

OCTOBER 2016 UPDATE

HIGHLIGHTS

THE QUÉBEC **ECONOMIC PLAN**

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HIGHLIGHTS

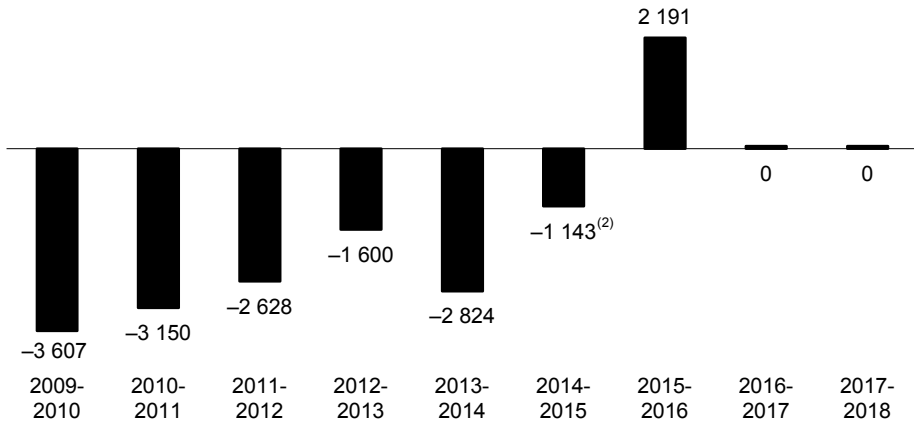
The October 2016 Update of the Québec Economic Plan is an opportunity for the government to report on its economic and financial initiatives. The update reflects the latest information on the economic situation and the government’s revenue and expenditure.¹

In particular, it:

- confirms a balanced budget as at March 31, 2016. A \$2.2-billion surplus was recorded in the Public Accounts 2015-2016;
- includes an enhancement of the Québec Economic Plan. In view of the improved financial situation, the government is:
 - strengthening the funding of public services through additional investments in health, education and infrastructure to spur economic and regional development,
 - easing the tax burden on taxpayers by eliminating the health contribution completely on January 1, 2017.
- continues reducing the debt.

CHART 1

Budgetary balance⁽¹⁾ from 2009-2010 to 2017-2018
(millions of dollars)



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

(2) Budgetary balance excluding the impact of accounting changes. The budgetary balance including accounting changes totalling \$418 million is a deficit of \$725 million.

¹ Unless otherwise indicated, this document is based on the data available as at October 6, 2016.

2015-2016: A \$2.2 BILLION SURPLUS RECORDED

The results published in the Public Accounts 2015-2016 confirm the achievement of a balanced budget. A \$2 191-million surplus was recorded for 2015-2016. The improvement relative to the March 2016 forecasts reflects the economy's good performance and stems mostly from one-off, or non-recurring, factors. This is attributable to:

- higher-than-expected own-source revenue owing, in particular, to the completion of processing of personal income tax returns and more robust corporate results recorded at fiscal year-end;
- lower spending as a result of one-off factors; for example, non-utilization of the Contingency Fund, sums not spent because of strike days, and one-off savings of certain government funds and bodies, such as school board surpluses;
- non-utilization of the contingency reserve.

TABLE 1

Actual results in 2015-2016 relative to Budget 2016-2017 (millions of dollars)

	2015-2016		Actual results
	Budget 2016-2017	Adjustments	
Consolidated revenue			
Own-source revenue excluding government enterprises	75 370	839	76 209
Government enterprises	4 961	52	5 013
Federal transfers	19 089	-188	18 901
Total – Consolidated revenue	99 420	703	100 123
% change	3.6		4.4
Consolidated expenditure			
Program spending	-66 460	829	-65 631
Other consolidated expenditure ⁽¹⁾	-21 174	335	-20 839
Mission expenditures	-87 634	1 164	-86 470
% change	2.5		1.1
Debt service	-10 055	46	-10 009
Total – Consolidated expenditure	-97 689	1 210	-96 479
% change	2.0		0.7
Contingency reserve	-300	300	—
SURPLUS (DEFICIT)	1 431	2 213	3 644
BALANCED BUDGET ACT			
Deposits of dedicated revenues in the Generations Fund	-1 431	-22	-1 453
BUDGETARY BALANCE⁽²⁾	—	2 191	2 191

(1) Including consolidation adjustments.

