Update

ON QUÉBEC'S ECONOMIC AND FINANCIAL SITUATION

FALL 2010

DECEMBER 2, 2010

Finances Québec

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TABLE OF CONTENTS

HIGHLIGHTS

Today, the government is releasing its fall update on the economy and public finances. Compared to the forecast of last March, Québec, like its trading partners, enjoyed higher economic growth late in 2009 and in the beginning of 2010, resulting in an improvement to the financial situation for the year ended March 31, 2010.

For 2010-2011 and subsequent years, this improvement is more moderate because of the slowdown of the U.S. and Canadian economies in recent months. In addition, risks over the strength of the recovery in the developed economies remain high.

The final results for 2009-2010 show that the budget deficit amounts to $3.2 billion, an improvement of almost $1.1 billion compared to what was expected last March.

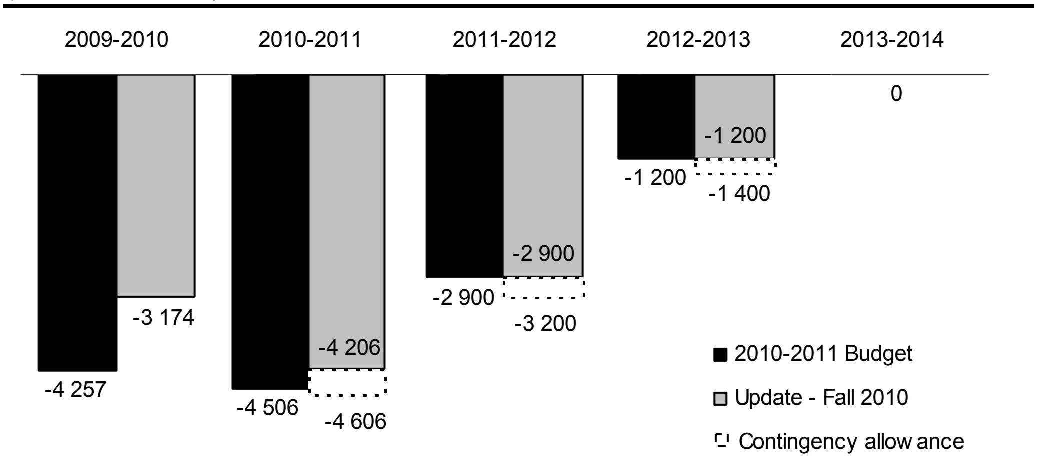
As a measure of prudence in view of the economic uncertainty in the advanced economies, the government is raising its contingency allowance by $100 million, bringing it to $400 million in 2010-2011. In addition, similar allowances of $300 million and $200 million in 2011-2012 and 2012-2013, respectively, are incorporated into the financial framework.

— Accordingly, the forecast deficits should stand at $4.6 billion in 2010-2011, $3.2 billion in 2011-2012 and $1.4 billion in 2012-2013. The budget is forecast to be balanced in 2013-2014.

Taking these adjustments into account, nearly $500 million less will be added to the debt from now until March 31, 2014.

CHART 1

Forecast budgetary balance – Fall 2010[1]
(millions of dollars)



1 Budgetary balance within the meaning of the Balanced Budget Act.

❑ Much smaller deficits than in neighbouring jurisdictions

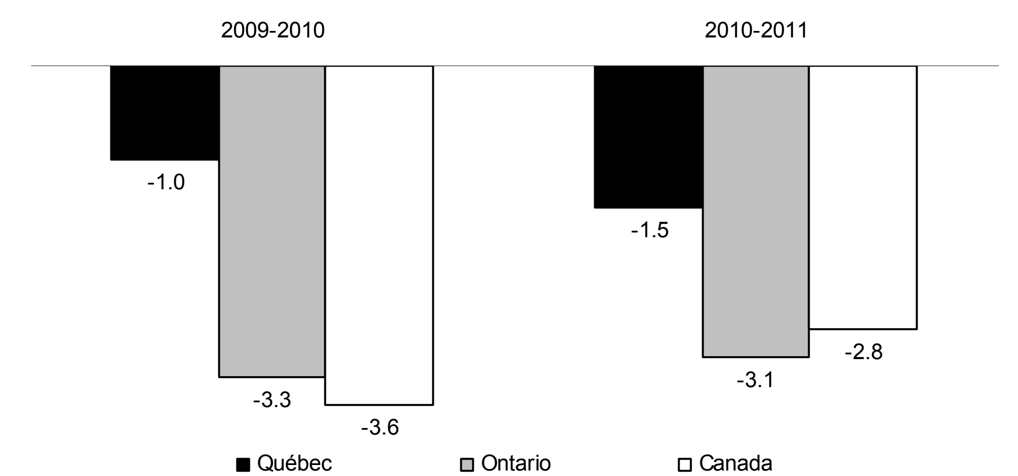
At 1% of gross domestic product, the Québec deficit in 2009-2010 compares favourably with the shortfalls recorded by our neighbours. By way of indication, Ontario recorded a $19.3-billion deficit the same year, equivalent to 3.3% of its GDP. The federal government recorded $55.6-billion deficit, equivalent to 3.6% of Canada's GDP.

In 2010-2011, the forecast deficit of $4.6 billion represents 1.5% of Québec's GDP, while Ontario's deficit stands at $18.7 billion, or 3.1% of GDP, and the federal government's deficit is $45.4 billion, equivalent to 2.8% of the Canadian economy.

Moreover, Québec expects to achieve fiscal balance in 2013-2014, while Ontario and the federal government will take until 2017-2018 and 2015-2016, respectively, to do so.

CHART 2

Budgetary balances in 2009-2010 and 2010-2011
(as a percentage of GDP)



Sources: Ministère des Finances du Québec and other jurisdictions.

❑ Little change in the economic outlook since the Budget

Québec's economic situation improved rapidly in 2010, with the result that pre-recession levels of output and employment were recovered during the year.

Real GDP growth was supported early in 2010 by strength in personal spending and residential investment. However, growth has slowed since mid-year, while exports are slow to recover.

— Households made certain consumer expenditures that had been postponed during the recession and advanced certain purchases, such as vehicles and furniture, to take advantage of low interest rates.

— Québec has benefited little from the recovery in global trade this year, which has occurred in economic sectors in which Québec is less active, such as automobiles.

In 2011, economic growth will be supported by both domestic demand and an improvement in exports. The gradual recovery in the U.S. housing sector and stronger demand for transportation products should favour Québec's exports.

Following a decline of 0.3% in 2009, real GDP in Québec should rise 2.6% in 2010, an upward adjustment of 0.3 percentage points compared to the 2010-2011 Budget forecast. In 2011, real GDP growth should slow 2.2%, a downward adjustment of 0.4 percentage points.

The economy's good performance should result in the creation of 72 700 jobs in 2010 and of 44 100 jobs in 2011. The improvement in labour market conditions will lead to a decline in the unemployment, which, after reaching 8.5% in 2009, should settle at 7.9% in 2010 and 2011.

TABLE 1

Outlook for economic growth
(real GDP, percentage change)

	2009	2010	2011
Québec	– 0.3	2.6	2.2
Canada	– 2.5	3.0	2.5
United States	– 2.6	2.7	2.2

Sources: IHS Global Insight, Statistics Canada and ministère des Finances du Québec.

❑ Continuing economic support

The government took quick, vigorous action to deal with the economic crisis. By the end of 2010, $14.2 billion, or 4.6% of GDP, will have been injected into the economy:

- $8.3 billion to improve infrastructures;
- $4.4 billion for businesses;
- $1.5 billion for individuals.

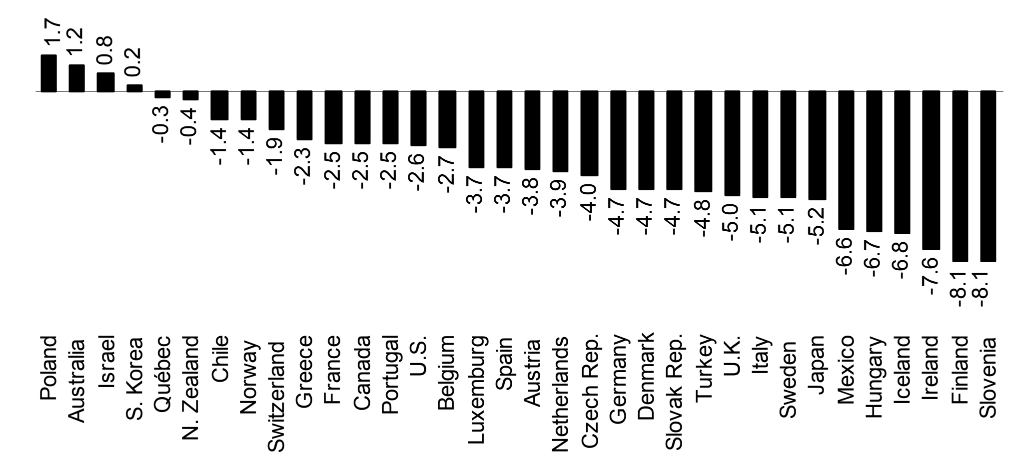
The initiatives taken by the Québec government together with those announced by the federal government have enabled Québec's economy to get through the recession and emerge in better position to take advantage of the recovery. In 2009 and 2010, Québec's real GDP will be 1.5 percentage points higher than it would have been without the support measures, and 60 000 jobs will have been created or maintained as a result of government action.

Moreover, Statistics Canada's latest data for 2009 show a contraction of only 0.3% in Québec's economy compared with declines of 2.5% in Canada, 3.6% in Ontario and 2.6% in the United States.

Furthermore, among the 33 OECD countries, only four economies fared better than Québec did in 2009 in terms of economic growth: Poland (+ 1.7%), Australia (+ 1.2%), Israel (+ 0.8%), and South Korea (+ 0.2%).

CHART 3

Economic growth for Québec and the OECD countries in 2009
(real GDP, percentage change)



Sources: Institut de la statistique du Québec and OECD.

❑ Global economic growth fraught with uncertainty

While the global economy is recovering, the outlook remains uncertain, especially for the advanced economies.

— Global economic growth could slow more than expected if the end of economic support measures or the implementation of measures to return to fiscal balance have a greater impact than expected.

— In addition, the persistent economic difficulties in the United States on the housing market and the labour market could lead to lower-than-forecast American demand for foreign products.

— Lastly, the Canadian dollar could appreciate further because of increased tension on the currency market. The strength of the Canadian dollar could hamper growth of Canadian and Québec exports.

These uncertainties could result in economic growth in Québec being delayed. Québec's real GDP growth could be weaker in the short term. The downward risk on the economic growth rate is estimated at 0.2 percentage points in 2010 and 0.4 percentage points in 2011.

❑ A $1.1-billion reduction in the deficit in 2009-2010

The real results show that the budgetary balance has improved by $1.1 billion, reducing the deficit to $3.2 billion in 2009-2010, compared with the $4.3-billion deficit forecast in the latest Budget.

This improvement is attributable chiefly to:

— higher revenues resulting, in particular, from stronger-than-anticipated growth in the economy in late 2009 and the first quarter of 2010;

— better-than-expected results of consolidated entities;

— elimination of the $300-million contingency allowance since the government did not make use of it.

These factors largely offset the $810-million upward revision recorded in program spending.

TABLE 2

Adjustments to the budgetary balance for 2009-2010
(millions of dollars)

	2009-2010		
	2010-2011 Budget	**Adjustments**	**Real results**
BUDGETARY TRANSACTIONS			
Own-source revenue excluding government enterprises	42 819	297	43 116
Government enterprises	4 602	276	4 878
Federal transfers	15 229	– 68	15 161
Total budgetary revenue	**62 650**	**505**	**63 155**
Program spending	– 60 769	– 810	– 61 579
Debt service	– 6 154	37	– 6 117
Total budgetary expenditure	**– 66 923**	**– 773**	**– 67 696**
Net results of consolidated entities	**598**	**1 003**	**1 601**
Contingency allowance	– 300	300	—
SURPLUS (DEFICIT)	**– 3 975**	**1 035**	**– 2 940**
BALANCED BUDGET ACT			
Payments of revenue dedicated to the Generations Fund	– 715	– 10	– 725
Stabilization reserve	433	—	433
Accounting changes	—	58	58
BUDGETARY BALANCE WITHIN THE MEANING OF THE BALANCED BUDGET ACT	**– 4 257**	**1 083**	**– 3 174**

❑ Anticipated deficit increases of $100 million in 2010-2011, $300 million in 2011-2012 and $200 million in 2012-2013

In view of the uncertainty surrounding the economic recovery in the developed economies, particularly in the United States, part of the anticipated economic growth could be delayed. The government, as a precaution, is raising its contingency allowance by $100 million in 2010-2011 and is adding new allowances of $300 million in 2011-2012 and $200 million in 2012-2013. The other changes de revenue and expenditure items have no impact on the forecast deficits.

— Consequently, for these three years, forecast deficits amount to $4.6 billion, $3.2 billion and $1.4 billion dollars.

TABLE 3

Contingency allowance incorporated into the financial framework
(millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014
Risks on growth in GDP in % change – Fall	– 0.2	– 0.4	0.2	0.4
Cumulative impact on revenu[1]	– 100	– 300	– 200	—
Contingency allowance incorporated into the financial framework				
2010-2011 Budget	– 300	—	—	—
Addition, fall 2010	– 100	– 300	– 200	—
TOTAL – FALL 2010	**– 400**	**– 300**	**– 200**	**—**

1 On average, a one percentage point discrepancy in GDP is equivalent to $500 million in revenue for the government.

■ Deficit of $4.6 billion in 2010-2011

For 2010-2011, the deficit should stand at $4.6 billion, because of an upward adjustment of $100 million in the contingency allowance, which raises it to $400 million. Moreover, aside from the $356-million impact stemming from new actuarial valuations of the retirement plans, no other increase has been observed in program spending. This impact is offset by an increase:

— of $194 million in own-source revenue;

— of $50 million in federal transfers;

— in the net results of consolidated entities.

TABLE 4

Summary of budgetary transactions in 2010-2011[F, 1]

(millions of dollars)

	March 2010 Budget	Adjustments	Fall 2010
BUDGETARY TRANSACTIONS			
Own-source revenue	50 152	194	50 346
Federal transfers	15 325	50	15 375
Total budgetary revenue	**65 477**	**244**	**65 721**
Program spending			
Program spending excluding retirement plans	– 60 557	—	– 60 557
Retirement plans	– 2 004	– 356	– 2 360
Subtotal	**– 62 561**	**– 356**	**– 62 917**
Debt service	– 6 980	– 24	– 7 004
Total budgetary expenditure	**– 69 541**	**– 380**	**– 69 921**
Net results of consolidated entities	**750**	**86**	**836**
Contingency allowance	– 300	– 100	– 400
SURPLUS (DEFICIT)	**– 3 614**	**– 150**	**– 3 764**
BALANCED BUDGET ACT			
Payments of revenue dedicated to the Generations Fund	– 892	50	– 842
BUDGETARY BALANCE WITHIN THE MEANING OF THE BALANCED BUDGET ACT	**– 4 506**	**– 100**	**– 4 606**
As a % of GDP	*1.4*	—	*1.5*

F: Forecasts.

1 The measures announced in the Plan to return to balanced budgets are incorporated into the financial framework.

Impact of new actuarial valuations of the retirement plans

The increase associated with the new actuarial valuations of the retirement plans totals $411 million in 2010-2011, i.e. a $356-million adjustment to program spending and $55 million to debt service. For 2011-2012, the recurrent impact amounts to $412 million, including $357 million in program spending. These new actuarial valuations were produced for the government's four major retirement plans, namely the Government and Public Employees Retirement Plan (RREGOP), the Pension Plan of Management Personnel (RRPE), the Teachers Pension Plan (TPP) and the Civil Service Superannuation Plan (CSSP). These valuations are carried out every three years to reflect the experience of the plans, i.e. the difference, for the last three years, between the assumptions and reality, and to update the demographic and economic assumptions on which they are based (for instance, the life expectancy of benefit recipients, the pay of employees when they retire, and so on). The ministère des Finances received these valuations, produced by CARRA, in late October 2010.

■ Gradual decline in the deficit as of 2011-2012

The government's budgetary situation will improve beginning in 2011-2012, when the forecast deficit will drop by $1.4 billion, to $3.2 billion, or 1.0% of PIB.

The adjustments attributable to the new actuarial valuations of the retirement plans will be offset by:

— a positive adjustment to federal transfers of $279 million;

— savings of $164 million in debt service resulting, in particular, from lower interest rates than anticipated.

Moreover, a contingency allowance of $300 million is incorporated into the financial framework for 2011-2012.

TABLE 5

Adjustments since the 2010-2011 Budget[F]
(millions of dollars)

	2010-2011	2011-2012
BUDGETARY BALANCE IN THE 2010-2011 BUDGET	**– 4 506**	**– 2 900**
Adjustments		
Own-source revenue	194	– 19
Federal transfers	50	279
Impact of new actuarial valuations of the retirement plans:		
– Program spending	– 356	– 357
– Debt service	– 55	– 55
– Subtotal – Impact of new actuarial valuations of the retirement plans	– 411	– 412
Program spending excluding the retirement plans	—	—
Other adjustments to debt service	31	164
Consolidated entities[1]	136	—
Decrease in required efforts	—	– 12
Contingency allowance	– 100	– 300
Total adjustments	**– 100**	**– 300**
BUDGETARY BALANCE WITHIN THE MEANING OF THE BALANCED BUDGET ACT	**– 4 606**	**– 3 200**
As a % of GDP	*1,5*	*1,0*

F: Forecasts.
1 Excluding payments of revenue dedicated to the Generations Fund.

❑ Follow-up on the Plan to return to balanced budgets

The update of the government's financial framework confirms its commitment to supply 62% of the effort required to eliminate the deficit by 2013-2014. This effort, totalling $6.9 billion, is reflected in:

- additional tax recovery efforts of $1.2 billion;
- savings of $530 million demanded of public organizations;
- spending control measures amounting to $5.2 billion.

Moreover, $1.0 billion remains to be identified from now until 2013-2014 to balance the budget.

The tax recovery effort is not an additional effort demanded of taxpayers who pay their taxes but rather an effort to recover revenue that is due to the government and ensure that everyone pays their fair share to fund services that benefit the population as a whole.

TABLE 6

Breakdown of the effort identified to balance the budget by 2013-2014
(millions of dollars)

	Government[1]				Taxpayers[2]			
	Tax evasion	Public bodies	Expenditure and bodies[3]	Sub-total	Individuals[4]	Enterprises and others	Sub-total	Total
Total effort	1 200	530	5 204	**6 934**	3 481	796	**4 277**	**11 211**
Breakdown of the effort (as a %)	10.7	4.8	46.4	**61.9**	31.0	7.1	**38.1**	**100.0**

1 Effort in respect of expenditure or revenue without increasing taxes and user fees.
2 Effort stemming from increases in taxes and user fees.
3 Excluding the additional contribution from the Fund to Finance Health and Social Services Institutions.
4 Including the health contribution.

■ Overall spending control measures identified for 2013-2014

To ensure that the government effort is achieved, an organized approach shared throughout the public sector is being implemented.

Accordingly, the government has identified all of the measures, amounting to $5.2 billion, that will enable it to reduce its spending growth. The objective will be gradually achieved for 2013-2014 by:

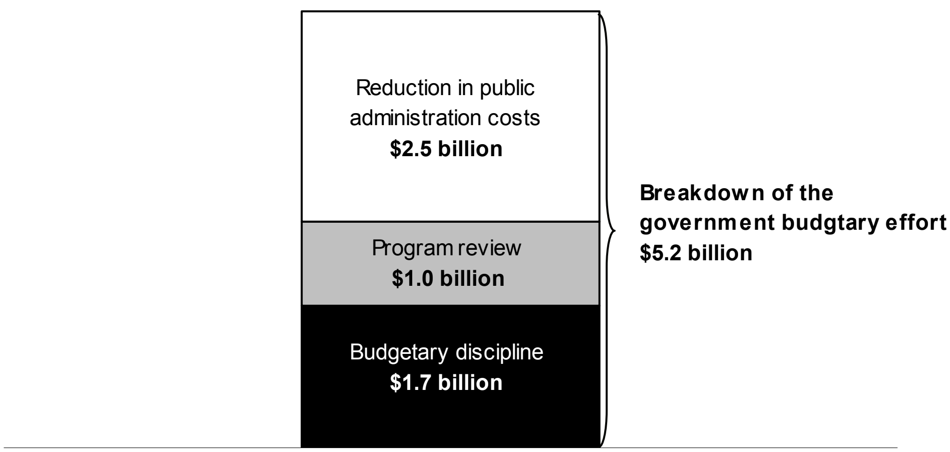
— reducing public administration costs by $2.5 billion;

— reducing program costs by $1 billion;

— achieving savings that will reach $1.7 billion through greater budgetary discipline.

CHART 4

Breakdown of the measures identified on account of the $5.2-billion reduction in program spending in 2013-2014



INTRODUCTION

After a historic financial crisis followed by a severe recession, most countries have resumed growing. Although Québec's economy was hit less hard than its main partners, the recession has left traces on public finances.

The March 2010 Budget spelled out the efforts that the government and taxpayers must make under the Plan to return to balanced budgets that stipulates elimination of the deficit by 2013-2014.

With recovery underway, the government is implementing the first measures to return to balanced budgets, in particular a spending control plan that affects all government departments and public organizations, including government corporations.

This is the context in which the government is today tabling the *Update on Québec's Economic and Financial Situation*, which reports on:

- the economic outlook;
- the results of the Plan to support jobs and prepare for economic recovery;
- the government's financial position;
- the measures implemented under the Plan to return to balanced budgets.

The economic and financial forecasts in this document are based on the latest data available that indicate today that the recovery is well underway in spite of the downward adjustment to the growth outlook for 2011.

The government intends to keep taking the steps needed to return to balanced budgets by 2013-2014 as required by the Balanced Budget Act.

The tabling of this document is consistent with the government's undertaking to provide Quebecers with information on the situation of public finances.

PART ONE :
ECONOMIC OUTLOOK

1. THE ECONOMIC OUTLOOK

This section[1] updates the economic forecasts of the 2010-2011 Budget that form the basis of the government's financial framework described in the third section.

