

QUEBEC ECONOMIC PLAN UPDATE 2016

October 25, 2016

Budget balance and debt reduction on track

Today, Quebec Finance Minister Carlos Leitao released the province's Economic Plan Update (formerly known as Update of Quebec's Economic and Fiscal Situation) which confirmed that the Quebec government remains on track to balance its budget in FY2016/17 and maintain a zero deficit the following two fiscal years.

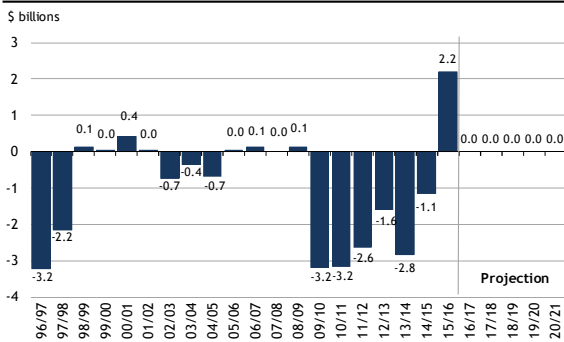
Perhaps more notable was the concurrent release of Quebec's provincial accounts for FY2015/16 which showed a larger-than-expected budget surplus of \$2.2 billion last year (both Budgets 2015 and 2016 projected a zero balance, although more recent interim estimates hinted at a \$1.7 billion surplus). This stronger result reflected mainly higher-than-projected own-source revenues—including personal income tax and corporate taxes—adding \$839 million (on a consolidated basis) and lower-than-projected program spending saving the government \$829 million, as well as the removal of the (unused) contingency reserve (\$300 million).

Last year's surplus had a beneficial effect on Quebec's debt, which fell in absolute terms on both a gross and net bases on March 31, 2016, from a year earlier. Minister Leitao noted that the \$610 million decline of Quebec's gross debt was the first since 1959.

Last year's surplus also gave the Quebec government increased flexibility for the remainder of its fiscal plan. Indeed, the government saw it as an opportunity to announce a number of measures. Today's Economic Plan Update contained new 'investments' totalling \$288 million in FY2016/17 and \$1.1 billion in FY2017/18. These measures include additional spending in health care (\$100 million this year and \$300 million next year), regional development (\$100 million in both years), and education (\$35 million this year and \$110 million next year). The government also announced that it will completely eliminate the health contribution on January 1, 2017—two years ahead of schedule. This measure will cost the government \$53 million this year and \$179 million next year in reduced revenue. Finally, the government boosted its public infrastructure spending plan by \$400 million to \$10.0 billion in FY2017/18.

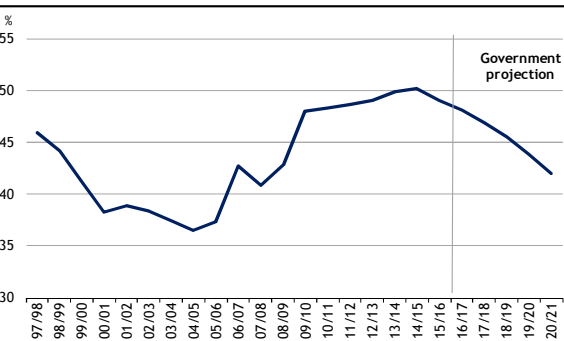
The journey to rein in its deficit and restore its fiscal position has been long and arduous for the Quebec government; however, the numbers released today clearly attest that the balanced budget 'mission' has been accomplished. The government's next mission—reducing its debt load—no doubt will present its share of challenges in the years ahead, requiring steadfast resolve to reach a successful conclusion. That being said, we are heartened to see noticeable progress on this front as well, which bodes well for the government meeting its long-standing debt-to-GDP targets by FY2025-26.

Quebec budget balance



Source: Quebec Ministry of Finance, RBC Economics Research

Net debt as % of GDP



Source: Quebec Ministry of Finance, RBC Economics Research

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Economic growth assumptions

	2014	2015	2016	2017	2018	2019	2020
Real GDP growth (%)							
October 2016 Update	1.5	1.1	1.4	1.5	1.6	1.5	1.4
RBC	1.5	1.1	1.3	1.6	-	-	-
Nominal GDP growth (%)							
October 2016 Update	2.5	2.0	2.6	3.3	3.3	3.3	3.1
RBC	2.5	2.1	3.0	3.3	-	-	-

Source: Ministère des Finances du Québec, RBC Economics Research

Quebec's consolidated fiscal plan

(\$ millions)	Actual	Forecast				
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
General Fund - total budgetary revenues	74,436	76,407	78,755	80,792	82,905	85,452
Own-source revenue	52,486	53,780	55,661	57,529	59,143	60,808
Federal transfers	17,035	18,224	18,921	19,096	19,502	20,296
General Fund - total budgetary expenditures	73,586	76,197	78,367	80,284	82,305	84,446
Program spending	65,631	68,238	70,406	72,339	74,322	76,368
Interest on public debt	7,955	7,959	7,961	7,945	7,983	8,078
Net results of consolidated entities	2,794	1,939	2,216	2,460	2,772	2,863
Contingency reserve		150	150	150	150	250
Surplus/(Deficit)	3,644	1,999	2,454	2,818	3,222	3,619
Payments to the Generations Fund	(1,453)	(1,999)	(2,454)	(2,818)	(3,222)	(3,619)
Budgetary balance for the purposes of the Balanced Budget Act	2,191	-	-	-	-	-
	-	-	-	-	-	-

Source: Quebec Ministry of Finance, RBC Economics Research

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