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

A BALANCED BUDGET IN 2016-2017 AND SUBSEQUENT YEARS

The government's consolidated financial framework presents a balanced budget in 2016-2017 and for subsequent years.

Overall, expenditure will remain equal to revenue.

- In 2016-2017, consolidated revenue will be \$102.3 billion, for 2.2% growth, and consolidated expenditure will stand at \$100.2 billion, for 3.8% growth.
- For 2017-2018, consolidated revenue growth will be 2.7% and consolidated expenditure growth, 2.3%.

The government will keep the budget balanced while continuing to make deposits of dedicated revenues in the Generations Fund. Deposits will total \$2.0 billion in 2016-2017 and \$2.5 billion in 2017-2018.

TABLE 2

Consolidated summary financial framework – October 2016 Update (millions of dollars)

	2016-2017	2017-2018	2018-2019
Own-source revenue	82 070	84 271	86 800
% change	1.0	2.7	3.0
Federal transfers	20 264	20 828	21 448
% change	7.2	2.8	3.0
Consolidated revenue	102 334	105 099	108 248
% change	2.2	2.7	3.0
Mission expenditures	-90 138	-92 346	-94 904
% change	4.2	2.4	2.8
Debt service	-10 047	-10 149	-10 376
% change	0.4	1.0	2.2
Consolidated expenditure	-100 185	-102 495	-105 280
% change	3.8	2.3	2.7
Contingency reserve	-150	-150	-150
SURPLUS (DEFICIT)	1 999	2 454	2 818
BALANCED BUDGET ACT			
Deposits of dedicated revenues in the Generations Fund	-1 999	-2 454	-2 818
BUDGETARY BALANCE⁽¹⁾	—	—	—

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

ACCELERATION OF ECONOMIC GROWTH IN QUÉBEC

Québec is enjoying favourable economic conditions:

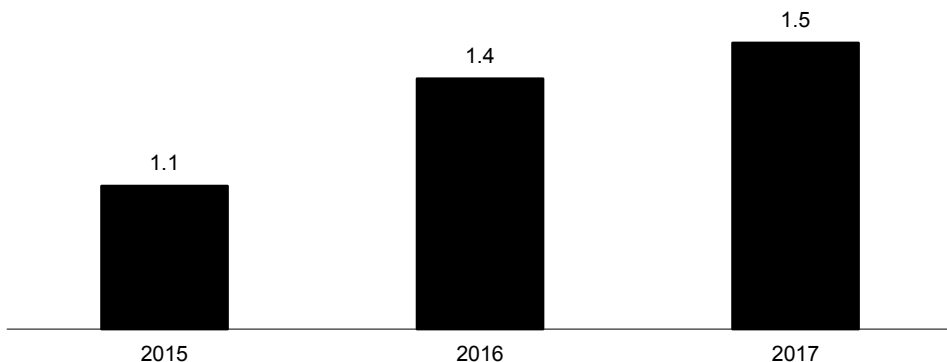
- sound public finances are bolstering consumer and business confidence;
 - The Index of Consumer Confidence, measured by the Conference Board of Canada, is at its highest level since 2007.
 - For the first time in 16 years, Québec businesses are the most confident among all the provinces, according to the Canadian Federation of Independent Business.
- job creation is continuing, particularly full-time employment and private-sector jobs;
 - In the first nine months of 2016, Québec created the second-highest number of full-time jobs of all the provinces.
- low oil prices benefit consumers and the Québec manufacturing sector, while the low dollar boosts exports.