In Québec, as in most advanced economies, economic recovery began in the second half of 2009. The recovery was fuelled in Québec by consumers and businesses, who took advantage of economic stimulus plans and expansionary monetary policy to increase their purchases of goods and services.

The recession was less severe in Québec than elsewhere and the recovery was quicker than anticipated. Compared to the rest of Canada and the United States, output and employment were quicker to exceed their pre-recession levels.

While Québec's economy has performed well in recent quarters, so far it has not benefited from the recovery in world trade, and demand for its major export products, such as aircraft and building materials, is not expected to recover until next year.

Following a decline of 0.3% in 2009, Québec's real gross domestic product (GDP) will gain 2.6% in 2010 and 2.2% in 2011, compared to the forecast in the 2010-2011 Budget of 2.3% in 2010 and 2.6% in 2011. The recovery should lead to the creation of 72 700 jobs in 2010 and 44 100 in 2011. In this context, the unemployment rate will average 7.9% this year and next, compared with 8.5% in 2009.

TABLE 7

Outlook for economic growth – Québec
(real GDP, percentage change)

	2009	2010	2011
Update – Fall 2010	**– 0.3**	**2.6**	**2.2**
2010-2011 Budget	– 1.4	2.3	2.6
Difference	+ 1.1	+ 0.3	– 0.4

Sources: Statistics Canada and ministère des Finances du Québec.

1 In this section, data dealing with 2010 and subsequent years are taken from estimates by the ministère des Finances du Québec.

1.1 The international economic context

The world economy experienced robust growth starting in the third quarter of 2009 thanks to the adoption of economic recovery plans in many countries. The recovery benefited exporting countries, particularly emerging economies, as their trade has already exceeded pre-recession levels of activity. With the gradual phasing out of these plans, global real GDP growth slowed in the second half of 2010, but should once again grow gradually during 2011.

However, sustainable growth of the world economy depends on a number of conditions, including an environment that is conducive to consumption and investment in the advanced economies, allowing businesses to sustain economic growth and job creation.

1.1.1 The outlook for 2010 and 2011

The robust growth of the world economy in late 2009 and early 2010 resulted in an upward adjustment to the outlook for the year as a whole. Accordingly, real global GDP growth should reach 4.6% in 2010, compared to the 3.7% expected at the time of the Budget. In 2011, the world economy should grow by 3.8%, similar to the budget forecast.

❑ Robust global economic growth early in 2010…

Global economic activity was vigorous in the first half of 2010. Consumers and businesses took advantage of economic stimulus plans and expansionary monetary policy, in particular to move certain purchases forward. Real GDP growth was robust in many countries, reaching, at annual rates:

— 3.7% in the United States in the first quarter;

— 5.8% in Canada in the first quarter;

— 6.6% in Japan in the first quarter;

— 9.6% in China in the first quarter and 9.8% in the second quarter;

— 9.5% in Germany in the second quarter, a record since reunification in 1990.

❑ ...but slowing in the second half of 2010

Global economic growth started to slow in the second half of 2010, especially in advanced economies, with budgetary stimuli gradually being phased out. Private demand remains weak and only partially offsets the end of the economic support measures.

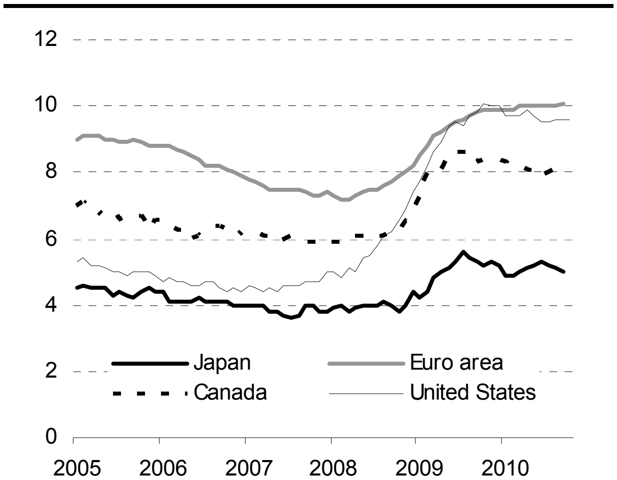
In addition, households are still weakened by the recession and the financial crisis. Growth in consumption is checked by the desire of households to restore their balance sheets and by high unemployment rates in many regions, reaching 10.1% in the euro area and 9.7% in the United States in 2010. For their part, businesses, despite returning to profitability, will continue to limit hiring over concerns regarding the strength of the recovery in private demand.

Despite the uncertain economic context, it will be difficult for the governments of advanced economies to take further action to accelerate the recovery because of their high budget deficits, the sovereign debt crisis in Europe having exposed the dangers of excessive debt levels. Consequently, governments will limit spending growth over the coming quarters to restore order to public finances. Accordingly, after growing at an annual rate of more than 1.5% over the first three quarters of 2010, real government spending in advanced economies should decline in the fourth quarter of 2010. Spending control is expected to continue in 2011 and subsequent years.

CHART 5

Unemployment rate – Advanced economies

(percentage)

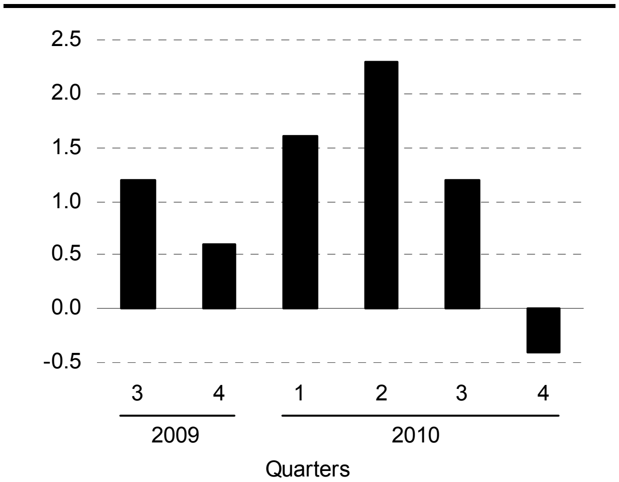


Sources: Statistics Canada and Datastream.

CHART 6

Government spending – Advanced economies

(quarterly percentage change at annual rate, in real terms)



Source: IHS Global Insight.

❑ Moderate global economic growth in 2011

In 2011, advanced economies will continue to grow at a moderate pace. Budgetary restriction measures will limit economic growth for an extended period. On the other hand, the continuation of the period of monetary easing announced in many countries will support private domestic demand. The weakness of inflation will encourage central banks to maintain their highly expansionary monetary policy and foster the continuation of low rates on longer-term borrowings, enabling commercial banks to bolster their balance sheets, and households and businesses to obtain financing at low cost.

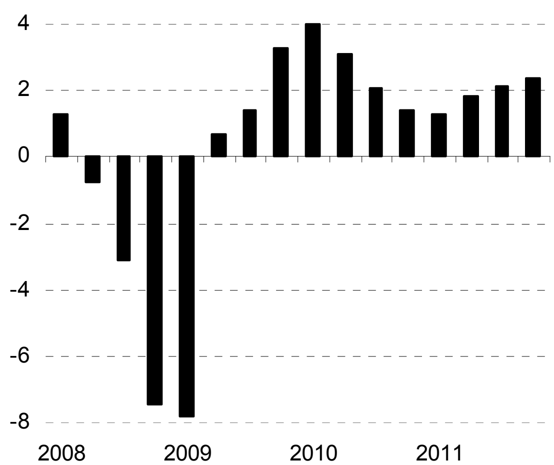
— In the United States and the euro area, key interest rates are not expected to rise until the second half of 2011.

— In Canada, after raising the overnight rate by 75 basis points to 1%, the Bank of Canada is not expected to resume raising its key rate until the summer of 2011.

Despite the phasing out of economic support plans, access to low-cost financing will foster moderate growth in consumption and stimulate business investment as the capacity utilization rate rises, which will be positive for job creation. The gradual recovery of the labour market will, in turn, improve households' confidence and their balance sheets, supporting growth in domestic demand. Advanced economies are expected to grow by 2.8% in 2010 and 1.8% in 2011.

CHART 7

Growth in advanced economies
(quarterly percentage change at annual rate, in real terms)

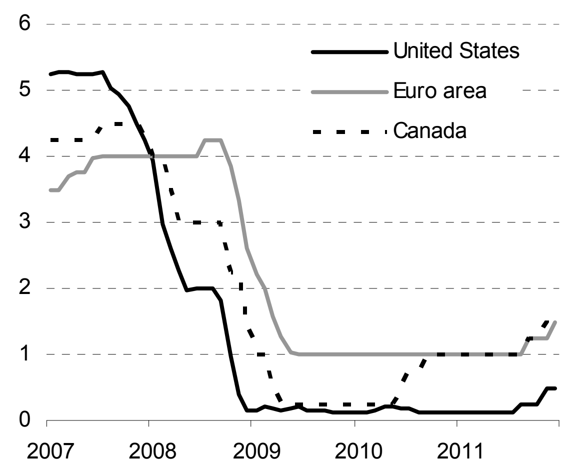


Sources: IHS Global Insight and ministère des Finances du Québec.

CHART 8

Overnight rate

(rate in percent)



Sources: IHS Global Insight and ministère des Finances du Québec.

Moreover, growth in emerging economies is expected to remain high, amounting to 6.8% in 2010 and 6.1% in 2011. China will continue to play a dominant role in supporting global growth, especially within Asian and emerging economies.

TABLE 8

Outlook for economic growth in the world

(real GDP, percentage change)

	Weight in 2010 GDP[1]	2009	2010	2011
World	100.0	– 0.6	4.6	3.8
– *2010-2011 Budget*		*– 0.8*	*3.7*	*3.9*
Advanced economies	52.7	– 3.2	2.8	1.8
– *2010-2011 Budget*		*– 3.2*	*2.0*	*2.2*
Canada	1.9	– 2.5	3.0	2.5
– *2010-2011 Budget*		*– 2.6*	*2.7*	*3.0*
United States	20.5	– 2.6	2.7	2.2
– *2010-2011 Budget*		*– 2.4*	*2.7*	*2.7*
Euro area	14.9	– 4.1	1.7	1.1
– *2010-2011 Budget*		*– 4.1*	*0.9*	*1.5*
United Kingdom	3.1	– 4.9	1.7	1.5
– *2010-2011 Budget*		*– 5.0*	*0.9*	*1.7*
Japan	6.0	– 5.2	3.5	1.1
– *2010-2011 Budget*		*– 5.2*	*1.4*	*1.1*
Emerging economies	42.9	2.6	6.8	6.1
– *2010-2011 Budget*		*2.1*	*5.7*	*6.0*
China	13.5	9.1	10.2	8.7
– *2010-2011 Budget*		*8.7*	*9.4*	*8.3*
India	5.3	6.8	8.2	7.8
– *2010-2011 Budget*		*6.8*	*7.4*	*7.8*

1 In terms of purchasing power parity.
Sources: IHS Global Insight, International Monetary Fund and ministère des Finances du Québec.

In **Canada**, following strong growth early in 2010, the economy began to grow more slowly beginning in the second quarter, in part because of the gradual phasing out of stimulus plans. Real GDP growth of 3.0% is forecast for 2010 and 2.5% for 2011.

In the **United States**, real GDP is expected to gain 2.7% in 2010, supported both by economic stimulus plans and foreign demand for American export products. In 2011, as the recovery plans expire, economic growth will slow to 2.2%, but will continue to be sustained in part by the positive impact of further easing of U.S. monetary policy.

In the **euro area**, economic growth is expected to be limited to 1.7% in 2010 and 1.1% in 2011, because of the persistently high unemployment rate in this region and budgetary restriction measures adopted in response to the sovereign debt crisis.

In the **United Kingdom**, economic growth will remain weak because of tight access to credit, high unemployment and measures to restore order to public finances introduced by the government that should come fully into effect in 2011, but which are already affecting confidence among businesses and consumers. Accordingly, real GDP growth of 1.7% is expected in 2010 and 1.5% in 2011.

In **Japan**, strong export growth and support from domestic demand, resulting from economic stimulus programs, should drive the Japanese economy to 3.5% growth in 2010. Growth should then slow to 1.1% in 2011.

In **China**, despite the impact of restrictive measures designed to prevent overheating in the property market and slowing demand in advanced economies, economic growth will remain vigorous. The Chinese economy should grow by 10.2% in 2010 and 8.7% in 2011.

In **India**, economic growth rebounded strongly after the global recession. Growth is vigorous there in particular because of the vitality of the service sector. As a result, real GDP is expected to rise by 8.2% in 2010 and 7.8% in 2011.

1.1.2 The recovery in global trade benefits exporting countries

The economic support measures introduced in the last recession revived domestic demand in the advanced economies and in China. This higher demand, combined with easier credit conditions, fostered a sustained recovery in global trade. The advanced economies increased their imports of manufactured goods, while the sharp rise in capital expenditures in China supported demand for raw materials and manufactured goods. In September 2010, global trade exceeded the previous year's level by over 15%, approaching pre-recession levels and even surpassing them in the case of emerging economies.

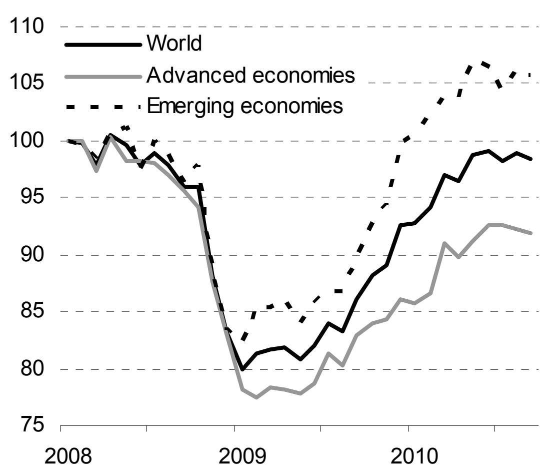
The recovery in trade and strong demand from China were very favourable for growth in all of the emerging economies, whose weight in global GDP has risen rapidly over the last ten years, from 34% in 2000 to 43% in 2010.

The rebound in trade also had a positive impact on the advanced economies, especially certain exporting countries like Canada, Japan and Germany. However, exports from these economies remain well below pre-recession levels.

CHART 9

Exports of merchandise

(index, 2008 = 100)

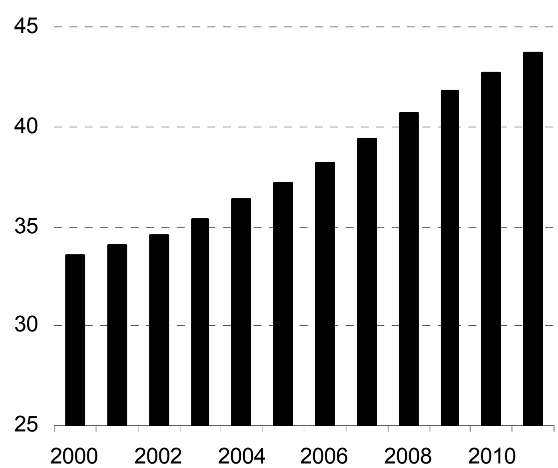


Sources: CPB Netherlands Bureau for Economic Policy Analysis and ministère des Finances du Québec.

CHART 10

Weight of emerging economies in global real GDP

(percent)



Source: International Monetary Fund and IHS Global Insight.

1.1.3 The conditions for sustainable growth

Sustainable growth of the world economy depends on a number of conditions. In advanced economies in particular, a pick-up in demand in the private sector is expected as economic recovery plans end.

— The economic environment should foster growth in business investment, helped in particular by the improvement in the financial situation of businesses.

— The impact of the budgetary difficulties of European countries will remain contained within the euro area.

— Overall, budgetary measures designed to balance public finances will have to be implemented gradually in the advanced economies in order not to hamper economic recovery.

In addition, despite the slowdown in the advanced economies, global trade should continue to grow.

— Growth in demand from emerging economies has to remain vigorous.

— Authorities in advanced economies must resist protectionism.

To the extent that some of these conditions are not satisfied, global economic growth could be mitigated.

❑ An environment conducive to investment

Robust business profits, together with the waning of uncertainty regarding the strength of the recovery, should stimulate investment and employment in 2011. However, should the economic environment prove unfavourable for an expansion of the production capacity of businesses and for hiring, recovery among advanced economies would suffer.

❑ Budgetary difficulties in Europe

Following the implementation of the €750-billion European Financial Stability Facility and the announcement of government austerity plans, financial markets, which were severely shaken during the sovereign debt crisis in Europe, stabilized temporarily.

However, since then, the debt problems of certain European countries have resurfaced. These countries are facing significant budgetary difficulties and a rise in the risk premiums demanded on their debt securities, which increases borrowing costs for these governments. This development could again destabilize the European financial system and have repercussions on the world economy.

❑ Gradual introduction of plans to restore budgetary discipline

Many governments have announced, or will soon do so, austerity plans to reduce their budget deficit. These plans should have a moderately negative economic impact on growth in advanced economies if they are introduced in a gradual and orderly manner. Otherwise, the excessively rapid introduction of budgetary discipline plans, combined with the expiration of economic stimulus measures, could restrict economic growth by acting simultaneously on domestic and foreign demand of the countries concerned.

❑ Growing demand in emerging economies

Led by China and India, emerging economies were able to withstand the global recession and should continue to grow vigorously over the next few years, supporting the global economy and leading to rising demand for raw materials and many other categories of products. However, two significant risks could undermine the good performance of emerging economies.

First, the current volatility on currency markets could reduce their growth outlook. With the sharp drop in bond yields in many advanced economies, investors have begun to reallocate capital towards certain emerging economies. This has caused a rapid appreciation in the currencies of many of these countries and has made their products less competitive abroad.

In addition, China's economic growth could be less vigorous than anticipated, which would hamper the global economy because of China's economic weight and its key role for emerging economies. To prevent the economy from overheating, the government's adoption of restrictive measures designed in particular to counter excessive rises in property prices could have a more pronounced negative effect than expected on Chinese economic growth. This could also be affected by slowing foreign demand for Chinese export products.

❑ Advanced economies are resisting protectionism

Facing persistent difficulties on the labour market and low capacity utilization, the governments of advanced economies may be tempted to introduce protectionist measures to favour their workers and industries.

However, such policies could lead to reprisals, even the emergence of trade and financial tensions among certain advanced and emerging economies, including China, which potentially could slow global economic growth and hamper financial markets.

1.2 Québec's economic situation

In Québec, the economic situation improved rapidly in late 2009 and early 2010, so that economic recovery is now well underway. Québec was hit less hard by the recession than its trading partners and, so far, the recovery has been more vigorous in Canada than in the United States. Indeed, Québec has returned to pre-recession levels of output and employment more quickly than its partners.

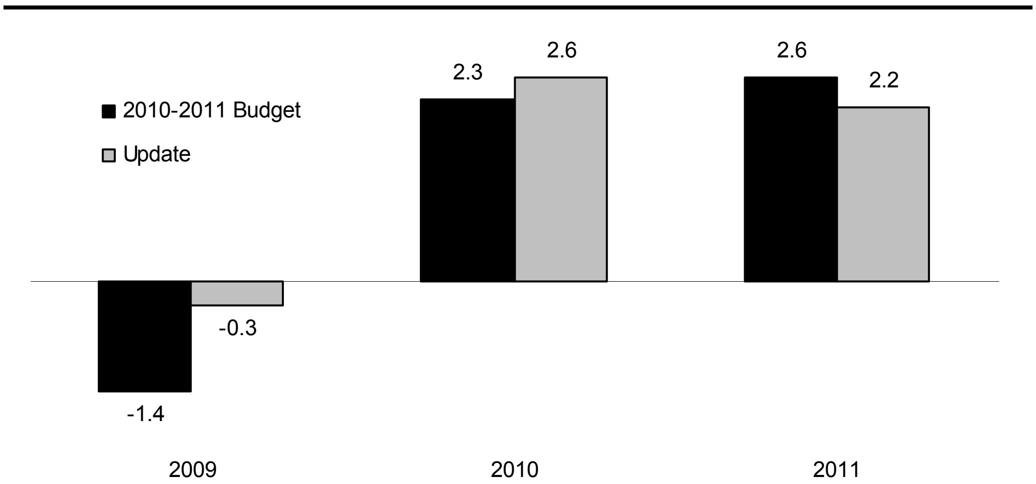
The strength of Québec's economy is attributable to the vigour of domestic demand. In particular, household personal spending and residential investments have been stimulated by government measures and by the acceleration of certain purchases in the first half of 2010, fuelled in particular by historically low mortgage rates and the home renovation tax credit. In addition, Québec has benefited from massive public investments by governments.

Since economic activity was stimulated in part by consumer spending postponed during the recession and the substantial impact of economic stimulus measures early in 2010, growth will be more modest in the latter part of 2010 and in 2011. In addition, the slower than expected growth in U.S. demand for Québec products will slow the recovery in Québec's exports.

Accordingly, economic growth should reach 2.6% in 2010, an upward adjustment of 0.3 percentage points compared to the forecast announced in the Budget. In 2011, real GDP growth should reach 2.2%, a downward adjustment of 0.4 percentage points.

CHART 11

Economic growth in Québec
(real GDP, percentage change)



Sources: Statistics Canada and ministère des Finances du Québec.

1.2.1 Household spending

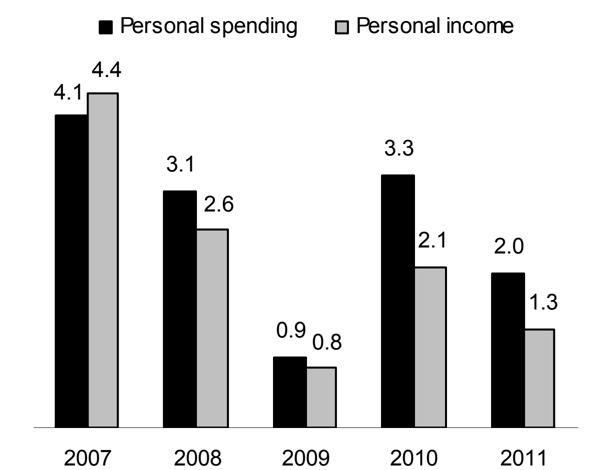
Personal spending by households rose strongly early in 2010. Households made certain consumption expenditures that had been postponed during the recession, and advanced others. Spending on durable goods, in particular, including vehicles, furniture and household appliances, rose sharply in response to substantial discounts and low financing rates. In 2010, consumption of durable goods is expected to rise 5.8% following an increase of only 1.2% in 2009.

