

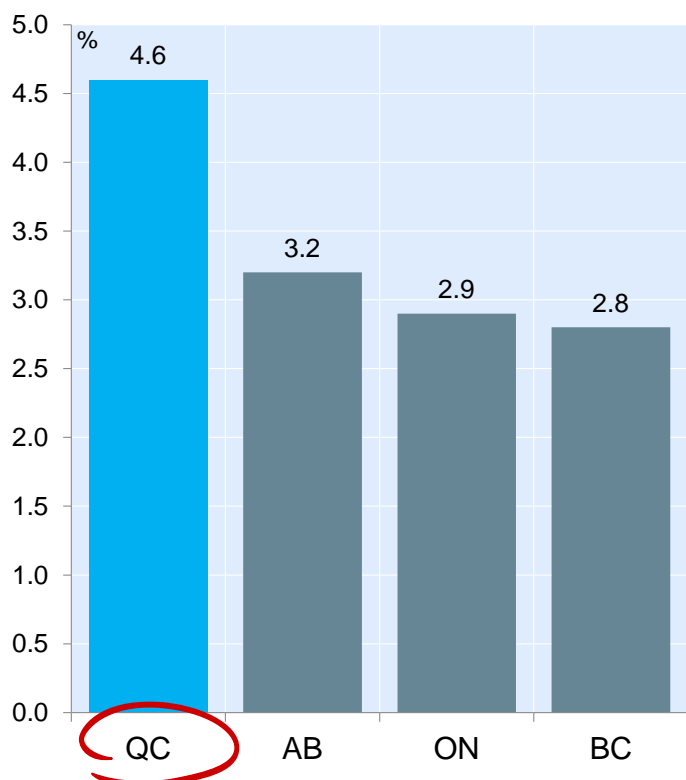
## Canada Watch

By Stéfane Marion

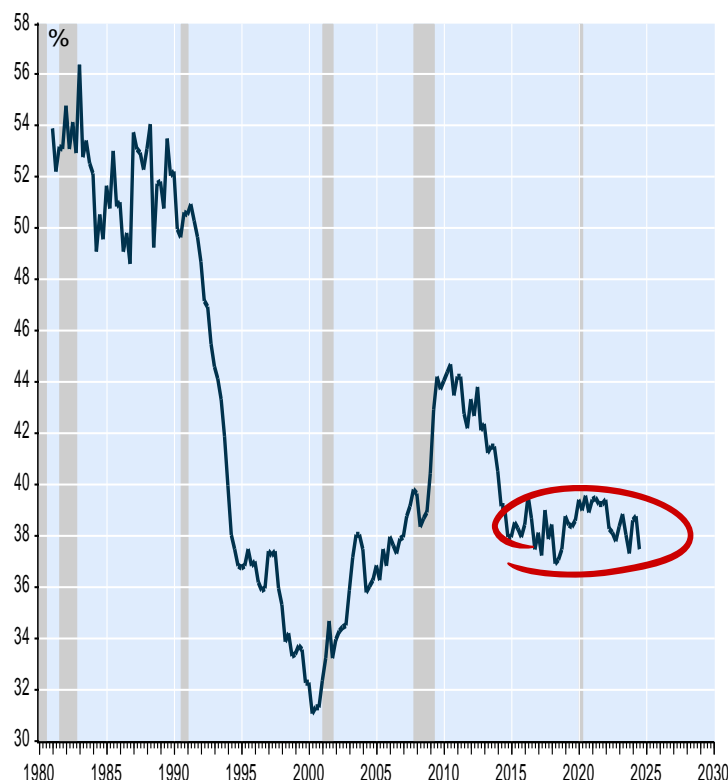
S&P Global surprised most market observers last week by downgrading the Province of Quebec's credit rating to A+ from AA-. S&P Global surprised most market observers last week by downgrading Quebec's credit rating to A+ from AA-. The agency cited slower population growth, rising employee compensation costs, and weaker revenues tied to trade uncertainty from tariffs. Quebec's vulnerability is compounded by its reliance on manufacturing—the highest as a share of GDP among the four largest provinces. S&P noted that a rating upgrade over the next two years would require a marked improvement in budgetary performance. Productivity gains could help, the agency added, but such progress would likely take time. Fortunately, the IMF has identified one clear path to faster productivity and economic growth: eliminating interprovincial trade barriers. As today's Hot Chart highlights, this could lift Quebec's real GDP per capita by 4.6 percentage points—the largest gain among major provinces. It would also help diversify Quebec's trade, as its share of exports to other provinces has fallen to just 38%. We are encouraged that U.S. trade tensions have prompted Ottawa and the provinces to seriously consider dismantling these barriers, which carry a tariff-equivalent cost of 21%. Credit agencies would surely take note if Quebec took the lead in ending the absurdity of internal trade fragmentation.

### Quebec: A shorter road to a credit rating upgrade?

Change in real GDP per capita resulting from the elimination of non-geographic trade barriers for goods



Share of Quebec's exports to other provinces



NBC Economics and Strategy (data via [IMF](#) and ISQ)



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