These conditions will translate to an acceleration in economic growth in Québec. Following 1.1% growth in real gross domestic product (GDP) in 2015, the October 2016 Update of the Québec Economic Plan forecasts economic growth of 1.4% in 2016 and 1.5% in 2017.

- This means that 2016 will be the seventh consecutive year of economic growth since the 2008-2009 recession.

CHART 2

Economic growth in Québec (real GDP, percentage change)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

❑ Confidence in the Québec economy is increasing

Several indicators show that consumer and investor confidence is getting stronger.

Job creation continued in 2016, with job gains mainly in full-time employment and the private sector.

— Compared to the same period in 2015, 44 200 full-time jobs and 30 500 jobs in the private sector were created in the first nine months of 2016.

The robust job creation has fuelled consumer spending.

— In the first two quarters of 2016, household consumption expenditure rose by 1.8% in real terms, outstripping GDP growth.

The strong labour market was reflected in consumer confidence.

— The Index of Consumer Confidence, measured by the Conference Board of Canada, stood at 129.0 points in Québec in September, a record high since 2007.

Furthermore, responsible management of public finances and the Québec government's sound financial position boosted business confidence.

— In September 2016, Québec businesses were the most optimistic among the provinces for the first time in 16 years, according to the Canadian Federation of Independent Business' Business Barometer Index.

Moreover, the optimism of small businesses spurred an upturn in business investment.

— Non-residential business investment in real terms was 0.5% higher in the second quarter of 2016 than in the previous quarter.

TABLE 3

Change in selected economic indicators in Québec (percentage change in real terms, unless otherwise indicated)

	2016			2015	2016 ⁽¹⁾
	Q1	Q2	Q3 ⁽¹⁾		
Real GDP	0.7	0.2	n/a	1.1	1.3
Creation of full-time jobs (thousands)	14.6	19.2	0.7	45.0	44.2
Household consumption	0.8	0.2	n/a	1.3	1.8
Consumer confidence (points, 2014 = 100)	94.3	115.6	127.8	102.8	112.6
Business confidence (points)	64.2	61.4	65.4	57.9	63.6

(1) Cumulative for available periods.

Sources: Institut de la statistique du Québec, Statistics Canada, Conference Board of Canada and Canadian Federation of Independent Business.

Good employment performance since May 2014

Québec's labour market has performed well since May 2014. Statistics Canada's monthly Labour Force Survey shows that 127 800 jobs have been created in Québec since May 2014, including:

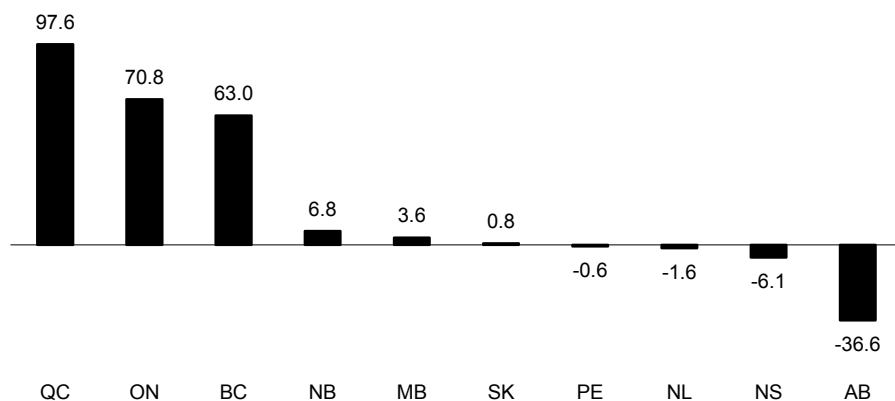
- 125 200 full-time jobs, 98% of the total job creation;
- 97 600 jobs in the private sector, 76% of the total job creation.