Over the next few quarters, household spending will continue to be supported by the rise in personal income and interest rates that will remain low, but will grow at a slower rate.

Household spending should grow by 3.3% in 2010 and 2.0% in 2011, while personal income will rise, in real terms, by 2.1% in 2010 and 1.3% in 2011.

CHART 12

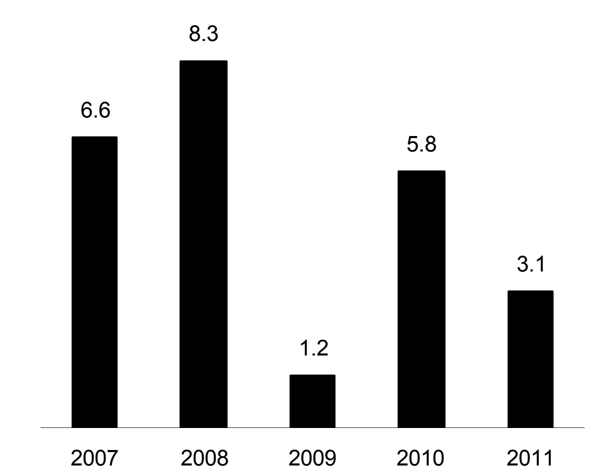
Personal spending and personal income in Québec
(real percentage change)



Sources: Statistics Canada and ministère des Finances du Québec.

CHART 13

Durable goods consumption in Québec
(real percentage change)



Sources: Statistics Canada and ministère des Finances du Québec.

❑ Residential investment

The vitality of Québec's housing sector contributed to the growth in economic activity early in 2010. Households advanced their home purchases and their renovation investments, taking into account the exceptionally low levels of mortgage interest rates and the home renovation tax credits granted by governments. Accordingly, residential investment should rise by 10.5% in 2010.

Moreover, stricter rules for mortgage insurance, the end of the home renovation tax credits and slowing activity on the resale market led to a reversal of this uptrend in the second half of 2010.

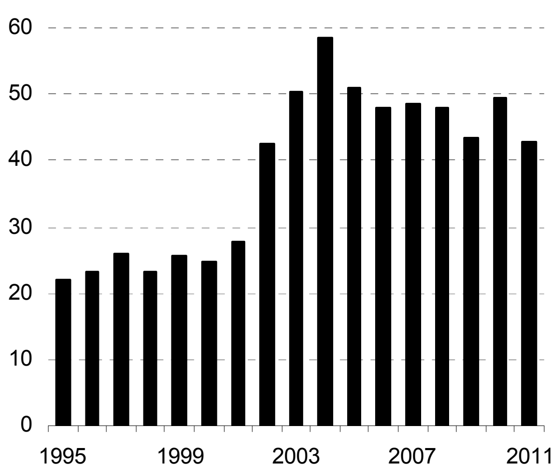
This weakness that began during 2010 should continue in 2011 and residential investment should decline by 7.2%. This will be accompanied by a slowdown in the rise in home prices.

— The number of housing starts should rise by 5 900 units in 2010, to 49 300 units, and decline to 42 700 units in 2011, and subsequently hold steady at around 40 000 units, a level compatible with household formation in Québec. This level remains well above the number of housing starts recorded in the late 1990s.

— Renovation spending, stimulated by home renovation programs, will grow by 8.1% in 2010, and then decline by 2.0% in 2011.

CHART 14

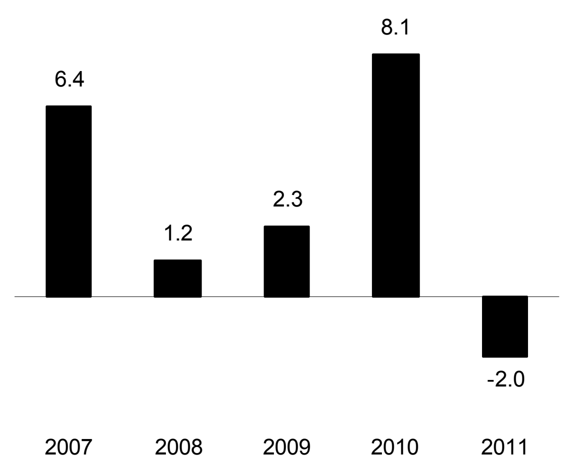
Housing starts in Québec
(thousands)



Sources: Canada Mortgage and Housing Corporation and ministère des Finances du Québec.

CHART 15

Home renovation in Québec
(real percentage change)



Sources: Institut de la statistique du Québec and ministère des Finances du Québec.

1.2.2 Non-residential investment

After falling 1.8% in 2009, the value of non-residential investment in Québec is expected to gain 4.5% in 2010, supported by investments by businesses and governments.

In 2011, non-residential investment is expected to rise by 7.2%, reaching $44.6 billion.

TABLE 9

Non-residential investment in Québec
(billions of dollars, in nominal terms)

	2008	2009	2010	2011
Total investment	**40.6**	**39.8**	**41.6**	**44.6**
– Percentage change	6.8	– 1.8	4.5	7.2
Investment by businesses[1]	**28.4**	**25.4**	**26.4**	**28.6**
– Percentage change	1.2	– 10.8	4.1	8.3
Investment by governments	**12.1**	**14.5**	**15.2**	**16.0**
– Percentage change	22.6	19.3	5.1	5.4

1 Consists of private and government-owned businesses.
Sources: Statistics Canada and ministère des Finances du Québec.

❑ Investment by businesses

After a drop in 2009, investment by businesses surged at the start of 2010. Encouraged by rising profits, businesses resumed modernizing their machinery and equipment in preparation for the recovery in demand.

Following a decline of 10.8% in 2009, the value of investment by businesses is expected to grow by 4.1% in 2010. Growth should then slow to 8.3% in 2011. This will bring the value of such investment to $28.6 billion.

— Investment in machinery and equipment will rebound vigorously. After dropping by 13.7% in 2009, it is expected to gain 5.4% in 2010 and 10.3% in 2011.

In addition, Hydro-Québec will continue to increase its capital spending in 2011. It is expected to rise from $4.3 billion in 2009 to $5.0 billion in 2011.

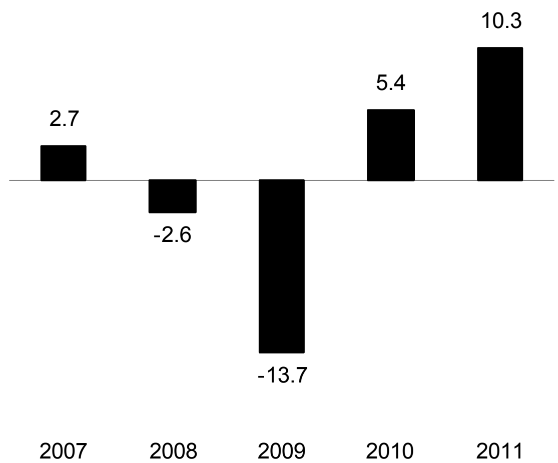
❑ Investment by governments

Following an increase of 19.3% in 2009, the value of investment by government departments and institutions should gain 5.1% in 2010 and 5.4% in 2011. This increase will bring the value of public investment to $16.0 billion. Public investment, which amounted to 4.0% of GDP in 2008, is expected to reach 4.9% in 2011.

These public investments will help to renew and modernize the stock of public capital in Québec.

CHART 16

Investment by businesses in machinery and equipment
(nominal percentage change)

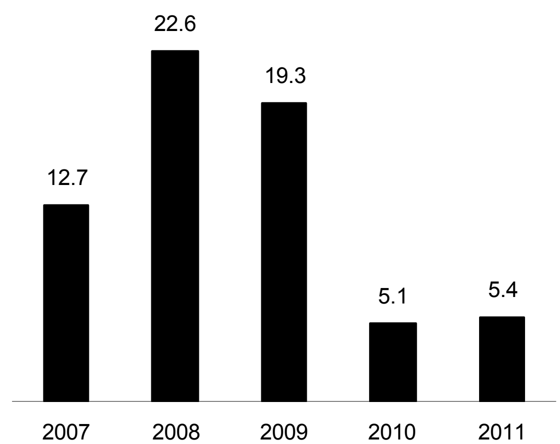


Sources: Statistics Canada and ministère des Finances du Québec.

CHART 17

Investment by governments

(nominal percentage change)



Sources: Statistics Canada and ministère des Finances du Québec.

1.2.3 External trade

❑ Exports

Despite Québec economy's high degree of integration with the American economy and the almost 12% rebound in U.S. demand for foreign products, the expected recovery in Québec's exports has yet to take hold. Some export sectors that are particularly important to Québec have yet to benefit from the expansion in global demand. For example, the expected recovery in the transportation and building materials sectors has yet to materialize.

— Demand by U.S. companies for transportation products, excluding light vehicles, is expected to drop by 9.6% in 2010, after falling 27.6% in 2009.

— The problems in the housing sector in the United States will restrict growth in demand for building materials to 9.0% in 2010, following a drop of 38.4% in 2009.

American demand for Québec's exports should nevertheless grow by 3.6% in 2010 and 5.6% in 2011. In 2010, U.S. demand should rise chiefly in the intermediate products and the machinery and equipment segments. Next year, the gradual recovery of the U.S. housing sector and greater demand for transportation products will favour Québec's exports.

TABLE 10

Québec trade-weighted index of U.S. economic activity[1]
(percentage change)

	Sector weights in the index	2009	2010	2011
Machinery and equipment	23.9	– 9.3	5.3	2.9
Consumer goods	20.5	– 2.6	3.3	2.1
Intermediate products[2]	19.6	– 24.0	15.1	11.4
Transportation[3]	19.1	– 27.6	– 9.6	8.4
Pulp and paper	10.2	– 15.5	– 3.5	– 1.4
Building materials	6.7	– 38.4	9.0	29.7
TOTAL	**100.0**	**– 15.8**	**3.6**	**5.6**

1 More detailed information on the composition of the Québec trade-weighted index of U.S. economic activity is available on page 30 of the Update on Québec's Economic and Financial Situation, published in the fall of 2009.
2 Corresponds in particular to investment in hardware and software.
3 Excluding light vehicles.
Sources: Institut de la statistique du Québec and IHS Global Insight.

❑ The level of exports will remain below that of 2008

Despite the recovery in Québec's international exports in 2010, they remain 16.0% below their 2008 level.

— Aerospace exports, which rank first among Québec's international exports with 19.1% of the total, have dropped 17.0% so far in 2010.

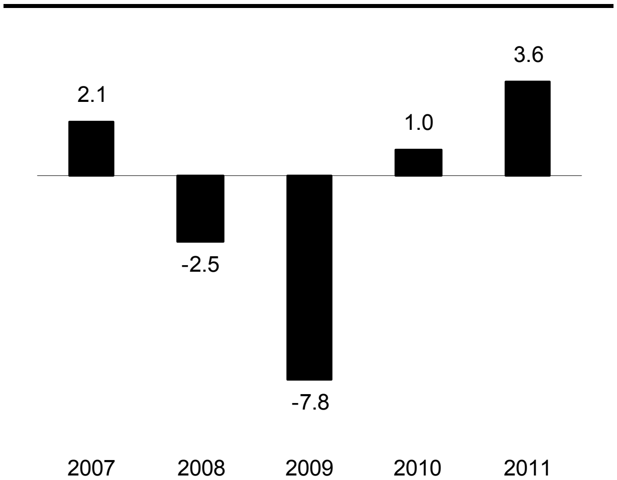
— Unlike Ontario, Québec has not benefited from the recovery in demand and exports in the automobile sector.

However, as U.S. demand for goods made abroad recovers, the situation should improve over the coming quarters. Total exports, which include the inter-provincial and international components, should rise 1.0% in 2010 and 3.6% in 2011.

The forecast improvement expected until 2011 will not be enough to offset the substantial drops in exports in 2008 and in 2009. The level of total exports should approach $140 billion in 2011, almost $9 billion less than the level achieved in 2007.

CHART 18

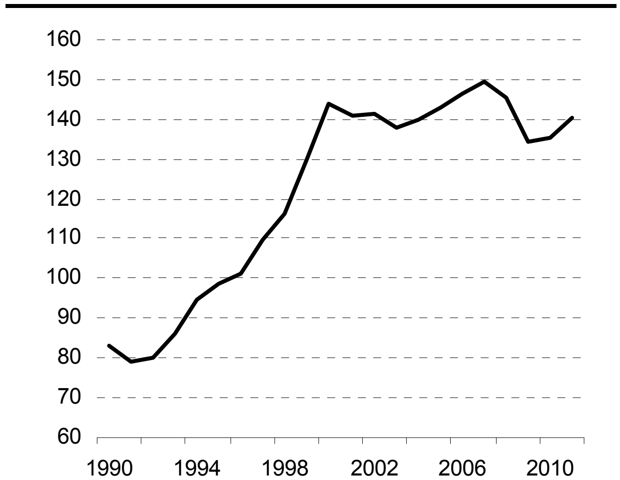
Québec's total exports
(real percentage change)



Sources: Statistics Canada and ministère des Finances du Québec.

CHART 19

Québec's total exports
(billions of dollars, in real terms)



Sources: Statistics Canada and ministère des Finances du Québec.

❑ Imports

Québec imports mainly consumer goods and services, machinery and equipment, and more inputs used to make final products.

Stimulated by strong growth in Québec domestic demand, Québec's international imports of goods rose 9.8% over the first nine months of 2010.

— Imports of automobiles and parts surged 26.0%, after having plunged 19.6% in 2009. Imports of machinery and equipment gained 17.4%.

Accordingly, the expected rise in domestic demand of 3.8% in 2010, combined with the gradual recovery in exports, will stimulate imports, which should rise by 5.6% in 2010. In 2011, more moderate growth in domestic demand should limit the rise in imports to 2.4%.

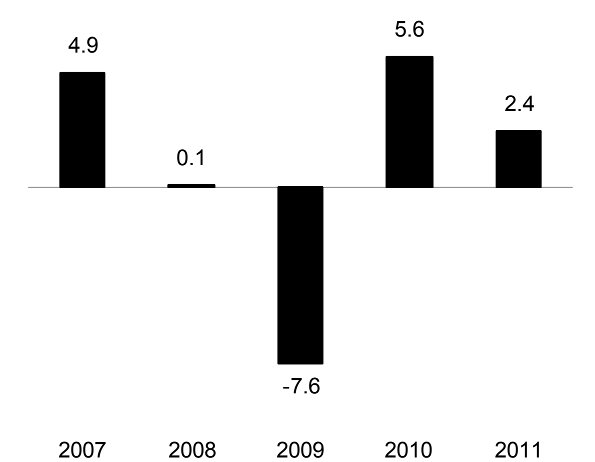
❑ Net exports

Net exports, which include the change in both exports and imports, are expected to subtract 2.7 percentage points from economic growth in 2010, but add 0.3 points in 2011.

CHART 20

Québec's total imports

(real percentage change)

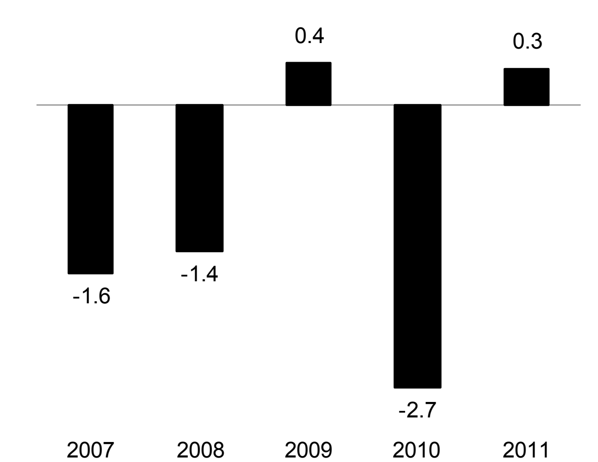


Sources: Statistics Canada and ministère des Finances du Québec.

CHART 21

Contribution of net exports to Québec's economic growth

(percentage points of real GDP growth)



Sources: Statistics Canada and ministère des Finances du Québec.

Québec's International Exports

A more competitive international environment

From 2002 to 2008, Québec's exporters faced many difficulties, in particular the bursting of the technology bubble at the start of the decade, the increased competition from new economic powers, including China and India, the problems of the U.S. economy and the strong and rapid appreciation of the Canadian dollar against the U.S. currency.

Despite this more competitive international environment, Québec was able to maintain the volume of its exports by turning increasingly to sectors focused on the production of goods that are more capital and high-technology intensive. On average, Québec's international exports of goods amounted to $70 billion per year between 2002 and 2008.

The effects of the recession

The 2008-2009 recession caused a sharp contraction in international trade. In Québec, as everywhere else in the world, exports fell substantially. In 2009, international exports of goods dropped by 14.1% in Québec and 16.7% in Canada.

- In Québec, all major sectors were affected by the recession, in particular building materials (– 24.8%), machinery and equipment (– 23.8%) and pulp and paper (– 21.1%). Aerospace exports, which rank first among Québec's international exports with 19.1% of the total, also registered a decline (– 6.0%).
- In Canada, the automobile and parts sector suffered the largest decline (– 32.4%).

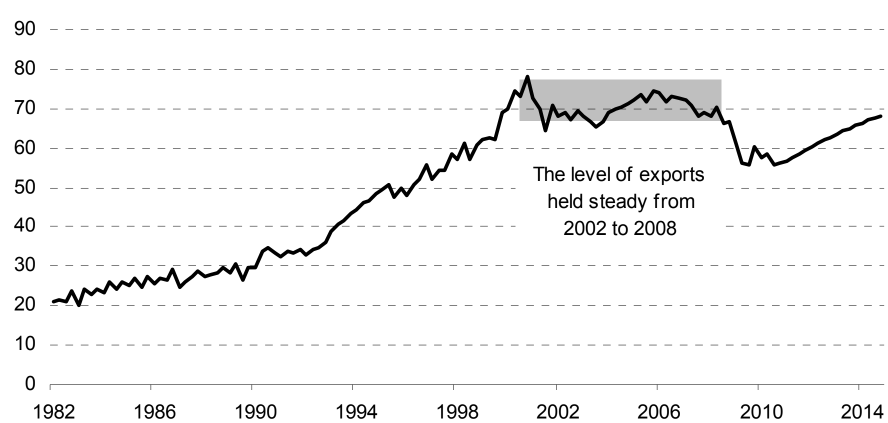
An encouraging outlook

So far in 2010, Québec has not benefited from the recovery in world trade as much as anticipated. For the first nine months of 2010, Québec's international exports have dropped by 0.6% compared with a gain of 8.9% in Canada.

- Aerospace exports, which lag the business cycle because of significant production times, have fallen 17.0% so far. Excluding the aerospace sector, Québec's exports have gained 3.4%.
- Canada's exports have been supported by the automobiles and parts sector (+ 55.7%). Excluding the automobile sector, Canadian exports have gained 1.1%.

As U.S. demand for imported goods recovers, the situation should improve gradually over the coming quarters and international exports of goods should return to pre-recession levels by 2014.

Québec's international exports of goods
(billions of dollars, in real terms)



Sources: Institut de la statistique du Québec and ministère des Finances du Québec.

1.2.4 The labour market

Québec quickly recovered its pre-recession level of employment. With 126 400 jobs created since employment in Canada bottomed out in July 2009, Québec has recovered more than all the jobs lost (– 67 500) during the recession (October 2008 to July 2009).

— In January 2010, the 48 700 jobs lost in the service sector had already been recovered.

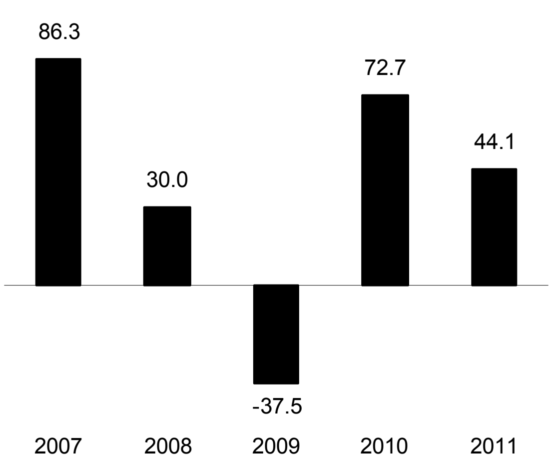
— However, job losses have continued so far in 2010 in the goods production sector, with the gains achieved in the construction sector (+ 20 700) being less than the losses in the primary (– 2 300) and manufacturing (– 22 100) sectors.

Job creation continued at a more moderate pace starting in the third quarter of 2010, as economic activity slowed. In all, 72 700 jobs are expected to be created in 2010 and 44 100 in 2011. This is an upward adjustment of 34 000 jobs in 2010 and 2 500 jobs in 2011 compared to the Budget forecast in March 2010.

The improvement of the labour market should lead to a decline in the unemployment rate. After hitting 8.5% in 2009, it should settle at 7.9% in 2010 and 2011.

CHART 22

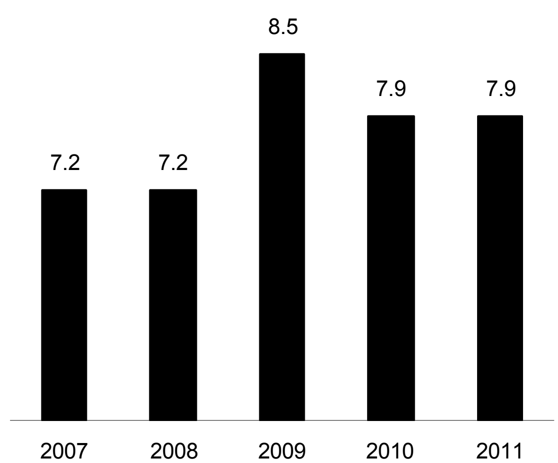
Job creation in Québec
(thousands)



Sources: Statistics Canada and ministère des Finances du Québec.

CHART 23

Unemployment rate in Québec
(percent)



Sources: Statistics Canada and ministère des Finances du Québec.

Employment in the Manufacturing Sector

Change during the recession

Between the peak of output in Canada in the fourth quarter of 2007 and its trough in the second quarter of 2009, employment in the manufacturing sector held steady in Québec, while it fell sharply in Ontario, Canada and the United States.

