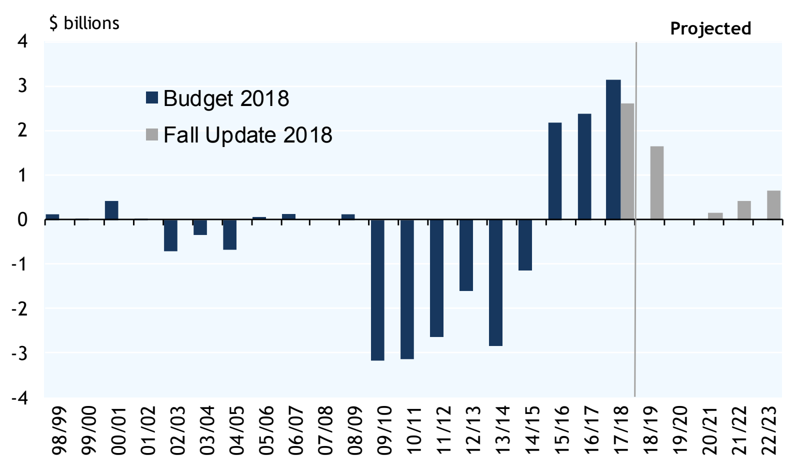
- A budget surplus of $1.7 billion is projected for 2018-2019.
- The update includes tax breaks for families, seniors and business worth $3.3 billion of five years, including accelerated capital depreciation.
- $8 billion from the Generations Fund will be used to repay financial market debt by spring 2019.
- The earlier objective to reduce the gross debt burden to 45% of GDP by 2025-2026 will be achieved by 2020-2021.

Quebec Finance Minister Eric Girard today offered a first glimpse of his newly elected Coalition Avenir Quebec government's direction for the provincial finances—and it's not much of a departure from what we had become accustomed to from the previous Liberal administration. Black ink and prudent spending remain the order of the day. The budget update presented the first steps of this new government in fulfilling its election promises. It gave money back to families, seniors and businesses to the tune of $3.3 billion over five years. Yet this didn't jeopardize the budget balance. In fact, Minister Girard now expects a $1.7 billion surplus this fiscal year. That's up from zero in the Liberal's March 2018 budget (in line with monthly tracking since the budget that indicated the numbers were coming in quite strong).

Fiscal projections were largely unchanged for the next two years, showing a zero deficit in 2019-2020 (unchanged) and a small $0.2 billion surplus in 2020-2021 (a slight upward revision from zero).

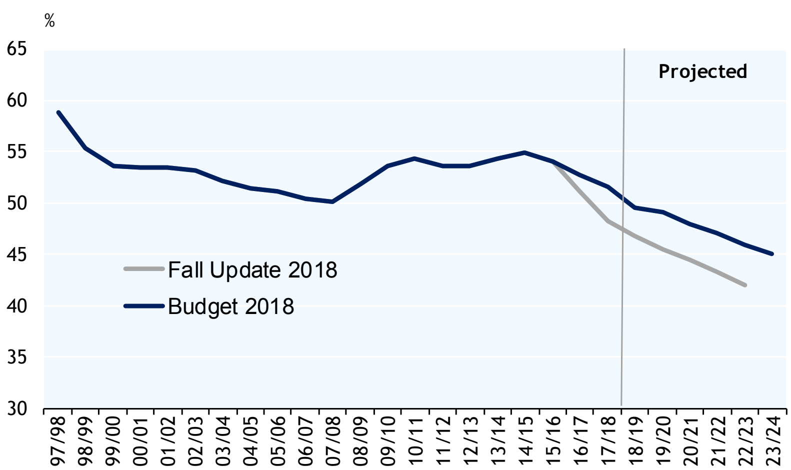
Importantly, Minister Girard announced that his government will accelerate the process of paying down the provincial debt initiated by the previous administration. The CAQ government will use $8 billion from the Generations Fund (which stood at $12.8 billion at March 31, 2018) to repay financial market debt by next spring and an additional $2 billion by spring 2020. The budget update estimates that the government will save an additional $332 million in debt service payments over five years relative to the previous schedule of paying back $2 billion per year between 2018-2019

Quebec budget balance



Source: Ministère des Finances du Québec, RBC Economics Research

Gross Debt as % of GDP



Source: Ministère des Finances du Québec, RBC Economics Research

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and 2022-2023.

Perhaps even more noteworthy is the fact that the government is now in a position to beat the debt targets set by the previous administration. Today's update shows that the objective to reduce the gross debt burden to 45% of GDP by 2025-2026 will be achieved by 2020-2021. This is testament to the remarkable turnaround in Quebec's fiscal position over the past five years. We're glad to see that the new government also is committed to address the province's high debt level.

Economic growth assumptions

	2017	2018	2019	2020	2021	2022
Real GDP growth (%)						
Fall update 2018	**2.8**	**2.5**	**1.8**	**1.5**	**1.3**	**1.3**
Budget 2018	3.0	2.1	1.7	1.5	1.3	1.3
RBC	3.0	2.4	1.8	-	-	-
Nominal GDP growth (%)						
Fall update 2018	**5.0**	**4.4**	**3.5**	**3.2**	**3.0**	**3.0**
Budget 2018	4.4	3.5	3.3	3.2	3.0	3.0
RBC	5.1	4.2	3.8	-	-	-

Source: Ministère des Finances du Québec, RBC Economics Research

Net debt is projected to fall from 42.3% at the end of 2017-2018 to 40.2% at the end 2018-2019, and continue to trend lower to 35.2% by 2022-2023.

The government's financing program for 2018-2019 amounts to $12.3 billion, which is $1.1 billion less than forecast in the March 2018 budget.

As for the tax measures announced today, $1.7 billion of them over five years targeted families and seniors. They include an increase in the family allowance for the second and third child, a freeze in the cost of subsidized childcare and a new tax credit to support seniors aged 70 and older. There were also $1.6 billion worth of measures over five years targeting businesses, including accelerated depreciation for certain types of equipment (e.g. computer hardware, manufacturing and processing equipment, clean energy generation equipment) as well as intellectual property.

Quebec's consolidated fiscal plan

($ millions)	Forecast					
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
General Fund - total budgetary revenues	82,078	84,431	87,064	89,823	92,541	95,505
Own-source revenue	57,346	59,208	60,604	62,443	64,470	66,641
Government enterprises	4,660	4,183	4,010	4,153	4,334	4,587
Federal transfers	20,072	21,040	22,450	23,227	23,737	24,277
General Fund - total budgetary expenditures	79,576	83,368	86,440	89,068	91,546	94,239
Program spending	72,428	76,490	79,683	82,297	84,912	87,568
Interest on public debt	7,148	6,878	6,757	6,771	6,634	6,671
Net results of consolidated entities	2,413	3,438	1,975	2,182	2,458	2,729
Contingency reserve	-	-	100	100	100	100
Surplus/(Deficit)	4,915	4,501	2,499	2,837	3,353	3,895
Payments to the Generations Fund	(2,293)	(2,851)	(2,499)	(2,687)	(2,953)	(3,245)
Budgetary balance for the purposes of the Balanced Budget Act	**2,622**	**1,650**	**-**	**150**	**400**	**650**

Source: Quebec Ministry of Finance, RBC Economics Research