Québec stands apart from the rest of Canada in that it contributed nearly 50% of the private-sector jobs created in Canada as a whole.

- Québec ranks first among the provinces, ahead of Ontario and British Columbia, in the number of jobs created in the private sector.

Private-sector jobs created since 2014, Canada

(thousands)



Source: Statistics Canada.

QUÉBEC ECONOMIC PLAN: ADDITIONAL INVESTMENTS OF \$2.2 BILLION IN SERVICES

The improvement in Québec's financial situation enables the government to announce additional investments of over \$900 million in 2017-2018, reaching \$2.2 billion within the next three years.

In particular, the government is announcing:

- an immediate increase of over \$500 million over a full year in funding for new public services:
 - \$300 million for health,
 - \$110 million for education,
 - \$100 million for regional economic development;
- \$400 million more for public infrastructure investment.

In addition, the government is announcing that the health contribution will be completely eliminated ahead of schedule, on January 1, 2017, for another \$253 million.

- Overall, elimination of the health contribution will reduce the tax burden on Québec taxpayers by \$759 million a year.

TABLE 4

Additional investments from 2016-2017 to 2019-2020 – October 2016 Update (millions of dollars)

	2016-2017	2017-2018	Cumulative ⁽¹⁾
Strengthening of funding for public services			
– Health and social services	100	300	1 000
– Education and higher education	35	110	365
– Regional economic development	100	100	400
Increase in the Québec Infrastructure Plan	—	400	400
Subtotal	235	910	2 165
Complete elimination of the health contribution as of January 1, 2017	53	179	253
TOTAL	288	1 089	2 418

(1) From 2016-2017 to 2019-2020.

\$300 MILLION MORE PER YEAR FOR HEALTH

The government has undertaken a major reform aimed at improved access to health care and social services and better organization of these services.

The October 2016 Update provides for immediate additional investments of \$300 million on an annual basis in health and social services. These investments will go to improving access to, and the quality of, health and social services, particularly in the following areas:

- home care;
 - Increase the services available to persons suffering a loss of functional independence.
- residential and long-term care centres;
 - Improve residential standards and the care provided in residential and long-term care centres (CHSLDs).
- intermediate care.
 - Improve the offering of intermediate care services.

With these additional investments, spending growth in the Santé et Services sociaux portfolio will reach 3.0% in 2017-2018, an increase of 0.6 percentage point over Budget 2016-2017.

TABLE 5

Santé et Services sociaux – Program spending (millions of dollars)

	2015-2016	2016-2017		2017-2018			
	Actual results	Budget 2016-2017	Change	October 2016	Budget 2016-2017	Change	October 2016
Health and social services	32 760	33 739	100	33 839	34 564	300	34 864
% change	1.6	3.0 ⁽¹⁾		3.3 ⁽¹⁾	2.4		3.0

(1) Excluding transfers from the provision for francization of the Ministère de l'Immigration, de la Diversité et de l'Inclusion.

\$110 MILLION MORE PER YEAR FOR EDUCATION AND HIGHER EDUCATION

To build on the efforts made, the October 2016 Update provides for additional investments of \$35 million in 2016-2017 and \$110 million in 2017-2018 and 2018-2019 to add new education and higher education services.

For example, these new investments will be aimed at:

- increasing academic success for elementary and secondary students;
- continuing efforts to tailor vocational training to labour market needs;
- improving continuing education programs by offering short course skills training aligned with regional characteristics and issues;
- developing bridging programs for professionals trained abroad and facilitating recognition of skills and experience for faster integration into the labour market;
- supporting the college and university networks in developing measures to assist special needs students;
- supporting the promotion, recruitment and retention of foreign students in the higher education networks;
- improving funding for Québec sports federations and ensuring greater predictability.

These additional investments will bring spending growth for the Éducation et Enseignement supérieur portfolio to 3.5% in 2017-2018, which represents an increase of 0.5 percentage point relative to Budget 2016-2017.