- Québec maintained its manufacturing sector jobs (+ 0.1%), compared with substantial losses in Ontario (– 15.3%), Canada (– 10.6%) and the United States (– 13.3%).
- During this period, manufacturing output in Québec fell 11.5%. Québec fared better than Ontario and Canada, where output dropped by 21.1% and 16.2% respectively.

Change during the recovery

Since the trough of output in Canada, employment in the manufacturing sector has fallen more sharply in Québec than elsewhere.

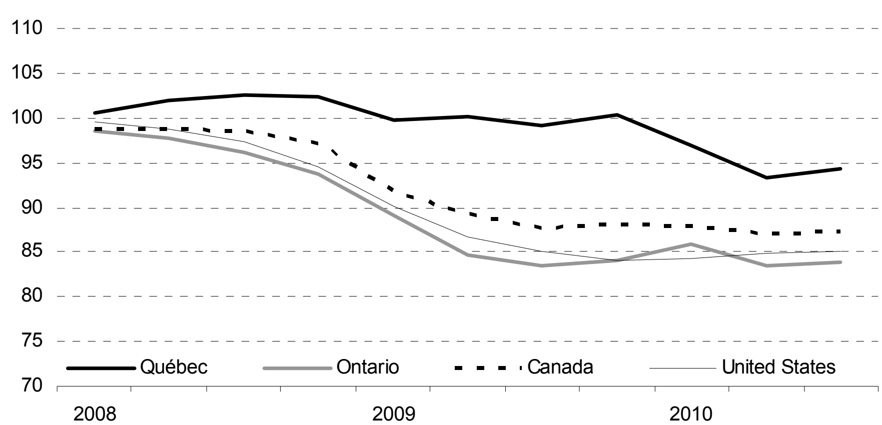
- Manufacturing employment fell 5.8% in Québec, compared with a decline of 1.0% in Ontario, 2.3% in Canada and 2.0% in the United States.
- The aerospace sector has been particularly hard hit in Québec. Employment in this sector fell 13.0% between the second quarter of 2009 and the third quarter of 2010.

Change since the peak in 2007

Overall, between the fourth quarter of 2007 and the third quarter of 2010, Québec lost fewer jobs in the manufacturing sector than its economic partners.

- Québec lost 5.7% of its manufacturing jobs (– 30 100), compared with 16.2% in Ontario (– 150 700), 12.7% (– 254 500) in Canada and 15.0% in the United States (– 2.1 million).

Change in employment in the manufacturing sector since the 4th quarter of 2007
(index, 4th quarter of 2007 = 100)



Sources: Statistics Canada, IHS Global Insight and ministère des Finances du Québec.

1.2.5 Nominal GDP

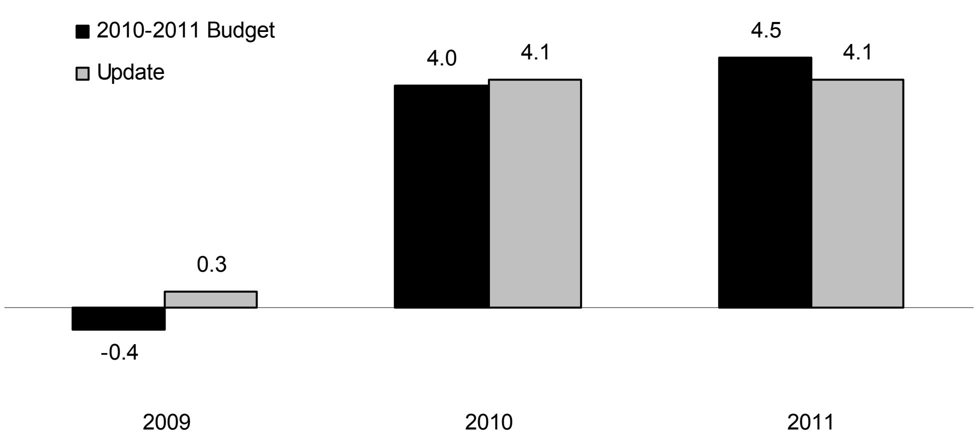
Following an increase of 0.3% in 2009, nominal GDP, which measures the value of output taking into account the effect of price changes, should gain 4.1% in 2010 and 2011.

The rise in nominal GDP will lead to growth in the government tax base.

- Personal income will rise 3.0% in 2010 and 3.4% in 2011.
- Nominal consumption will increase by 4.3% in 2010 and 4.2% in 2011.
- Business profits will gain 12.8% in 2010 and 6.3% in 2011.

CHART 24

Change in nominal GDP in Québec
(percentage change)



Sources: Statistics Canada and ministère des Finances du Québec.

TABLE 11

Québec's economic outlook
(percentage change, unless otherwise indicated)

	2009	2010	2011
Output			
Real gross domestic product	– 0.3	2.6	2.2
– *2010-2011 Budget*	*– 1.4*	*2.3*	*2.6*
Gross domestic product	0.3	4.1	4.1
– *2010-2011 Budget*	*– 0.4*	*4.0*	*4.5*
Components of GDP (in real terms)			
Consumption	0.9	3.3	2.0
– *2010-2011 Budget*	*0.6*	*2.3*	*1.8*
Residential investment	– 2.5	10.5	– 7.2
– *2010-2011 Budget*	*– 1.5*	*2.2*	*– 0.5*
Non-residential investment	– 15.4	6.5	7.4
– *2010-2011 Budget*	*– 13.2*	*4.3*	*9.1*
Exports	– 7.8	1.0	3.6
– *2010-2011 Budget*	*– 11.4*	*4.0*	*4.5*
Imports	– 7.6	5.6	2.4
– *2010-2011 Budget*	*– 8.6*	*5.2*	*3.7*
Labour market			
Job creation (thousands)	– 37.5	72.7	44.1
– *2010-2011 Budget*	*– 37.5*	*38.7*	*41.6*
Unemployment rate (%)	8.5	7.9	7.9
– *2010-2011 Budget*	*8.5*	*8.5*	*8.4*
Other economic indicators			
Nominal consumption	1.3	4.3	4.2
– *2010-2011 Budget*	*1.0*	*4.0*	*4.2*
Housing starts (thousands)	43.4	49.3	42.7
– *2010-2011 Budget*	*43.4*	*44.6*	*42.7*
Corporate profits	– 15.4	12.8	6.3
– *2010-2011 Budget*	*– 23.8*	*14.5*	*8.0*
Personal income	1.2	3.0	3.4
– *2010-2011 Budget*	*1.2*	*3.1*	*3.5*
Consumer prices	0.6	1.1	2.4
– *2010-2011 Budget*	*0.6*	*2.0*	*2.9*

Sources: Statistics Canada and ministère des Finances du Québec.

1.2.6 Comparison with the private sector

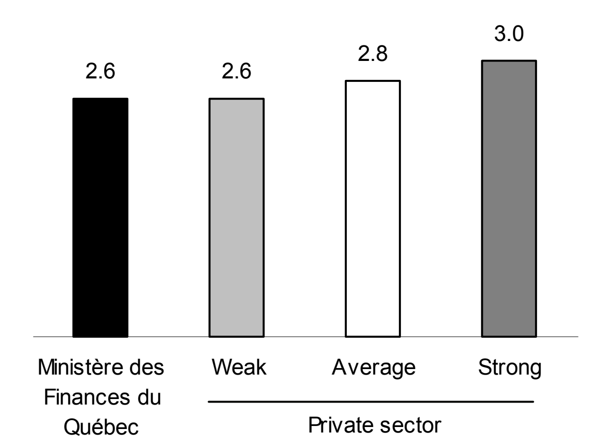
With expected growth of 2.6% in 2010, the economic forecast of the ministère des Finances du Québec is equivalent to the 2.7% average of private-sector forecasts.

For 2011, the 2.2% economic growth forecast is also equivalent to the average of private-sector forecasts.

— The size of the gap among the various private-sector forecasts for 2011, which range from 1.6% to 3.1%, reflects the degree of uncertainty regarding the economy's outlook.

CHART 25

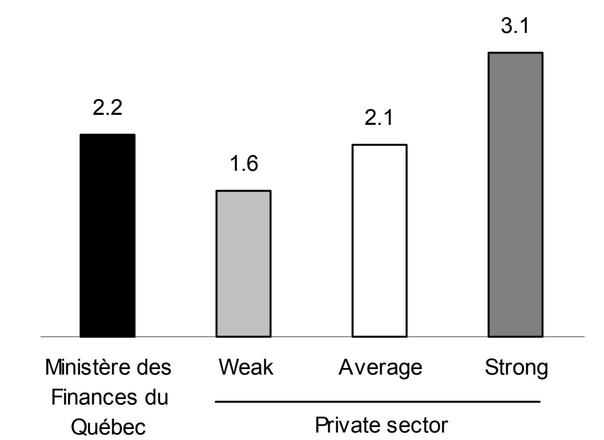
Economic growth in 2010 in Québec
(real GDP, percentage change)



Note: Survey done by the ministère des Finances du Québec, including the most recent forecasts of ten private-sector institutions produced as of November 19, 2010.
Source: Ministère des Finances du Québec.

CHART 26

Economic growth in 2011 in Québec
(real GDP, percentage change)



Note: Survey done by the ministère des Finances du Québec, including the most recent forecasts of ten private-sector institutions produced as of November 19, 2010.
Source: Ministère des Finances du Québec.

❑ Five-year economic outlook

For the period 2010-2014, the forecast of the ministère des Finances du Québec is comparable to that of the private sector in terms of the change in real GDP, prices and nominal GDP.

— Regarding real GDP, the projected average growth is 2.2% from 2010 to 2014, compared to the private sector forecast, which stands at 2.3%.

— Regarding prices, the forecast rise is 1.8%, compared to the private sector forecast of 2.0%.

— Regarding nominal GDP, the expected average growth is 4.1% from 2010 to 2014, compared to the private sector forecast of 4.3%.

TABLE 12

Québec's economic outlook – comparison with the private sector
(percentage change)

	2010	2011	2012	2013	2014	Average 2010-2014
Real GDP						
Ministère des Finances du Québec	2.6	2.2	2.3	2.2	2.1	2.2
Private sector average[1]	2.7	2.1	2.2	2.3	2.1	2.3
Price increase						
Ministère des Finances du Québec	1.5	1.8	1.9	1.9	1.9	1.8
Private sector average[1]	1.9	2.1	2.0	1.9	1.9	2.0
Nominal GDP						
Ministère des Finances du Québec	4.1	4.1	4.3	4.2	4.0	4.1
Private sector average[1]	4.7	4.2	4.2	4.2	4.0	4.3

1 Survey done by the ministère des Finances du Québec, including the most recent forecasts of ten private-sector institutions produced as of November 19, 2010.
Source: Ministère des Finances du Québec.

1.2.7 An uncertain economic environment

While the global economy is recovering, the outlook remains uncertain, especially for advanced economies.

- Global economic growth could slow more than expected if the end of economic support measures or the implementation of measures to return to fiscal balance have a greater impact than expected.
- In addition, the persistent economic difficulties in the United States on the housing market and the labour market could cause U.S. demand for foreign products to grow more slowly than expected.
- Lastly, the Canadian dollar could appreciate further because of increased tension on the currency market. The strength of the Canadian dollar could hamper growth of Canadian and Québec exports.

All of these factors could weaken economic growth in Québec by the end of 2011. Because of these risks, it is estimated that:

- in 2010, nominal GDP growth could be trimmed by 0.2 percentage points, reaching 3.9% rather than 4.1% as forecast in this update;
- in 2011, nominal GDP growth could decline by 0.4 percentage points, reaching 3.7% instead of the 4.1% currently forecast.

In such an event, this easing of economic growth could prompt households and businesses to postpone demand this year and next, leading to slightly higher growth in 2012 and 2013.

TABLE 13

Economic outlook for Québec – Short-term risk
(percentage change)

	2010	2011	2012	2013	2014	Average 2010-2014
Real GDP	2.6	2.2	2.3	2.2	2.1	2.2
Nominal GDP	4.1	4.1	4.3	4.2	4.0	4.1
– Risk	– 0.2	– 0.4	+ 0.2	+ 0.4	—	—
– Net effect	3.9	3.7	4.5	4.6	4.0	4.1

Source: Ministère des Finances du Québec.

1.3 The situation of Québec's economic partners

Québec is an open economy that depends substantially on the economic situation of its trading partners. Québec's total exports are equivalent to 50% of real GDP. However, Québec has not fully benefited from the recovery in foreign demand for its products in 2010.

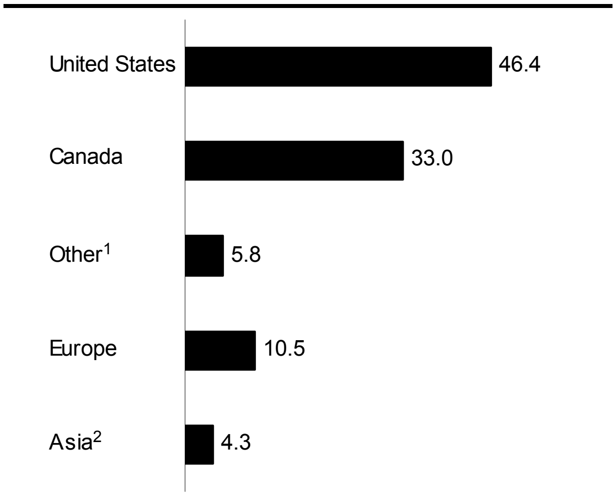
In particular, the aerospace sector, which accounts for a larger share of Québec's exports, is slow to recover as a result of a certain lag in the sector's production compared to the business cycle. Moreover, the rest of Canada and the United States benefited more from the strong recovery in the automobile sector's exports, which had plunged during the recession.

In addition, starting next year, Québec's major economic sectors producing goods intended for export should benefit from the rise in demand of their main trading partners.

CHART 27

Weight of exports by destination – 2009

(as a percentage of total exports of goods)

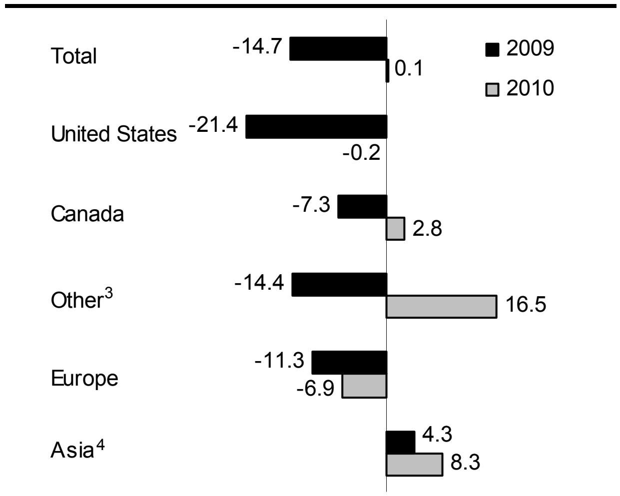


1 Includes Mexico, Brazil, Australia, the United Arab Emirates and Saudi Arabia.
2 Excluding the Middle East.
Sources: Institut de la statistique du Québec, Statistics Canada and ministère des Finances du Québec.

CHART 28

Québec's exports of goods by destination[1] –2009 and 2010[2]

(nominal percentage change)



1 Total and Canada according to the economic accounts. United States, Europe, Asia and others on customs basis.
2 Aggregate of months available.
3 Includes Mexico, Brazil, Australia, the United Arab Emirates and Saudi Arabia.
4 Excluding the Middle East.
Sources: Institut de la statistique du Québec, Statistics Canada and ministère des Finances du Québec.

1.3.1 The situation in Canada

After contracting by 2.5% in 2009, Canada's real GDP should gain 3.0% in 2010. This is an upward adjustment of 0.3 percentage points compared to the forecast in the 2010-2011 Budget.

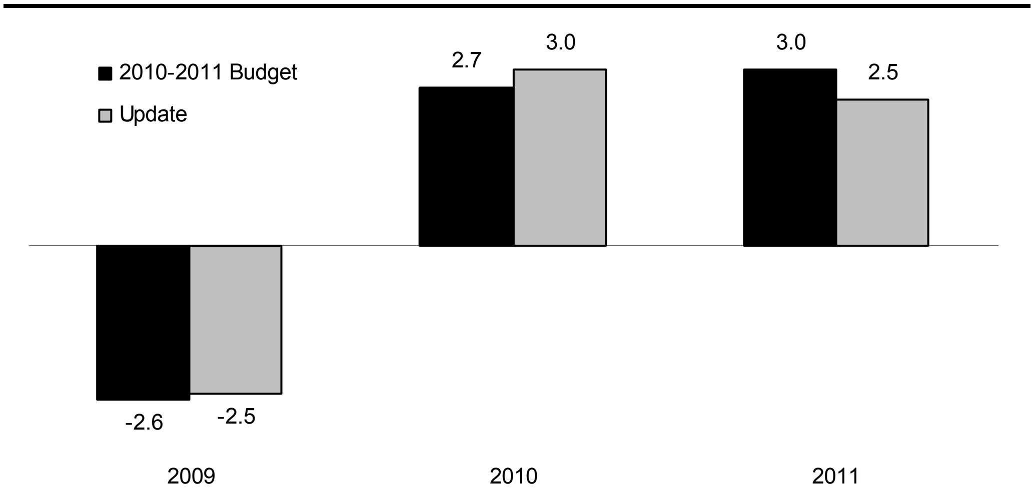
At the beginning of 2010, the Canadian economy benefited from budgetary and monetary easing. This easing fostered residential construction and spending by households, that had remained prudent during the recession. The economy also benefited from the strong recovery in automobile exports.

Economic growth began to slow in the second half of 2010. On the one hand, the gradual phasing out of government economic recovery plans is weighing on economic activity. On the other hand, growth in household spending, which had been brought forward to some extent early in the year, is slowing, while businesses remain cautious in view of the uncertainty of the recovery in world demand for their products.

This slower growth is expected to persist into 2011. Real GDP growth should reach 2.5%, a downward adjustment of 0.5 percentage points compared to the 2010-2011 Budget forecast.

CHART 29

Economic growth in Canada
(real GDP, percentage change)



Sources: Statistics Canada and ministère des Finances du Québec.

❑ Household consumption

As in Québec, personal spending by households in Canada quickly returned to its pre-recession growth rate because of the strength of the labour market and increased consumer confidence, which supported economic activity in 2010.

— Employment should rise by 1.7% in 2010 and 1.4% in 2011.

— At 83.6 points in November 2010, the Canadian consumer confidence index remains high compared to the low point in December 2008.

Personal spending on goods and services should rise by 3.4% in 2010, responding to a significant rise in spending on durable goods.

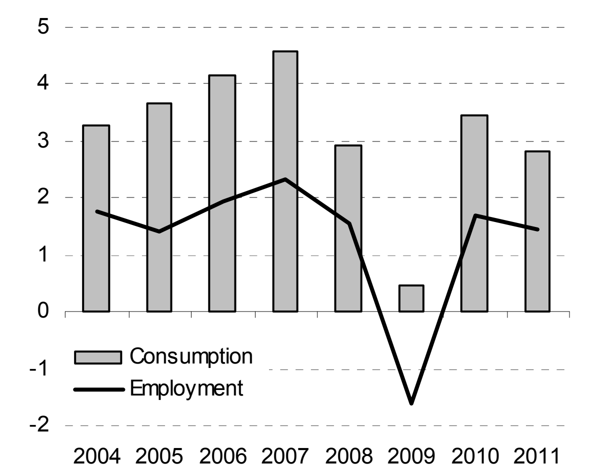
— Substantial discounts have stimulated motor vehicle purchases.

— Residential construction and activity on the resale market have encouraged the purchase of furniture and household appliances.

Starting in the second half of 2010, the growth rate of consumption started to slow along with revenue growth and the level of consumer confidence. Consumer spending should rise by 2.8% in 2011.

CHART 30

Employment and real consumer spending in Canada
(percentage change)

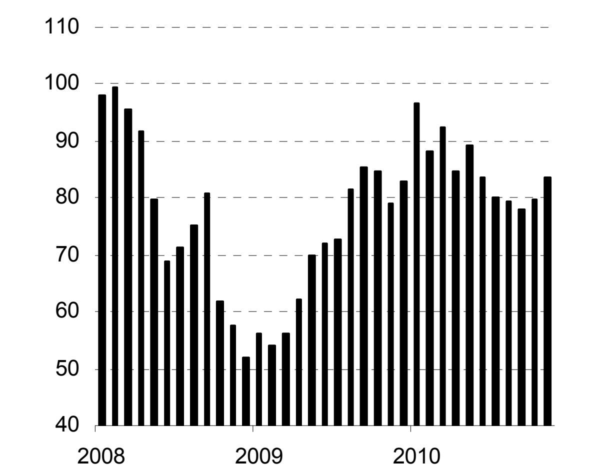


Sources: Statistics Canada and ministère des Finances du Québec.

CHART 31

Canadian consumer confidence

(index, 2002 = 100)



Source: Conference Board of Canada.

❑ Business non-residential investment

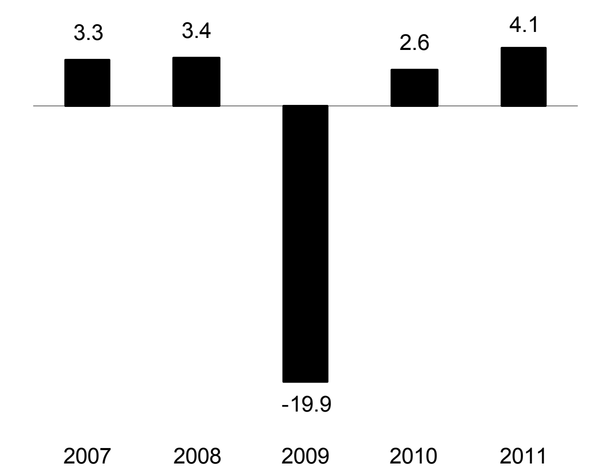
After plunging 19.9% in 2009, investment by Canadian businesses resumed growing in early 2010. Despite continuing low interest rates, business investment has not rebounded as expected. The industrial capacity utilization rate rose in the second half of 2009, but at 76% remains low in the second quarter of 2010, compared with an average of 84% between 2003 and 2006. Before businesses resume investing at a more sustained rate, they will first have to use the production capacity idled during the recession.

After the 2009 decline, business non-residential investment is expected to grow by 2.6% in 2010 and 4.1% in 2011.

— Investment growth should be supported by the energy sector, where investment will rise by 7.0%.

CHART 32

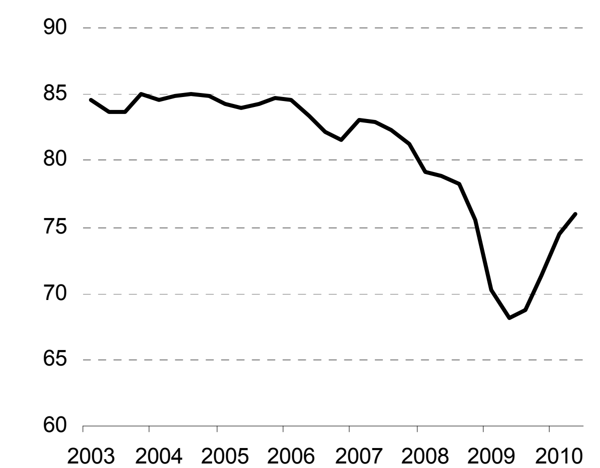
Business non-residential investment in Canada
(real percentage change)



Sources: Statistics Canada and ministère des Finances du Québec.

CHART 33

Industrial capacity utilization rate in Canada
(rate in percent)



Source: Statistics Canada.

❑ Exports

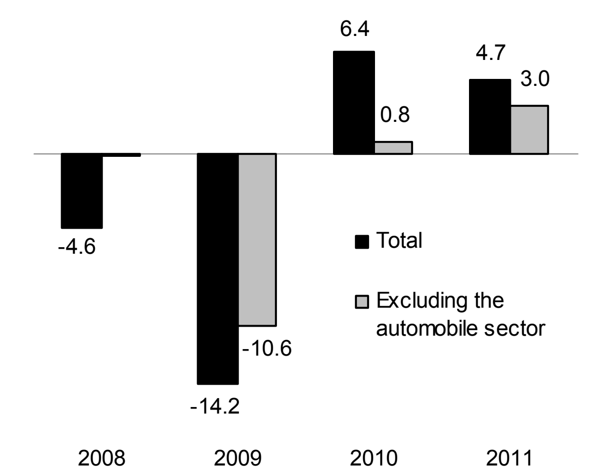
Canadian exports, which fell 4.6% in 2008 and 14.2% in 2009, should rise by 6.4% in 2010, mainly because of the recovery in the automobile sector.

In 2010, output and exports of automobiles and parts quickly returned to near their pre-recession level in response to demand by U.S. consumers. Excluding the automobile sector, Canadian exports are expected to gain 0.8%, similar to the growth in Québec's exports (+ 1.0%).

Following this rebound, automobile sector exports will grow at a more moderate pace in 2011, similar to that of sales of automobiles in the United States. Exports excluding the automobile sector will continue to grow. Accordingly, total exports are expected to rise by 4.7% in 2011.

CHART 34

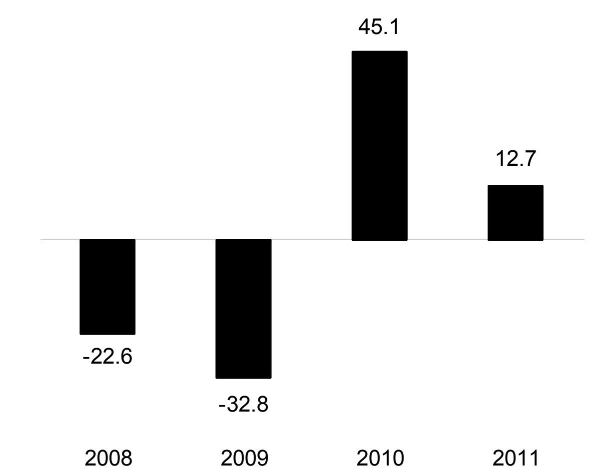
Canadian exports
(real percentage change)



Sources: Statistics Canada and ministère des Finances du Québec.

CHART 35

Canadian automobile exports
(real percentage change)



Sources: Statistics Canada and ministère des Finances du Québec.

❑ Canadian financial markets

■ A pause in the Bank of Canada's monetary tightening cycle

To deal with the financial crisis and the recession, the Bank of Canada adopted an exceptionally expansionary monetary policy, in particular by dropping its key interest rate to an historic low of 0.25%. This high degree of monetary easing helped improve economic conditions in the country and bring the recession to an end in the third quarter of 2009.

With more favourable economic conditions, inflation rose to an average of 1.7% in 2010, compared with 0.3% in 2009, approaching the Bank of Canada's target of 2.0%. The robust economic growth in the first half of 2010 and the rise in inflationary pressures have prompted the Bank of Canada to tighten its monetary policy somewhat since the spring of 2010, as anticipated in the Budget.

The Bank of Canada was the first central bank of the G7 to begin raising its key interest rate, with three consecutive rises of 25 basis points, bringing the rate to 1.0% in September 2010. With the slowing of economic activity in Canada and in certain other advanced economies, a pause in the monetary tightening cycle is expected until the summer of 2011.

Moreover, the Canadian bond market has been influenced by the worsening of European budgetary difficulties in the spring of 2010 and the impact of the slowing U.S. economy on inflation expectations. Strong investor demand for less risky assets prompted the yield on Canadian government ten-year bonds to fall during 2010. In 2011, demand for fixed-income securities will continue to be supported by the uncertain situation that will persist and by the very moderate growth outlook, limiting the rise in long-term bond rates.

TABLE 14

Canadian financial markets
(rate in percent)

	2009	**2010**	**2011**
Target overnight rate	0.4	0.6	1.3
– *2010-2011 Budget*	*0.4*	*0.5*	*1.4*
Treasury Bills – 3 months	0.4	0.6	1.4
– *2010-2011 Budget*	*0.4*	*0.6*	*1.7*
Federal bonds – 10 years	3.3	3.1	3.4
– *2010-2011 Budget*	*3.3*	*3.8*	*4.5*

Sources: Bank of Canada and ministère des Finances du Québec.

■ A moderate increase in commodity prices

After rising in tandem with the improvement in world economic conditions in the second half of 2009, the price of a barrel of crude oil remained relatively stable for the first three quarters of 2010. It is expected to reach US$79 in 2010 and rise to US$84 in 2011.

Prices for other raw materials should also rise, supported by the growth of emerging economies, which should have a positive effect for Québec and Canada, exporters of natural resources.

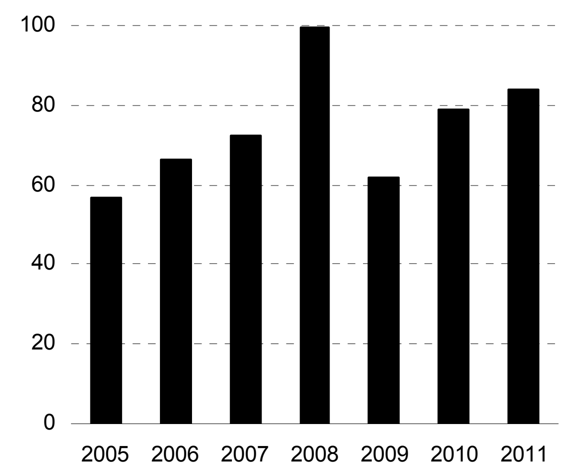
■ The Canadian dollar is holding close to parity

Optimism over the global economic recovery in early 2010 resulted in an appreciation of the Canadian dollar compared with the U.S. dollar. It reached parity in April 2010, supported by rising prices of raw materials, then eased because of the European crisis, which temporarily increased demand for the American dollar as safe haven.

The Canadian dollar should average around 97 cents US from now until the end of 2011.

CHART 36

Price of a barrel of West Texas Intermediate (WTI) crude oil
(annual average in US dollars)

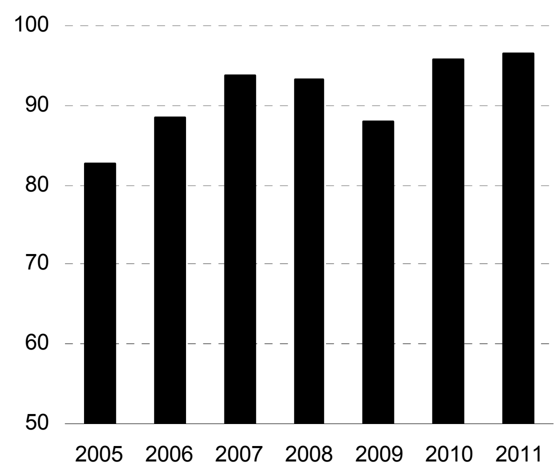


Sources: Bloomberg and ministère des Finances du Québec.

CHART 37

Exchange rate of the Canadian dollar

(annual average in US cents)



Sources: Bloomberg and ministère des Finances du Québec.

1.3.2 The situation in the United States

❑ Economic activity continues to recover

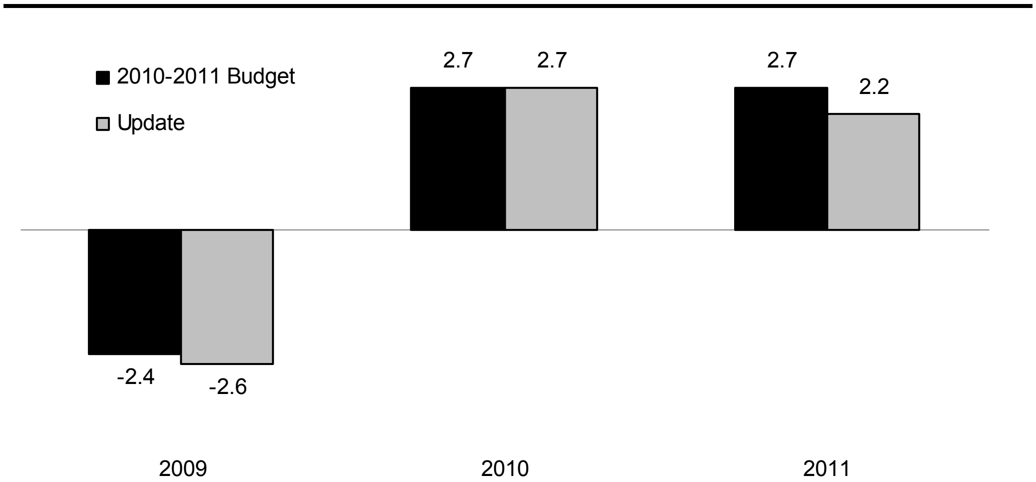
The fiscal and monetary economic support measures adopted by American authorities contributed strongly to economic recovery over the last few quarters. After contracting by 2.6% in 2009, real GDP should gain 2.7% in 2010, as anticipated in the budget scenario.

Still, the U.S. economy is weakened by the persistent impact of the bursting of the housing bubble, the financial crisis and the resulting recession. Difficulties persist, in particular regarding employment and housing activity. In addition, American households must adjust to the loss of wealth resulting from the drop in the value of their homes. The effect of these factors is to slow economic growth in the second half of 2010, as the positive impact of economic recovery plans phases out.

In 2011, economic recovery should gradually pick up, benefiting from moderate growth in consumption and the rise in American exports, in particular to emerging economies. The resulting gradual increase in the capacity utilization rate and good corporate profitability will foster investment and lead to a gradual recovery in hiring. American economic growth is accordingly expected to reach 2.2% in 2011. This is a downward adjustment of 0.5 percentage points compared to the March 2010 Budget forecast.

CHART 38

Economic growth – United States
(real GDP, percentage change)



Sources: IHS Global Insight and ministère des Finances du Québec.

❑ Gradual end to economic support measures

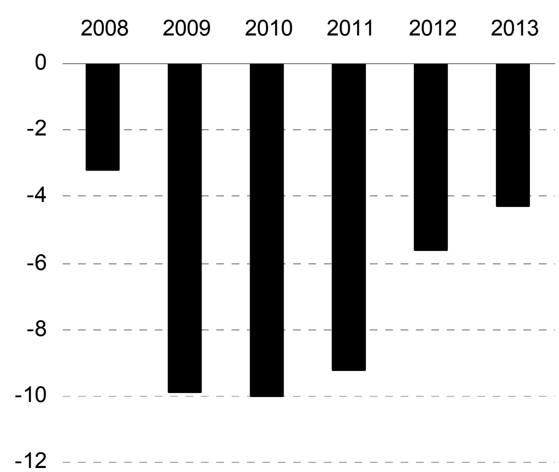
Since 2008, U.S. authorities have adopted vigorous measures in support of the economy, contributing strongly to economic growth in 2009 and 2010. Despite that, major macroeconomic imbalances persist, especially regarding employment and housing, hampering the recovery.

Government authorities now have limited means to further stimulate the economy, as public finances have deteriorated substantially since 2008. The budget deficit has risen from 3.2% of GDP in 2008 to 9.9% in 2009 and is expected to reach 10.0% in 2010. The government plans to reduce this figure by half by fiscal year 2013, in view of the financial risks posed by the significant expansion of the public debt.

With most of the amounts committed to the economic recovery plan introduced in 2009 having been allocated, their contribution to growth will decline over the coming quarters. Accordingly, in view of the persistence of economic difficulties and low inflationary pressures, the U.S. Federal Reserve will maintain for an extended period an expansionary monetary policy to support growth. It will hold the federal funds rate within a target bracket of 0 to 0.25% until the second half of 2011. In addition, to limit the rise in long-term interest rates, the Federal Reserve has undertaken to increase the size of its balance sheet by US$600 billion in eight months, i.e. roughly $75 billion per month, by purchasing bonds.

CHART 39

The U.S. federal government's budgetary balance
(as a percentage of GDP)

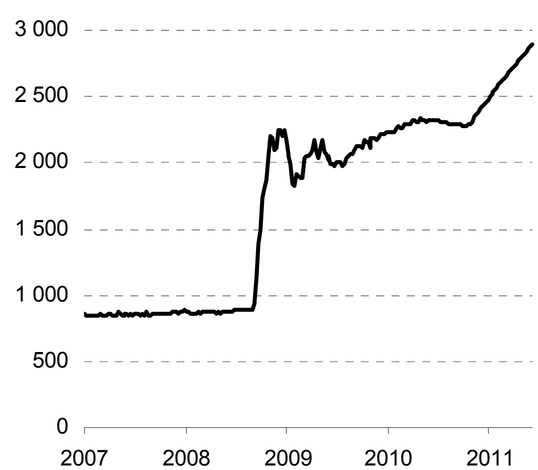


Source: Office of Management and Budget.

CHART 40

U.S. Federal Reserve balance sheet

(assets in billions of U.S. dollars)



Sources: Board of Governors of the Federal Reserve System and ministère des Finances du Québec.

❑ Positive contribution of the external sector

The substantial degree of monetary easing in the United States will continue to exert downward pressure on the U.S. dollar, which should lose 3.9% of its value in 2010 before stabilizing in 2011 compared to the currencies of its main trading partners. The depreciation of the U.S. dollar will be more significant in 2011 compared with the currencies of emerging economies. By making American products more competitive, the depreciation of the dollar will foster growth of exports, forecast at 11.7% in 2010 and 8.2% in 2011.

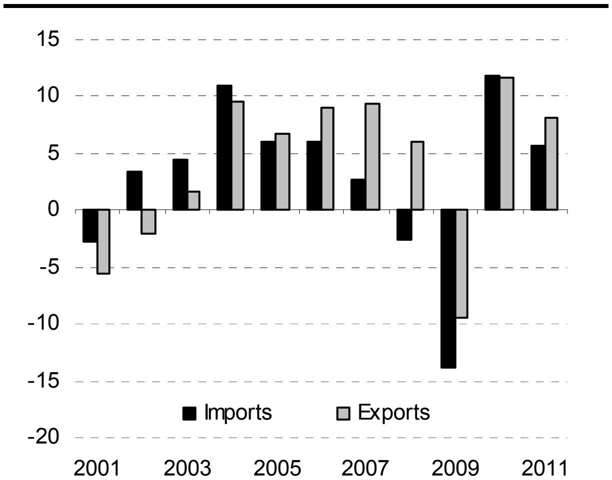
American exports will benefit from the robust demand of emerging economies resulting from their strong expansion. Since the beginning of 2010, more than one third of all American exports have been shipped to emerging economies.

The moderate increase in household consumption, together with a weak American dollar, should gradually slow the rise in imports, which are expected to grow by 11.8% in 2010 and 5.6% in 2011.

This situation will result in a reduced American trade deficit, which will amount to 3.5% of GDP in 2010 and 3.2% in 2011, leading to a positive contribution by the external sector to U.S. economic growth.

CHART 41

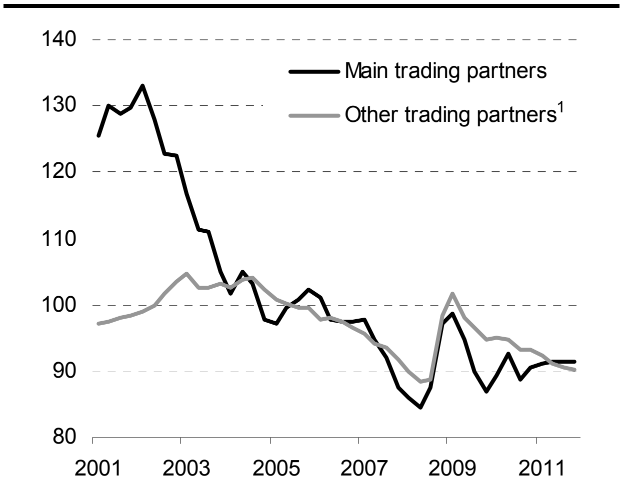
U.S. exports and imports
(real percentage change)



Sources: IHS Global Insight and ministère des Finances du Québec.

CHART 42

Weighted U.S. dollar
(index)



1 Includes certain advanced economies and many emerging economies.

Sources: IHS Global Insight and ministère des Finances du Québec.

❑ Moderate rise in consumption in 2011

Household balance sheets suffered greatly as a result of the recession and the financial crisis. Faced with high levels of debt and a substantial loss in the value of the real estate assets, American households continued to shore up their personal finances in 2010, by maintaining high savings rates and taking advantage of lower interest rates to refinance their debt at more attractive conditions. After peaking at 130% in 2007, the ratio of household debt to personal disposable income fell to 119% in the second quarter of 2010.

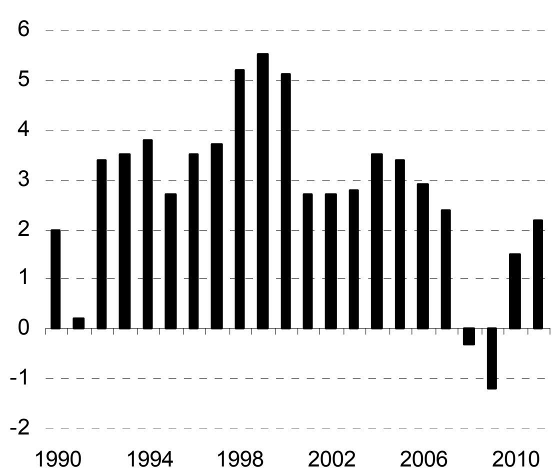
Despite difficult conditions of the labour market in 2010, households were able to reduce their debt load by increasing consumption modestly, thanks to a small rise in personal income, the positive impact of economic stimulus and the decline in interest costs.

After rising by 1.5% in 2010, consumer spending is expected to grow by 2.2% in 2011. In 2011 it will be supported by growth in personal income from 1.0% in 2010 to 2.0% in 2011, bolstered by the improvement of the labour market. In addition, very attractive financing conditions orchestrated by the Federal Reserve should limit the rise in interest costs on existing debt and facilitate new purchases. However, the expected growth in consumer spending remains very modest compared to prior years. Households will remain cautious and will continue to repair their balance sheets. Savings rates of 5.9% in 2010 and 5.5% in 2011 are expected.

CHART 43

U.S. household personal spending

(real percentage change)

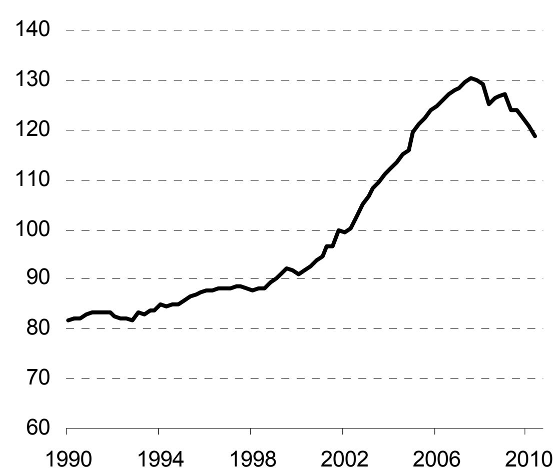


Sources: IHS Global Insight and ministère des Finances du Québec.

CHART 44

U.S. household debt

(household debt as a percentage of personal disposable income)



Source: IHS Global Insight.

❑ An improvement in the financial situation of businesses

The last recession significantly weakened the financial situation of U.S. businesses, leading to a 23% drop in profitability in 2008 and forcing them to restructure their activities to improve productivity. That resulted in a 5.4% decline in total employment and the closing of many plants. These actions helped generate productivity gains of 3.5% in 2009 and 3.4% in 2010. As a result, the profitability of U.S. businesses rose 34.8% in 2010.

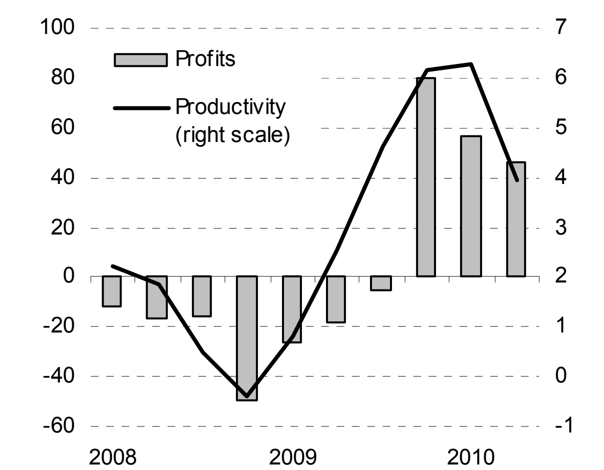
Thanks to the improvement in their financial situation, increased access to credit and substantial cash reserves, businesses are now in a position to gradually replace the government sector to support economic activity. After cutting real investment by 17.1% in 2009, businesses are expected to raise their investment by 4.9% in 2010 and 6.0% in 2011. In particular, after falling 15.3% in 2009, investment in hardware and software will rise by 14.1% in 2010 and 10.5% in 2011.