TABLE 6

Éducation et Enseignement supérieur – Program spending (millions of dollars)

	2015-2016	2016-2017			2017-2018		
	Actual results	Budget 2016-2017	Change	October 2016	Budget 2016-2017	Change	October 2016
Education and higher education	16 603	17 245	35	17 280	17 769	110	17 879
% change	0.8 ⁽¹⁾	4.4 ⁽²⁾		4.6 ⁽²⁾	3.0		3.5

(1) Excluding the impact of strike days.

(2) Excluding transfers from the provision for francization of the Ministère de l'Immigration, de la Diversité et de l'Inclusion.

\$100 MILLION MORE PER YEAR TO SUPPORT REGIONAL ECONOMIC DEVELOPMENT

The October 2016 Update provides for immediate additional investments of \$100 million annually to support regional economic development.

The additional investments will total \$400 million over four years.

TABLE 7

Support for regional economic development (millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	Total
Additional investments	100	100	100	100	400

Through these new amounts, the government will offer the regions, including the Capitale-Nationale region and the region of the metropolis, further financial means to support their economic development. The \$100 million made available as of 2016-2017 will enhance the government's actions to foster the regions' outreach and the carrying out of economic development projects in Québec's regions.

In subsequent years, the amounts will enable the government to, among other things, put in place two priority measures for the regions:

- specific support for the regions to take charge of their economic development without the creation of new administrative structures;
- encourage regional tourism, particularly through festivals and events.

The other regional economic development initiatives to be funded through these new amounts will be announced soon by the government.

ADDITIONAL INVESTMENTS OF \$400 MILLION IN PUBLIC INFRASTRUCTURE

To meet Québec’s needs respecting quality public infrastructure, the government will maintain a high level of public capital investment under the Québec Infrastructure Plan (QIP).

- Capital investments are expected to be \$10.0 billion in 2017-2018, an increase of \$400 million over the investments forecast in March 2016.

TABLE 8

Level of investment under the QIP in 2017-2018

(billions of dollars)

	2017-2018
Investments planned under the 2016-2026 QIP	9.6
Increase in investments	0.4
Investments planned under the 2017-2027 QIP	10.0

2017-2027 Québec Infrastructure Plan

The government is announcing investments of \$89.1 billion under the 2017-2027 QIP. These investments will be earmarked first and foremost for the replacement of outdated infrastructure, economic development projects and sports infrastructure.

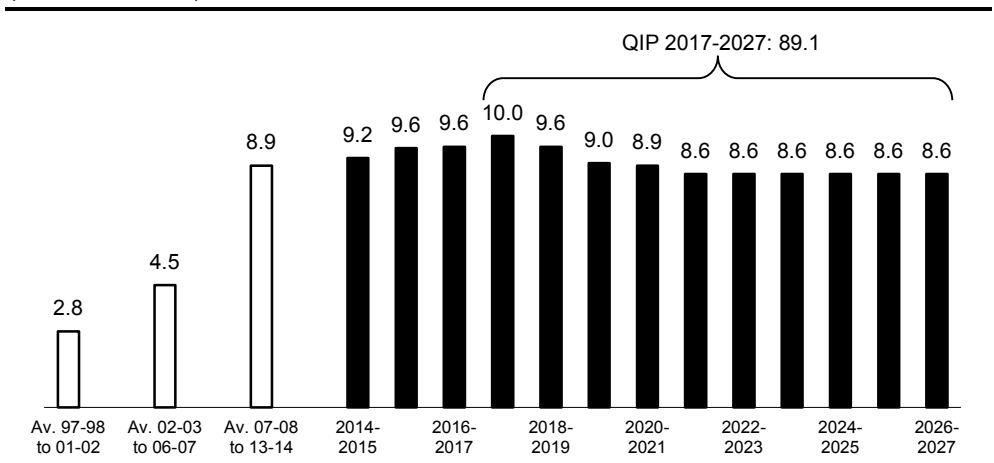
- In this context, the Sports and Physical Activity Development Fund will see its envelope increased.