The recovery in investment should foster a gradual recovery in job creation. After declining in 2009, employment should stabilize in 2010 and grow by a modest 0.7% in 2011, not enough, however, to reduce the unemployment rate, which will be 9.7% in 2010 and 9.8% in 2011.

CHART 45

Productivity and profits in the United States

(annual percentage change)

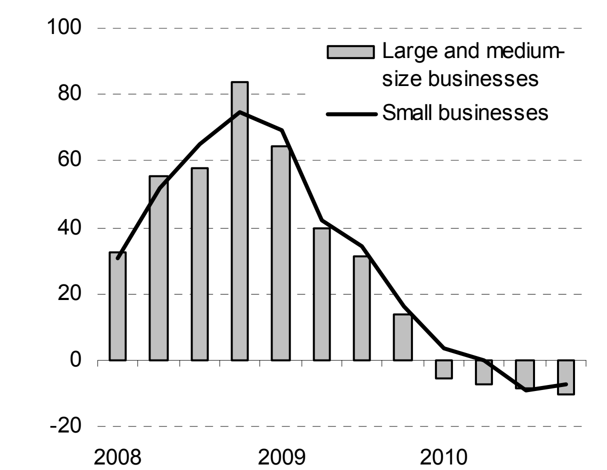


Source: IHS Global Insight.

CHART 46

Financial institutions tightening access to credit in the United States

(balance of institutions indicating they are tightening credit)



Source: Datastream.

Slow Recovery in Employment in the United States

The “Great Recession” that began in December 2007 and ended in June 2009 caused severe upheaval on the U.S. labour market. U.S. businesses shed substantial numbers of employees in response to falling demand for their products. The resulting 5.4% drop in employment represents the sharpest contraction since the end of the Second World War.

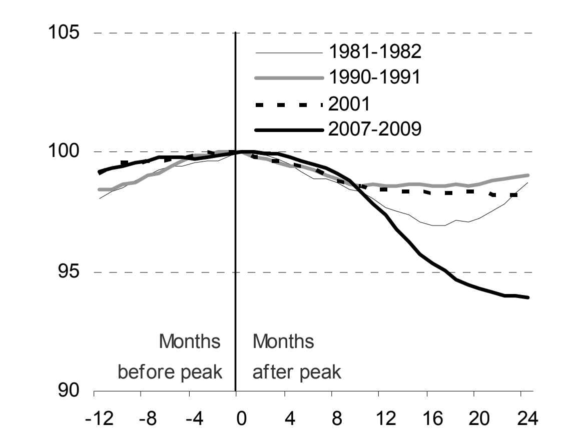
The deterioration of the labour market led to a significant rise in the unemployment rate, which more than doubled during this period, from 4.6% in 2007 to 9.3% in 2009. The situation is critical for the unemployed, since 41.8% of them have been looking for work for more than 27 weeks. Nonetheless, the rise in unemployment has been limited by a drop in the labour market participation rate, which has declined by 1.5 percentage points since 2007. The decline in the labour market participation rate means that 3.5 million Americans have left the labour force, whether voluntarily or not, over the last three years.

– The unemployment rate would have been 11.7% rather than 9.6% in October had labour market participation not declined during the crisis.

In 2010, uncertainty as to the strength of the recovery encouraged the use of temporary workers and the implementation of measures to improve productivity to increase business output. As a result, businesses have resumed hiring very gradually considering the sharp contraction in the labour market during the crisis. Compared to the two previous business cycles, the labour market’s performance is the worst since the end of the Second World War. The deterioration of the labour market during the last recession is worse than during the deep recession of 1981-1982, while the small increase in the number of jobs since the end of the recession is comparable to the jobless economic recoveries of the 1990-1991 and 2001 recessions. To summarize, after the worst deterioration in employment in recent history, the recovery in hiring is one of the slowest ever recorded.

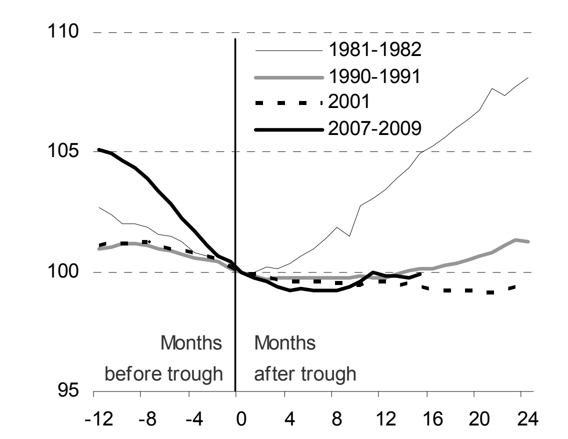
All in all, the labour market is expected to improve gradually as domestic demand firms, also supported by the growth of American exports. However, the unemployment rate is expected to remain high for a prolonged period, since job creation will not be enough to bring it down quickly. In addition, more favourable prospects linked to job search could prompt Americans who left the labour force during the crisis to return to the labour market, which would keep the unemployment rate at a higher level.

Change in employment by recession since the peak of economic activity
(index, beginning of the recession = 100)



Sources: IHS Global Insight and ministère des Finances du Québec.

Change in employment by recession since the trough of economic activity
(index, end of the recession = 100)



Sources: IHS Global Insight and ministère des Finances du Québec.

❑ Stabilization of the housing sector in 2011

In the first half of 2010, real estate activity was supported by government actions. With the end of these stimulus measures, including the first-time home buyers' tax credit, this sector experienced new difficulties. Real estate activity contracted once again in the second half of the year, many households having taken advantage of government incentives early in the year to accelerate purchases of homes that otherwise would have been made later.

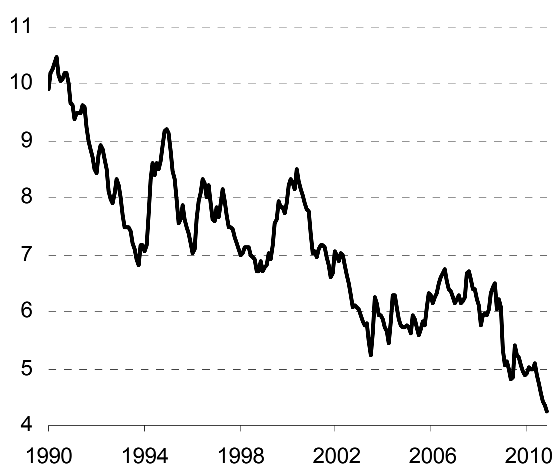
— Between April and October 2010, housing starts fell 23.6%, while sales of existing homes dropped 23.5%.

Despite very low mortgage interest rates, 4.3% for 30-year mortgages, home sales remain very weak in the second half of 2010, while the number of houses for sale is setting new records. This situation is attributable to uncertainty tied to the difficulties of the labour market and the high level of household debt, limiting the demand for homes, as well as the large number of foreclosures, increasing the supply of homes on the resale market.

In 2011, the recovery in employment, combined with very affordable homes because of the drop in home prices and low mortgage rates, should favour an increase in home sales, while housing starts will remain low. After falling 22.9% in 2009, residential investment is expected to decline by 3.5% in 2010, and grow by 3.7% in 2011.

CHART 47

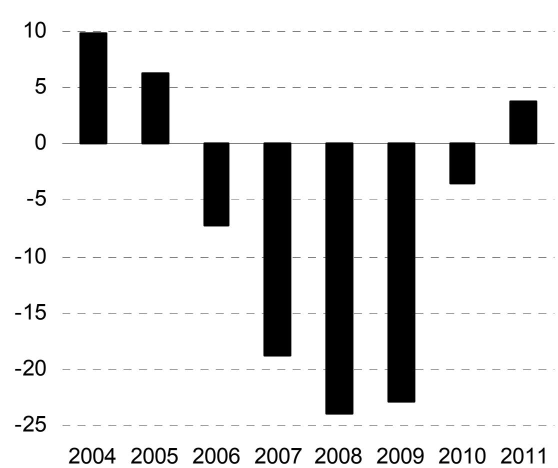
American mortgage interest rates
(rates on 30-year mortgages)



Source: IHS Global Insight.

CHART 48

Residential investment in the United States
(real percentage change)



Sources: IHS Global Insight and ministère des Finances du Québec.

1.4 An overview of Québec's housing market

In recent months, specialists have expressed concern at the upsurge on the Québec and Canadian housing markets. Indeed, measures were taken by federal government in the spring of 2010 to limit the growth in activity and prices in this sector.

In Québec's case, the real estate sector has been stimulated in recent years by economic factors such as easier borrowing conditions, low mortgage interest rates, household formation and the improving economic situation of households.

The bursting of the housing bubble in the United States and its ongoing consequences have certainly contributed to these concerns. While the situation is not comparable with that in the United States, an analysis of Québec's real estate market is needed because of the sharp rise in prices since 2002.

The overall situation of Québec's housing market is very different from that in the United States, in particular regarding the soundness of the financial system, housing market regulation as well as the economic and financial situation of households. In addition, despite the rise in their debt load, the ability of Québec households to repay their debts has stayed roughly constant over the last ten years.

Nonetheless, a gradual correction is expected in Québec's housing sector over the coming years. Indeed, activity and prices have already begun to slow in recent months. This correction is a desirable situation since it will help prevent a gap between home prices and households' ability to pay.

1.4.1 A key sector of the economy

In 2009, residential investment represented $16.8 billion in real terms, or 6.2% of GDP. Its size has grown quickly in recent years, since in 2001, it represented only 4.7% of GDP. Accordingly, it is a key component of economic activity in Québec.

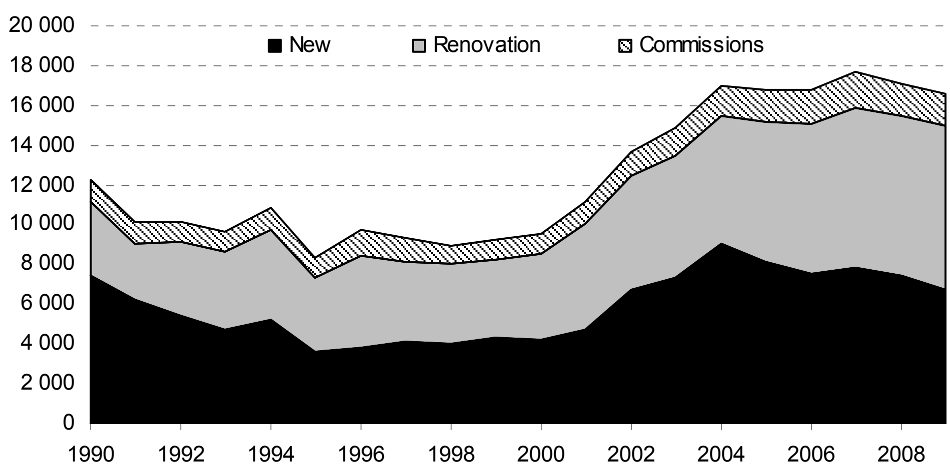
The three components of residential investment are renovation, new construction and real estate commissions. Renovation was the largest component, accounting for $8.4 billion or 50% of activity. New home construction accounted for $6.8 billion in 2009, or 40% of the total. Real estate commissions amounted to $1.6 billion or 10% of the total.

From 2002 to 2009, total residential investment rose 49.0%, new housing construction 42.4%, renovation 55.6% and real estate commissions 45.4%.

The volume and price of real estate assets have an impact on household consumption. For instance, it is increasingly common for households to fund consumer spending from the equity in their home.[2] In addition, certain purchases, such as furniture, are heavily influenced by activity in the housing sector.

CHART 49

Residential investment in Québec
(billions of dollars, in real terms)



Sources: Institut de la statistique du Québec and ministère des Finances du Québec.

2 The difference between the value of the home and the balance of the mortgage.

❑ Recent developments in the housing sector in Québec, Canada and the United States

Just as in Canada, Québec's housing sector has experienced a sharp upswing since 2002. This upswing follows a period of declining housing activity and stable prices during the 1990s.

- From 2002 to 2010, housing construction expenditure rose 70% in Québec and 38% in Canada.
- Prices of existing homes gained 107% in Québec and 97% in Canada.

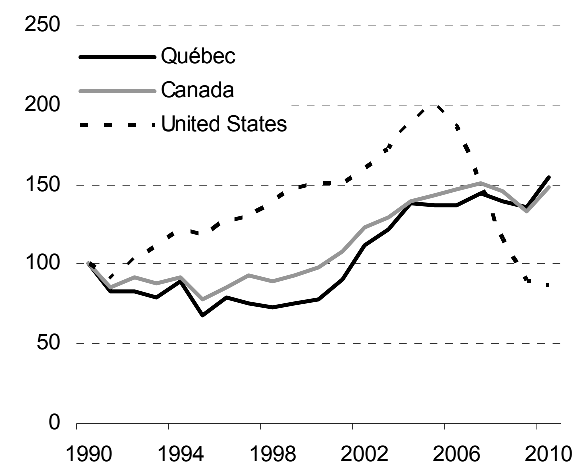
In the United States, the housing market experienced an upswing lasting more than 13 years, from 1992 to 2005. Over this period:

- residential construction spending doubled;
- home prices rose 107%.

With the bursting of the housing bubble, residential construction spending in the United States has plunged 57% since 2006 and prices have fallen 18% since 2007. Unlike the situation on the American market, the housing markets in Canada and Québec continued to improve since 2006, having been impacted only temporarily by the recession in 2008 and 2009.

CHART 50

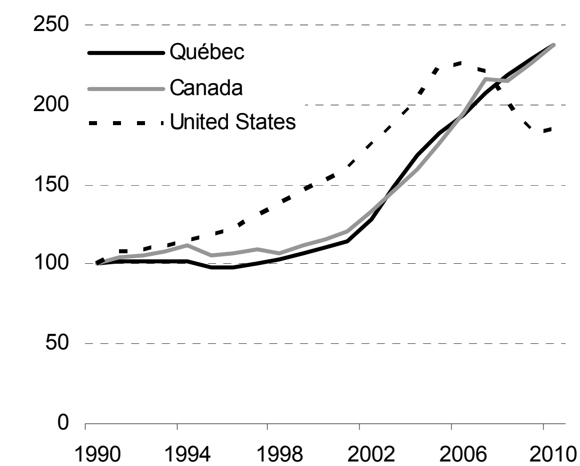
Residential construction spending
(index, 1990 = 100, in real terms)



Sources: Statistics Canada and IHS Global Insight.

CHART 51

Prices of existing homes
(index, 1990 = 100)



Sources: Canadian Real Estate Association and Datastream.

1.4.2 Factors supporting higher prices in Québec

Since 2002, several fundamental factors have supported demand in Québec's housing sector, in particular easier borrowing conditions, low interest rates, new household formation and the improvement in households' economic situation. Overall, rising demand on the housing market has favoured sellers, leading to upward pressure on prices.

❑ Easier borrowing conditions

Between 1998 and 2008, borrowing conditions eased in Canada, making housing more accessible.

- The minimum down-payment has been reduced from 10% to 5%.
- The minimum down-payment such that mortgage insurance is not required has fallen from 25% to 20%.
- The maximum amortization period has been extended from 25 to 35 years.

In addition, governments have over the last decade put in place stimulus programs to revive activity in the housing sector.

Federal government programs:

- tax credit for first-time homebuyers;
- home renovation tax credit in 2009.

Québec government program:

- tax credit for home improvement and renovation in 2009.

Easier borrowing conditions and the implementation of government programs have exerted upward pressure on demand for housing and on prices.

❑ Low mortgage interest rates

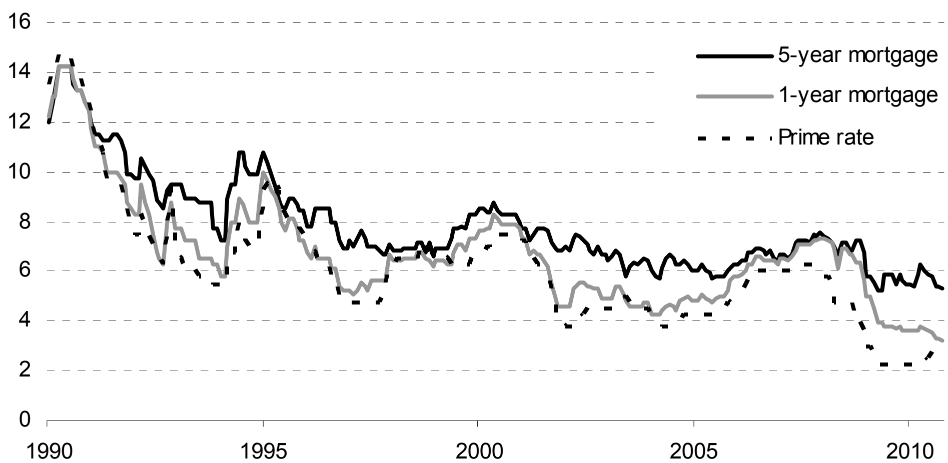
Mortgage interest rates are one of the key factors influencing housing affordability. Low mortgage interest rates since 2002 have boosted demand and, consequently, prices.

- The prime rate, i.e. the rate extended by the banks to their best customers, remained at 2.25% between April 2009 and May 2010.
- Five-year mortgage rates fell to 6.7% in 2002, finally reaching a record low of 5.25% in the spring of 2009.

During the 1990s, interest rates were much higher than today. Five-year mortgage interest rates climbed to 14.25% in 1990 and stood at 10.75% in 1995.

CHART 52

Interest rates in Canada
(monthly averages, percent)



Source: Bank of Canada.

❑ Household formation

In recent years, new household formation has fuelled demand in the housing sector.

- On average, 43 586 new households have been formed annually since 2007, an increase of 12 369 households, or 40%, compared to the period from 1997 to 2001. This increase in household formation has contributed significantly to the increase in housing starts during this period.
- Between 1997 and 2001, an average of 31 217 households were formed each year.

In recent years, the rise in international immigration to Québec has been a major factor that has contributed to the formation of new households.

TABLE 15

New household formation in Québec
(average number per year)

	Number of households	Housing starts
1992-1996	37 546	30 300
1997-2001	31 217	25 431
2002-2006	42 120	49 995
2007-2010	43 586	47 282
2011-2013	43 063	41 110

Sources: Institut de la statistique du Québec (2009 reference scenario) Canada Mortgage and Housing Corporation, Statistics Canada and ministère des Finances du Québec.

❑ The improvement in households' economic situation

The good economic situation of households, supported by the improving labour market and growth in household income, stimulated activity and prices in the housing sector in recent years.

■ Employment rate

Since 1993, the employment rate, i.e. the proportion of the population aged 15 or over holding a job, has risen. It has gone from 54.0% in 1993 to 61.0% in 2007. Despite the last recession, the employment rate fell only marginally. It is expected to average 60.2% in 2010.

The rise in the employment rate had a positive effect on home ownership since holding a job is often a key determinant in a household's decision to purchase a home.

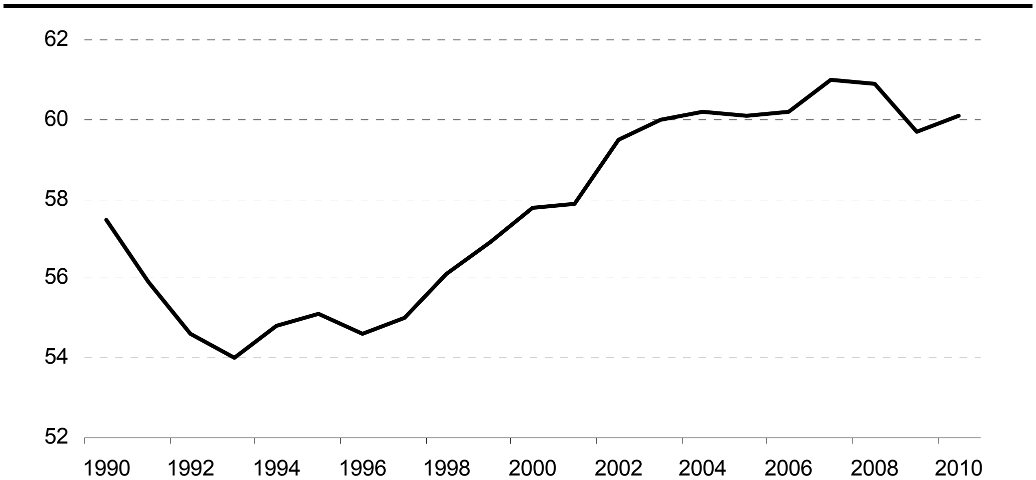
■ Household personal disposable income

The growth in household income was sustained by job creation, the rise in wages and the positive impact of tax cuts since 2002.

— From 2002 to 2009, household personal disposable income rose 2.9% annually.

CHART 53

Employment rate in Québec
(rate in percent)



Source: Statistics Canada.

❑ A housing market that favours sellers

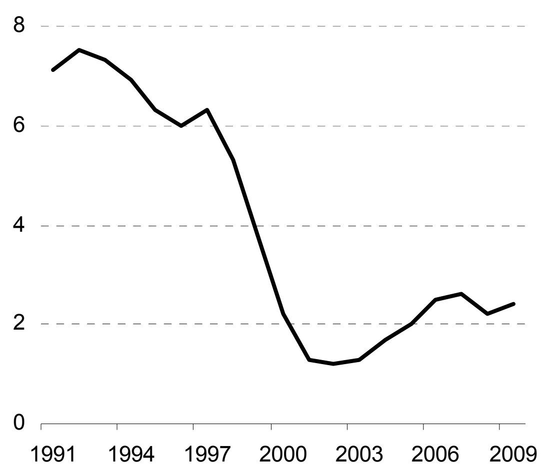
Despite the substantial increase in the number of housing starts since 2002, the vacancy rate of rental units has barely moved and the number of existing homes sold, as a proportion of new listings, has continued to favour sellers. These two factors contributed to exert upward pressure on prices.

- The vacancy rate of rental units in Québec, around 2% in 2009, remains low compared with rates of more than 7% in the early 1990s.
- Since 2002, the number of existing homes sold as a proportion of new listings has generally remained under 0.50, indicating a seller's market in the housing sector. In other words, demand exceeded supply. During the preceding thirteen years, the market was in equilibrium or favoured buyers.

CHART 54

Vacancy rate of rental units in Québec

(vacant rental units as a percentage of total rental units)

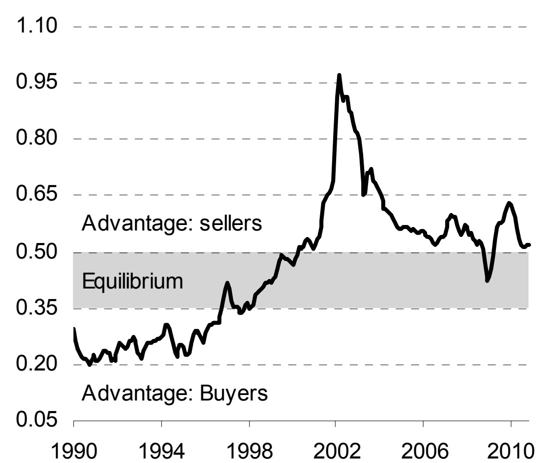


Source: Canada Mortgage and Housing Corporation.

CHART 55

Ratio of existing home sales and new listings of homes for sale in Québec

(ratio)



Sources: Canadian Real Estate Association and Canada Mortgage and Housing Corporation.

1.4.3 Households' financial situation

Despite the increase in the share of income allocated to housing by new buyers and higher debt overall, households have held their capacity to repay their debts roughly constant, thanks to a decline in debt service costs.

❑ An increase in the share of income allocated to housing

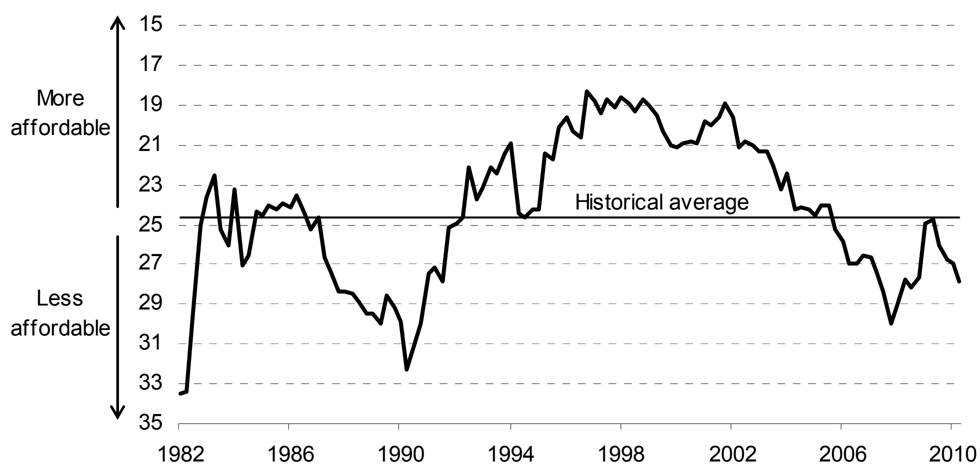
For a number of years, households that became homeowners have allocated a growing share of their income to acquire and cover the costs of a home.

— In 2010, new homebuyers allocated an average of 27.4% of their disposable income to mortgage payments, compared with 20.6% in 2002.

— These rates are below the rates observed in the early 1980s and 1990s. In particular, in the second quarter of 1990, 32.3% of new homebuyers' disposable income was allocated to mortgage payments.

CHART 56

Affordability index
(mortgage payment for a new homebuyer as a percentage of household personal disposable income)



Assumptions: Down-payment of 5%, 25-year amortization, 5-year mortgage rate.
Sources: Canadian Real Estate Association, Bank of Canada, Institut de la statistique du Québec, Statistics Canada and ministère des Finances du Québec.

❑ Rise in the ratio of home prices to income

The ratio of home prices to household income is a measure used to estimate the risk that homes are over-valued. This ratio has risen in Québec since 2002, while the average price of homes has almost doubled and household income has gained only 23%.

■ Comparisons between Québec, Canada and the United States

Between 1981 and 2002, the ratio of home prices to income remained relatively stable in Québec, in Canada and in the United States. The lower price of homes in Québec is reflected in the lower ratio than in Canada and the United States despite lower incomes.

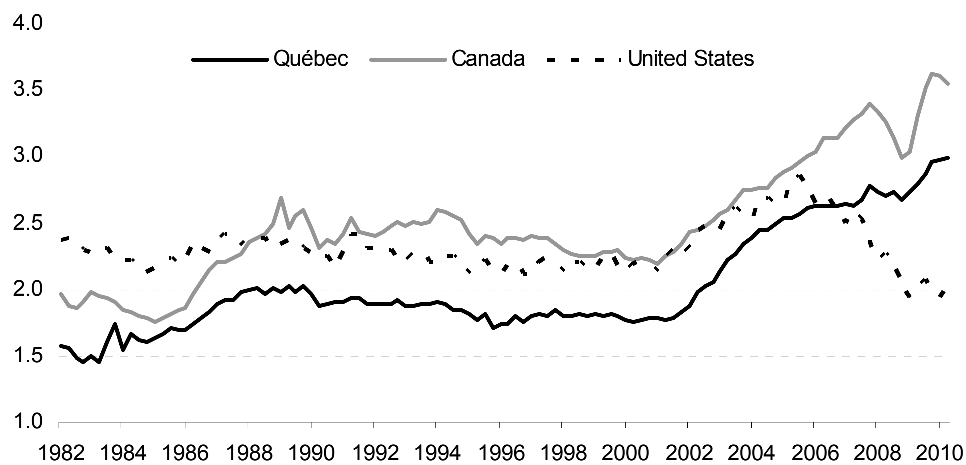
This ratio resumed rising in 2002 with the more rapid appreciation of home prices. In the United States, on the eve of the bursting of the housing bubble in 2005, the ratio peaked at 2.9 before falling to 2.0 in 2010 after the correction.

The ratio continued to rise in Québec and in Canada, even exceeding the peak reached in the United States in 2005.

— In 2010, so far, the Québec ratio stands at 3.0 and the Canadian ratio at 3.5.

CHART 57

Ratio of home prices to income
(ratio of average home price to personal income)



Sources: Statistics Canada, Institut de la statistique du Québec, Canadian Real Estate Association, IHS Global Insight and ministère des Finances du Québec.

❑ Canadian households more indebted[3]

The high level of household debt may also seem worrisome. Easy credit conditions have favoured the acquisition of real estate and a rise in household debt. In addition, homeowners have taken advantage of low interest rates and the substantial rise in the market value of their property to increase their mortgage debt and thus fund a portion of their personal spending.

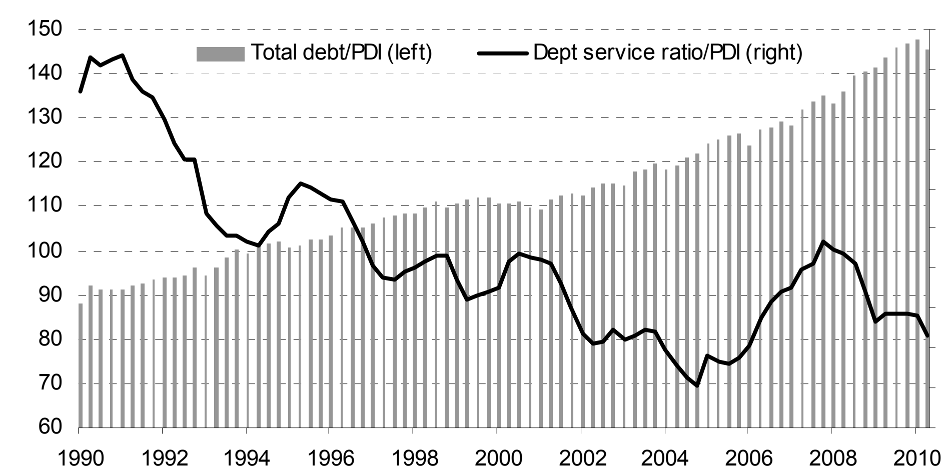
— The debt-ti-income ratio, i.e. the ratio of total household debt in Canada to income, has averaged 146.6% so far in 2010, compared with 114.3% in 2002.

Nonetheless, households have been able to sustain the rise in the debt-to-income ratio because of more flexible credit conditions.

— The debt service ratio, i.e. interest payments over income, stands at 7.3% so far in 2010, similar to what it was in 2002, when the indebtedness ratio was much lower.

CHART 58

Debt-to-income ratio and debt service in Canada
(total debt and debt service of households, as a percentage of personal disposable income)



Sources: Statistics Canada and ministère des Finances du Québec.

3 The only public data available concerning the financial situation of households are Canadian data. Accordingly, the figures shown in this section represent the situation for Canada as a whole.

❑ Households' repayment capacity has not changed

While households that have become homeowners in recent years have had to bear a heavier debt burden, the picture for households as a whole is less worrisome.

While it is true that households have taken on considerable debt over the last ten years, their capacity to repay has remained roughly constant. According to a recent study by the Mouvement Desjardins,[4] monthly payments by Québec households related to the repayment of their debts, including repayments of principal and interest, have changed little between 2000 and 2009 compared to their income.

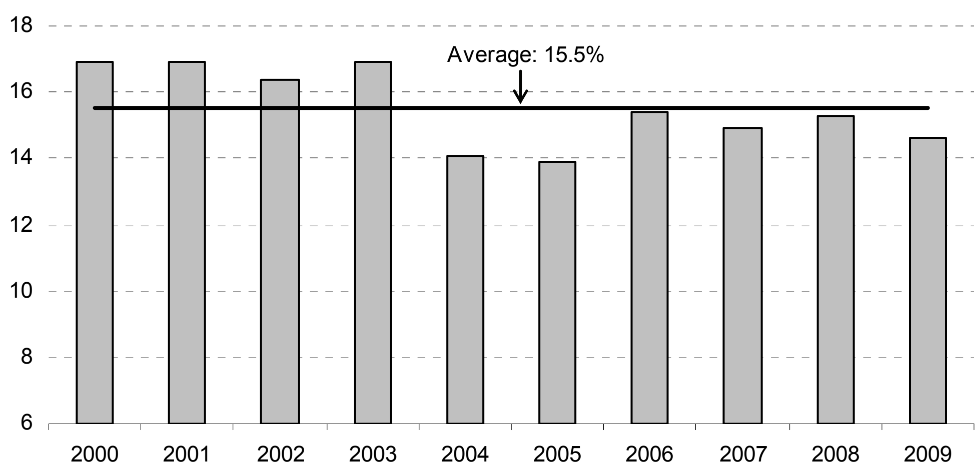
— From 2000 to 2009, this ratio averaged 15.5%.

Accordingly, while households now allocate a larger portion of their income to repay principal because of the rise in their debt load, the decline in interest rates has led to a decrease in interest payments of the same magnitude, such that the ratio of monthly payments as a percentage of income has remained roughly constant.

According to the Mouvement Desjardins, the expected rise in the overnight rate from now until 2015 will have little impact on the ratio of monthly payments. Assuming the Bank of Canada's key interest rate were to rise from 1.0% in 2010 to 4.25% by 2015, the average ratio would increase from 14.8% to 15.8%.

CHART 59

Ratio of monthly payments to income for Québec households
(average monthly payments compared to gross income, as a percentage)



Source: Desjardins Economic studies.

4 Desjardins Études économiques, *À quel point les ménages québécois sont-ils vulnérables à une hausse des taux d'intérêt?*, November 2, 2010.

Household Debt in Canada and Québec

Growth in household debt is a significant risk for Québec's economy. Many organizations, including TD Bank[1] and the Mouvement Desjardins[2], have released studies on household debt levels and the risks related to rising interest rates.

Factors influencing the rise in Canadian household debt since 1990

According to TD Bank, many factors have influenced the rise in Canadian household debt since 1990. First of all, a number of factors have favoured increased household demand for credit:

- the Bank of Canada's inflation control policy had led to a drop in interest rates, particularly since the beginning of the 2000s decade;
- the rise in home ownership sustained by the high level of consumer confidence;
- the impact of the baby boomers who have invested in housing to take advantage of the wealth effect stemming from the rising value of their home;
- the higher participation rate among women in the labour market, which has fostered the formation of two-income households;
- a change in culture that favours consumption rather than savings and reduced fear of bankruptcy, especially among younger generations;
- the deregulation of mortgage insurance, in particular the easing of criteria for obtaining a loan, the decrease in the minimum down-payment required to acquire a home and the increase in the maximum amortization period.

Second, the supply of credit has been broadened by the deregulation of the financial sector, which has led to increased competition among banks and greater availability of financial products.

Debt load of Québec households

A number of measures can be used to estimate the debt load of Québec households. The debt service ratio, i.e. the amount of monthly principal and interest payments compared to income, shows that the debt load has not changed in Québec over the last ten years because of low interest rates.

- According to the Bank of Canada, a household could face financial difficulties where this ratio exceeds 40%.
- According to the Mouvement Desjardins study[3], only 5.0% of Québec households fall into this critical zone, less than the 5.7% average rate for the 2000s decade.

Risks associated with debt

In light of these two studies, even if interest rates are expected to rise over the coming years, the risks related to household debt remain relatively limited.

In addition, TD Bank notes that many factors will contribute to slowing growth in household debt, in particular softening of activity in the housing sector, tighter criteria for obtaining a mortgage and a more moderate rate of appreciation in home values.

1 TD Bank, *Canadian Household Debt: A Cause for Concern*, October 20, 2010.
2 *Op. cit*.
3 The study was conducted with micro data from a survey done by the Ipsos Reid.

❑ A different market than in the United States

There are significant differences between the U.S. and Québec housing markets.

The housing bubble in the United States was spurred by excessive broadening of access to credit with the promotion of risky loans tied to a rising market. The rise in interest rates and the bursting of the housing bubble in the United States resulted in a high number of mortgages in default. In Québec and in Canada, access to credit is stricter.

There are also major differences between the Canadian and American financial systems that make the eventuality of financial difficulties relating to a housing bubble less likely in Canada and Québec.

- Canadian financial institutions, in particular the large chartered banks, are in better financial health than their American counterparts.
- Despite some deregulation, very few mortgages are granted to high-risk borrowers in Canada compared to the United States.

Furthermore, many components of mortgage market regulation in Canada and the United States differ significantly and make the Canadian system less prone to the formation of a speculative bubble.

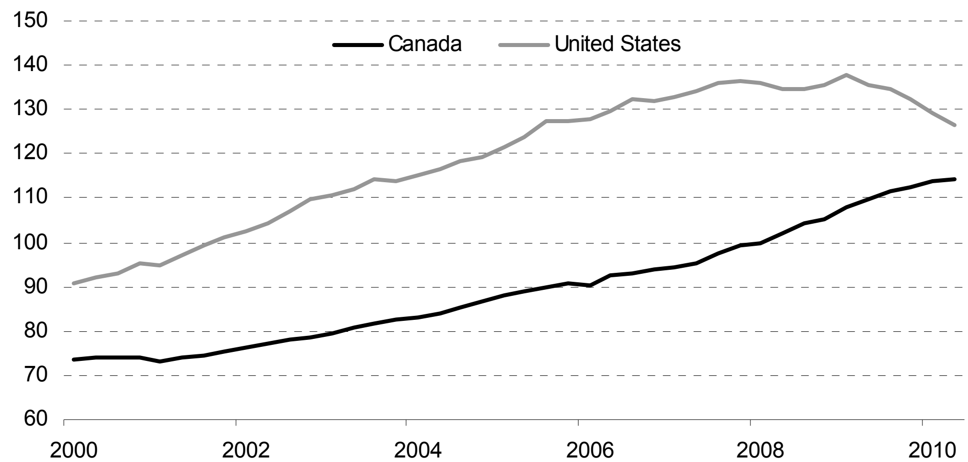
- For example, if the mortgage exceeds 80% of the value of the property, Canadian banks must require that mortgage insurance be taken out on the loan, thus transferring the risk from the financial institutions to the organization providing the mortgage insurance. Lending institutions in the United States did not face this requirement.

Accordingly, in the case of a housing crisis, the Canadian government would be more exposed to defaults on insured mortgages, rather than Canadian financial institutions, contrary to the situation in the United States. Still, the U.S. experience has shown that in a context of widespread failures, the government must implement costly bailout plans.

Lastly, despite the growth in recent years, Canadian households carry less debt than those in the United States. In the second quarter of 2010, the debt load of Canadian households as a percentage of their personal income stood at 114%, compared with 127% for American households.

CHART 60

Debt-to-income ratio of Canadian and American households
(debt as a percentage of gross income)



Sources: Statistics Canada, U.S. Flow of Funds Accounts and ministère des Finances du Québec.

1.4.4 Québec's housing sector expected to slow

Following a lengthy upswing, activity on Québec's housing market has been slowing since the beginning of 2010.

- The number of transactions on the resale market declined from 91 800 to 76 300 between January and October 2010, down 16.9%.
- Housing starts have fallen 13.1% between January and October 2010 and further declines are expected over the coming months.
- In addition, the strong rise in prices has levelled off, with the average existing home price gaining only 1.7% since January 2010.

This slowdown is chiefly attributable to the fact that a portion of household demand was brought forward to late 2009 and early 2010 to take advantage of low mortgage rates. In addition, the federal government introduced measures last April to tighten the criteria for obtaining a mortgage in order to slow demand for housing.

The slowdown in activity and prices in the housing sector should continue over the coming years. The number of housing starts should return to a pace more in line with household formation, and renovation should slow in reaction to a softer resale market and housing prices.

Even though most experts expect real estate activity in Québec to slow, new factors may contribute in the future to upward pressure on prices. In such a situation, should these price rises threaten economic growth, the authorities could introduce additional measures to moderate their extent.

TABLE 16

Outlook for Québec's housing sector
(average annual percentage change)

	2002-2010	2011-2014
Residential construction	5.7	– 1.7
New homes	5.8	– 5.8
Renovation	5.9	1.3

Sources: Statistics Canada and ministère des Finances du Québec.

PART TWO :

ASSESSMENT OF THE PLAN TO SUPPORT JOBS AND PREPARE FOR ECONOMIC RECOVERY

2. ASSESSMENT OF THE PLAN TO SUPPORT JOBS AND PREPARE FOR ECONOMIC RECOVERY

2.1 The government's action plan

In 2008, Québec sustained the repercussions of the financial crisis just as other economies did. At the first signs of an economic slowdown, the government intervened to stimulate the economy and a series of measures totalling $15 billion was implemented under the Plan to support jobs and prepare for economic recovery. The government thus supported businesses affected by the credit crunch and workers affected by difficult economic conditions, in addition to protecting consumers' purchasing power.

Through this plan, the government initiated an array of coherent, complementary, diversified measures that both supported the economy during this difficult time and prepared Québec for economic recovery.

2.2 Fall 2010 assessment

In conjunction with the fall 2010 economic and financial update, the government wishes to take stock of the measures introduced until now and the financial resources committed.

The measures in the action plan can be divided into five sections:

- additional, immediate actions to support businesses and workers;
- invest in public infrastructure;
- support households, especially families and seniors;
- stimulate investment by reducing the corporate tax burden;
- prepare Québec for economic recovery.

Overall, the measures in the action plan have led to the injection of $14.2 billion into the economy in 2009 and 2010, including:

- $8.3 billion to improve infrastructure;
- $4.4 billion for businesses;
- $1.5 billion for individuals.

To this end, the government has stepped up its efforts with regard to infrastructure in order to support economic activity and jobs in Québec. These investments are also helping to develop an efficient society that creates wealth.

The government then introduced measures to enable Québec workers and businesses to better weather the recession.

- The Employment Pact Plus offered outstanding support to workers and businesses at a time when the crisis was significantly undermining the labour market.
- The tax credit for home renovations and improvements stimulated the home renovation sector.
- Businesses that had experienced the tightening of credit since the financial crisis were quickly able to obtain cash resources through programs such as *Renfort*.
- Measures aimed at reducing the tax burden of companies, including reductions in the general capital tax rate leading to its complete abolition as of January 1, 2011, have fostered investment and enhanced the productivity of Québec enterprises.

The government has also acted to help the regions and sectors of activity weather the economic crisis and prepare for economic recovery.

- The Plan Emploi Métropole responds to the problem of the labour market in the Montréal area, which is more affected than the other regions by the economic crisis.
- Measures aimed at the development of northern Québec will harness its enormous development potential and make it a new economic area in a perspective of sustainable development.
- Québec technology enterprises can take advantage of business opportunities stemming from economic recovery through capital made available to them by the Fonds Teralys Capital and the three start-up funds.

The government has implemented new financing rules to mitigate the impact of the 2008 financial crisis on businesses that offer their workers a defined-benefit pension plan and to enhance the security of the benefits of participants in and beneficiaries of these plans.

2.2.1 $14.2 billion injected in 2009 and 2010

The Plan to support jobs and prepare for economic recovery has led to the injection into the economy of $14.2 billion over two years, including:

— $6.4 billion in 2009;

— $7.8 billion in 2010.

TABLE 17

Government action plan: funds injected into the Québec economy in 2009 and 2010 – Fall 2010
(in millions of dollars)

	Funds committed in 2009	Funds anticipated in 2010	Total over two years
Additional, immediate actions to support businesses and workers	1 510	1 811	3 321
Invest in public infrastructure[1]	3 939	4 265	8 204
Support households, especially families and seniors	369	585	953
Stimulate investment by reducing the corporate tax burden	330	729	1 059
Prepare Québec for economic recovery	260	387	647
TOTAL	**6 408**	**7 777**	**14 184**

Note: Since figures are rounded, they may not add up to the total shown.
1 Excluding infrastructure to develop northern Québec, which is accounted for in the section “Prepare Québec for economic recovery.”

Some 94% of the cash resources have been injected in relation to the initial $15-billion plan. The discrepancy stems essentially from support measures for businesses, whose cash resource needs eased in 2010 as a result of the sound performance of the Québec economy.

In particular, demand for the *Renfort* program was lower than anticipated in 2010. In fact, in the wake of the striking success that this program achieved, the government substantially increased its budget allowance in the fall of 2009 in order to pursue efforts aimed at enterprises in difficulty.