The government is therefore confirming that, to meet Québec’s needs, high levels of capital investment will be maintained, without losing sight of taxpayers’ ability to pay and the debt reduction objectives.

CHART 3

Investments under the 2017-2027 Québec Infrastructure Plan

(billions of dollars)



COMPLETE ELIMINATION OF THE HEALTH CONTRIBUTION AS OF JANUARY 1, 2017

The October 2016 Update of the Québec Economic Plan eases the tax burden on individuals by completely eliminating the health contribution as of January 1, 2017, two years ahead of schedule.

A total of nearly 4.5 million Québec taxpayers will see their tax burden reduced by \$759 million annually.

This measure will especially ease the tax burden on low- and middle-income households. These households alone will benefit from 83% of the total tax relief stemming from the elimination of the health contribution.

TABLE 9

Tax relief stemming from the elimination of the health contribution

Net income	Number of taxpayers affected	Maximum reduction granted (\$)	Tax relief (\$million)
\$18 705 to \$41 560 ⁽¹⁾	2 114 189	100	196
\$41 560 to \$135 060	2 197 338	200	433
Over \$135 060	148 782	1 000	130
TOTAL	4 460 309	—	759

(1) Taxpayers with income below \$18 705 are exempt from the health contribution.

\$610-MILLION REDUCTION IN THE GROSS DEBT IN 2015-2016

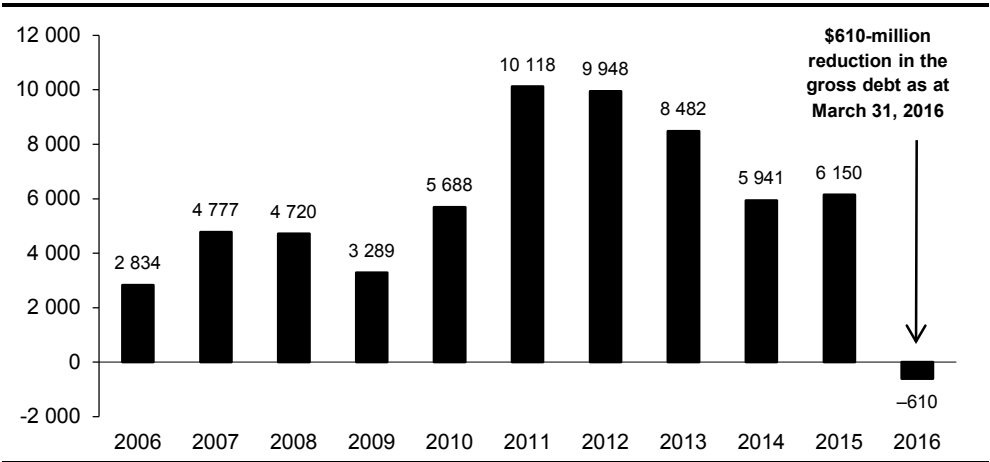
As at March 31, 2016, the gross debt was down in absolute terms. The gross debt recorded as at March 31, 2016 was \$610 million lower than the level recorded at March 31, 2015 and stood at \$203.3 billion.

A similar situation had not been seen since 1959.

This outcome results from a combination of restored fiscal balance and the deposits made in the Generations Fund.

CHART 4

Annual change in Québec’s gross debt as at March 31
(millions of dollars)



The gross debt will rise over the coming years, particularly because of capital investments, but its weight in the economy will continue to decline.

TABLE 10

Gross debt of the Québec government as at March 31
(millions of dollars)

	2015	2016	2017	2018	2019	2020	2021
GROSS DEBT	203 957	203 347	208 061	211 838	213 619	213 770	214 138
<i>% of GDP</i>	55.1	53.8	53.7	52.9	51.6	50.0	48.6