Economic output returned to its pre-recession level during the first six months of 2010, which has reduced the cash resource needs of companies during the past year. Québec enterprises are now in a good position to benefit from economic recovery. It is, therefore, appropriate to end this program.

2.3 Economic support comparable to that offered by our partners

The Plan to support jobs and prepare for economic recovery implemented by the Québec government to revive economic growth in Québec is comparable to the plans implemented in Canada and the United States. In 2009 and 2010:

- the Québec government will have injected an additional $14.2 billion, equivalent to 4.6% of GDP;
- the Government of Canada will have injected an additional $75.1 billion, equivalent to 4.8% of GDP;
- the US federal government will have injected an additional $823.0 billion, equivalent to 5.7% of GDP.

TABLE 18

Government action to support the economy in 2009 and 2010

	2009		2010		TOTAL	
	(billions of $)	(as a % of GDP)	(billions of $)	(as a % of GDP)	(billions of $)	(as a % of GDP)
Québec	6.4	2.1	7.8	2.5	14.2	4.6
Canada	46.1	3.0	29.0	1.8	75.1	4.8
United States[1]	372.6	2.6	450.4	3.1	823.0	5.7

Note: Includes fiscal and budgetary measures, infrastructure investments and funding earmarked to support the economy, excluding assistance to the financial sector.
1 Amounts are in US dollars.
Sources: Department of Finance Canada, Congressional Budget Office, Office of Management and Budget, Council of Economic Advisors, and ministère des Finances du Québec.

2.4 A decisive role in supporting recovery

Since the fall of 2008, the government has intervened on several occasions to boost economic growth in Québec. The Québec government's initiatives, combined with the measures that the federal government has announced, have enabled the Québec economy to weather the recession and put it in a better position to take advantage of economic recovery. In 2009 and 2010:

- Québec's real GDP will be 1.5 percentage points higher than it would have been without government support measures. This support has led primarily to the Québec government's and Hydro-Québec's public infrastructure spending and support measures for businesses and individuals;
- government initiatives will create or maintain 60 000 jobs.

2.5 Québec's economic performance surpasses that of its economic partners

Québec has better withstood the recession than its main trading partners have. The downturn in output and employment has been less severe because of the economic support measures introduced from the fall of 2008.

- In 2009, Québec's real GDP fell 0.3%, compared with decreases of 3.6% in Ontario, 2.5% in Canada, and 2.6% in the United States.
- Between October 2008 and July 2009[5], employment declined by 1.7% in Québec, compared with downturns of 3.1% in Ontario, 2.4% in Canada, and 4.0% in the United States.

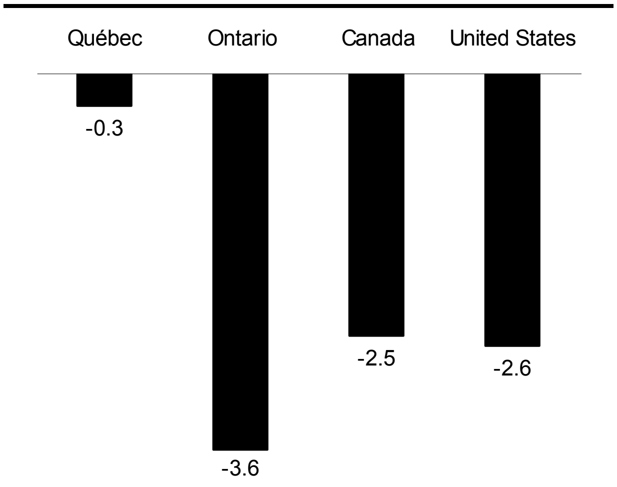
Moreover, Québec has recovered more rapidly than its partners have.

- Output has quickly returned to its pre-recession level.
- Since July 2009, employment has risen by 3.3% in Québec, but by 2.3% in Ontario, 2.5% in Canada, and 0.1% in the United States. Québec has recovered twice as many jobs as it lost during the recession.

In 2010, the unemployment rate of 7.9% will fall below that of Canada (8.0%) and the United States (9.7%).

CHART 61

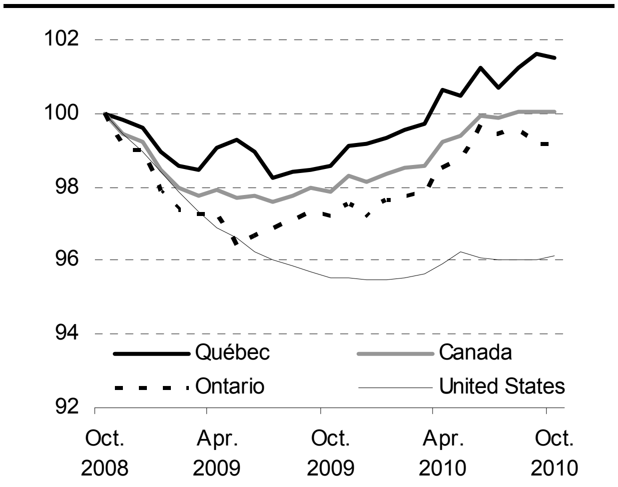
Real GDP in 2009
(percentage change)



Sources: Statistics Canada and IHS Global Insight.

CHART 62

Change in employment
(Index, October 2008 = 100)



Sources: Statistics Canada and IHS Global Insight.

5 Between the peak and trough in employment in Canada.

2.6 Initiatives that support the economy

The measures in the Plan to support jobs and prepare for economic recovery have enabled Québec to successfully weather the economic crisis. In particular, the measures announced have led to investments in public infrastructure, satisfied the cash resource needs of businesses, supported workers affected by difficult economic conditions, and stimulated the economy.

Some $14.2 billion has been injected into the Québec economy under the array of measures introduced since the fall of 2008. These initiatives have enabled Québec to weather the recession and position itself to take advantage of economic recovery. In this regard, the results of certain measures are noteworthy.

2.6.1 Public infrastructure

To support the Québec economy, the government significantly increased investment in public infrastructure in 2009-2010 and 2010-2011 through the adoption of the 2009-2014 Québec Infrastructures Plan.

This $42.6-billion, five-year plan calls for investments totalling $8.9 billion and $9.1 billion, respectively, in the two years in question.

These investments represent $8 billion in additional funding injected into the Québec economy over the two-year period in relation to the investments carried out in 2007-2008.

TABLE 19

Additional funding injected into the economy
(in millions of dollars)

	2009-2010	2010-2011
Investments under the 2009-2014 Québec Infrastructures Plan	8 931.3	9 141.6
Level of investment in 2007-2008	5 014.3	5 014.3
ADDITIONAL FUNDING INJECTED	3 917.0	4 127.3
	8 044.3	

Such investment not only supports the economy and employment but also provides Québec with public infrastructure that will enable it to satisfy Quebecers' needs in the coming years.

❑ Status report

Investments under the Québec Infrastructures Plan include infrastructure projects in all regions of Québec in all categories of public infrastructure, i.e. roads, bridges, hospitals, universities, schools, municipal infrastructure and much more. The numerous projects under way in 2009-2010 include:

— construction work on a four-lane road between Québec City and Saguenay ($89.5 million[6]);

— the redevelopment of highway 185 in the Bas-Saint-Laurent region ($43.5 million[7]);

— the extension of Autoroute 50 in the Laurentides region and in the Outaouais region ($132.4 million[8]);

— the construction of the new concert hall of the Orchestre symphonique de Montréal ($46.3 million[9]).

6 Investment carried out in conjunction with this project in 2009-2010 only.

7 *Ibid.*

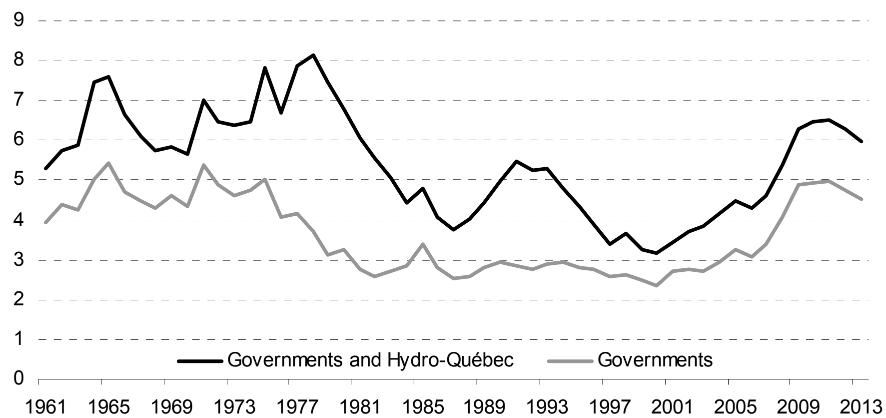
8 *Ibid.*

9 *Ibid.*

Public investments in the economy

Public investments in Québec, including those made under the Québec Infrastructures Plan, by Hydro-Québec, the municipalities and the federal government, reached 6.3% of GDP in 2009, an unprecedented level in 25 years.

Investments made by governments[1] and Hydro-Québec in Québec
(as a percentage of GDP)



1 Québec government, federal government and the municipalities.
Sources: Statistics Canada and ministère des Finances du Québec.

In fact, the $13.6 billion in investment planned, on average, in 2009-2010 and 2010-2011 by the government in the Québec Infrastructures Plan and by Hydro-Québec will create or maintain nearly 100 000 jobs in Québec, equivalent to 2.5% of all jobs. The increase in public investments by the Québec government and Hydro-Québec will support 35 000 jobs more than five years ago.

Jobs supported by the Québec Infrastructures Plan[1] and Hydro-Québec

	Average annual value of investments (billions of $)	Average annual number of jobs[2] (units)
2009-2010 to 2010-2011	13.6	98 000
2003-2004 to 2008-2009	7.8	63 000
Increase between the two periods	5.8	35 000

1 Estimate of the ministère des Finances du Québec based on the intersectorial model of the Institut de la statistique du Québec.
2 Contributions of the Québec government only.

2.6.2 *Renfort* program

In November 2008, the government announced the implementation of the *Renfort* program to offer financing to efficient Québec enterprises experiencing financial difficulties attributable to economic conditions. The program was enhanced twice so that it was able to offer up to $2 billion in additional funding for businesses before December 2010.

The financial assistance is used to fund working capital and investment projects. It takes the form of direct financing for businesses or a loan guarantee in the case of a loan contracted with a recognized financial institution.

❑ Status report

The results indicate that it attained its objective. By mid-November 2010, over 1 100 applications totalling $1.4 billion in financing had been authorized or were being assessed.

— 868 applications totalling over $1.1 billion had been authorized;

— 271 other applications were being assessed for an additional $281 million in funding.

Among the applications authorized, roughly 60% of the interventions covered the financing or refinancing of the working capital of enterprises contending with a difficult economic setting.

Through the *Renfort* program, the government made sufficient capital available to businesses to satisfy their immediate needs. As of November 19, 2010, applications for financing from businesses totalled $1.4 billion, while the program would have made available up to $2 billion in cash resources.

TABLE 20

Achievements of the *Renfort* program
(as of November 19, 2010)

	Applications authorized		Applications being assessed	
	Number	**Financing (millions of $)**	**Number**	**Financing (millions of $)**
Direct loans to businesses	444	645.5	115	140.2
Loan guarantees	424	463.7	156	141.1
TOTAL	**868**	**1 109.1**	**271**	**281.3**

Note: Since figures are rounded, they may not add up to the total shown.
Source: Investissement Québec.

Until now, businesses in all regions of Québec have benefited from the program. Some 868 interventions have been carried out as of November 19, 2010. The Saguenay–Lac-Saint-Jean and Chaudière-Appalaches regions have benefited extensively from the program, with 114 and 84 applicants, respectively. Businesses in the Montréal area and the Montérégie region have benefited from 308 interventions.

TABLE 21

Regional assessment of interventions under the *Renfort* program
(as of November 19, 2010)

	Applications authorized		Applications being assessed	
Administrative region	**Number**	**Financing (millions of $)**	**Number**	**Financing (millions of $)**
01 – Bas-Saint-Laurent	35	43.5	20	18.5
02 – Saguenay—Lac-Saint-Jean	114	204.9	25	29.9
03 – Capitale-Nationale	56	58.5	15	14.2
04 – Mauricie	25	40.5	15	22.4
05 – Estrie	36	64.6	6	5.7
06 – Montréal	166	163.7	60	59.1
07 – Outaouais	17	133.6	7	9.3
08 – Abitibi-Témiscamingue	13	12.6	5	7.5
09 – Côte-Nord	14	15.9	4	3.6
10 – Nord-du-Québec	2	2.9	—	—
11 – Gaspésie—Îles-de-la-Madeleine	7	5.7	6	4.3
12 – Chaudière-Appalaches	84	89.7	22	21.3
13 – Laval	39	39.9	13	27.5
14 – Lanaudière	28	16.9	7	5.3
15 – Laurentides	50	29.4	11	6.4
16 – Montérégie	142	128.0	37	35.6
17 – Centre-du-Québec	40	58.8	18	10.9
TOTAL	**868**	**1 109.1**	**271**	**281.3**

Note: Since figures are rounded, they may not add up to the total shown.
Source: Investissement Québec.

2.6.3 The Employment Pact Plus

To cope with the anticipated deterioration in the labour market in Québec in 2009 and 2010, the government announced in its 2009-2010 Budget the Employment Pact Plus, which calls for $518 million in additional investments over two years, including nearly $456 million funded jointly by the Québec and federal governments.

The Employment Pact Plus includes 16 measures to mitigate the impact on workers and businesses of the economic slowdown. These measures seek primarily to:

— help recently unemployed workers through employment assistance services and training and qualification services;

— act upstream before layoffs, in particular by helping businesses in difficulty and those that are continuing to develop through human resources management consulting services and staff training services.

❑ Status report

Through the Employment Pact Plus, Emploi-Québec has available financial resources that have enabled it to:

— keep 27 829 workers employed with the program to support enterprises that risk being affected by the economic slowdown implemented by the Commission des partenaires du marché du travail (CPMT).

Moreover, Emploi-Québec has intervened with respect to:

— 726 602 unemployed individuals in conjunction with a series of measures and services offered to individuals;

— 28 718 businesses under the array of measures and services offered to businesses.

Program to support enterprises that risk being affected by the economic slowdown

To help enterprises experiencing a difficult economic environment to keep their employees, the Commission des partenaires du marché du travail (CPMT) set up the program to support enterprises that risk being affected by the economic slowdown on December 1, 2008. The program offers financial support that allows businesses compelled to slow down their operations to invest in employee training instead of laying off workers or reducing their working hours.

When the program was launched, the CPMT earmarked $25 million for the period between December 2008 and March 31, 2010 in order to satisfy the needs of businesses through the Fonds de développement et de reconnaissance des compétences de la main-d'œuvre. The measure was an undeniable success and the government announced in the spring of 2009 an additional $25-million contribution to enhance it.

In addition to the private and public investments planned under the Commitment for Employment Plus, the CPMT twice increased the funding available in July and October 2009. Overall, businesses have benefited from $68.4 million, which has enabled them to develop worker skills and thus avoid layoffs.

Enterprises quickly resorted to this measure, which, to date, has benefited 27 829 workers. In this way, businesses have maintained their expertise and enhanced their workers' skills, which has contributed significantly to reviving the economy.

Results of the program[1]

	Number	**Financing** (millions of $)	**Wage earners targeted**
Projects authorized	1 192	68.4	27 829

1 The program to support enterprises that risk being affected by the economic slowdown was launched December 1, 2008 and ended on March 31, 2010. The results were compiled on April 6, 2010.
Source: Emploi-Québec.

2.6.4 Home renovation tax credit

To support the home renovation industry and enhance the quality of life of families, the government introduced in its January 2009 economic statement the refundable tax credit for home renovations and improvements.

The tax credit was equivalent to 20% of eligible expenses in excess of $7 500, up to a maximum of $2 500. It was granted for the 2009 fiscal year to homeowners who had a qualified contractor carry out major home renovations or improvements in the home that they occupied as their main residence.

❑ Status report

According to the latest taxation data, the refundable tax credit for home renovations and improvements led to the granting in 2009 of tax assistance totalling $200 million to over 138 000 Québec households that own a dwelling, i.e. nearly $1 450 on average per beneficiary household.

The tax credit thus supported in the home renovation industry renovations totalling nearly $2.4 billion in 2009, equivalent to an average of nearly $18 000 per beneficiary household.

TABLE 22

Clientele and cost of the refundable tax credit for home renovations and improvements – 2009

	Cost of renovation work		Amount of the tax credit	
Number of beneficiary households	**Total** (millions of $)	**Average** ($)	**Total** (millions of $)	**Average** ($)
138 178	2 443	17 679	200	1 447

Source: Revenu Québec.

Moreover, despite the economic recession that was rampant in 2009, official indicators reveal appreciable growth in activity in the home renovation sector throughout Québec. The tax credit has certainly contributed to such growth.

In fact, real home renovation spending in Québec grew by 2.3% in 2009, compared with 1.2% in 2008 and 6.4% in 2007.

Employment in the residential construction sector rose by 2.5% in 2009, as against 8.7% in 2008 and 2.2% in 2007.

TABLE 23

Home renovation expenditures and employment in the residential construction sector in Québec — 2003 to 2009

	2003	2004	2005	2006	2007	2008	2009
Home renovation expenditures (in millions of 2002 dollars)	6 050	6 435	7 081	7 587	8 070	8 169	8 360
Growth (%)	*6.0*	*6.4*	*10.0*	*7.1*	*6.4*	*1.2*	*2.3*
Number of jobs in the residential construction sector	22 149	23 720	24 203	23 929	24 467	26 589	27 251
Growth (%)	*7.2*	*7.1*	*2.0*	*– 1.1*	*2.2*	*8.7*	*2.5*

Sources: Statistics Canada and Institut de la statistique du Québec.

2.7 A plan that is attaining its objectives

Now that economic recovery is well and truly under way, we can conclude that the Plan to support jobs and prepare for economic recovery has attained its objectives.

In fact, prompt government intervention has mitigated the impact of the economic crisis in Québec, which has fared better than the neighbouring economies have.

Furthermore, enterprises are in a better position to take advantage of business opportunities created by the economic upswing.

2.8 Detailed table on the impact on cash resources

Plan to support jobs and prepare for economic recovery
Impact on cash resources[1]
(in millions of dollars)

	Revised commitment 2009	Forecast commitment 2010	Total	Population affected
UPDATE ON QUÉBEC'S ECONOMIC AND FINANCIAL SITUATION, PRESENTED ON NOVEMBER 4, 2008				
– *Renfort* program (all measures)	700.0	700.0	**1 400.0**	1 139 businesses
– Increase from $1 500 to $2 000, in 2009, in the amount of the tax credit for retirement income	24.0	27.0	**51.0**	350 000 households
– Increase from 1.58% to 2.36% in the indexing rate of the personal income tax system for 2009	136.0	150.0	**286.0**	4 300 000 households
– Full indexing of 2.36% of last-resort benefits for 2009, including that of households fit for work	37.2	47.6	**84.8**	336 000 households
– Increase in Child Assistance and the Work Premium	16.0	26.0	**42.0**	820 000 households
Subtotal	**913.2**	**950.6**	**1 863.8**	
REDUCTION OF 25% OF MINIMUM WITHDRAWALS FROM RRIFS IN 2008 ANNOUNCED ON DECEMBER 19, 2008	**40.0**	—	**40.0**	100 000 taxpayers
JANUARY 14, 2009 ECONOMIC STATEMENT				
– Introduction of a refundable tax credit for renovation and home improvements	200.0	—	**200.0**	138 000 households
– Contribution of $1 billion to the SGF to invest in Québec companies	262.6	337.4	**600.0**	18 projects
– Improvement to the tax credit for Québec film and television production	10.0	20.0	**30.0**	385 businesses
– Acceleration of the 2008-2013 Québec Infrastructures Plan	518.4	407.1	**925.5**	
Subtotal	**991.0**	**764.5**	**1 755.5**	
2007-2012 QUÉBEC INFRASTRUCTURES PLAN: IMPACT COMPARED TO 2007	**3 404.6**	**3 045.2**	**6 449.8**	
ELIMINATION OF THE TAX ON CAPITAL: IMPACT OF RATE DECREASES OF JANUARY 1, 2009 AND 2010	**299.0**	**673.0**	**972.0**	75 000 businesses

Plan to support jobs and prepare for economic recovery
Impact on cash resources[1] (continued)
(in millions of dollars)

	Revised commitment 2009	Forecast commitment 2010	Total	Population affected
MEASURES OF THE 2009-2010 BUDGET				
1. ADDITIONAL, IMMEDIATE ACTIONS TO SUPPORT BUSINESSES AND WORKERS				
Measures to increase the cash resources and capitalization of businesses				
– Creation of a $500-million emergency fund for the recovery of businesses[2]	2.6	47.4	**50.0**	2 projects
– New Stock Savings Plan II to foster the capitalization of public companies	21.0	75.0	**96.0**	
– Fostering the growth of Fondaction	35.0	35.0	**70.0**	
– $60 million to expand the envelope of the FIER-Régions	—	90.0	**90.0**	
– Deferral of repayment of the loan envelope of local investment funds	—	25.0	**25.0**	600 businesses
Subtotal	**58.6**	**272.4**	**331.0**	
Employment Pact: increase from $1.0 billion to $1.5 billion				
– Additional support to develop human potential	122.4	209.3	**331.7**	111 000 individuals and 3 500 businesses
– Additional support for training:				1 000 individuals and 18 300 businesses
▪ Improvement to the program to support enterprises that risk being affected by the economic slowdown	25.0	25.0	**50.0**	760 businesses
▪ Other measures	38.2	54.4	**92.6**	
– Additional support to value work	11.4	0.9	**12.3**	2 250 individuals
Subtotal	**197.0**	**289.6**	**486.6**	
Support for forest development				
– Forest regeneration				
▪ Improvement to the Silvicultural Investment Program	21.7	0.3	**22.0**	
▪ Financing the production of seedlings	25.6	—	**25.6**	
▪ Assistance for forest road maintenance in controlled zones	0.7	1.1	**1.9**	40 000 members
– New markets for the forest sector				
▪ Development of high-value-added products	9.5	5.5	**15.0**	
▪ Forest certification program for private woodlot owners	—	0.5	**0.5**	
Subtotal	**57.5**	**7.4**	**65.0**	

Plan to support jobs and prepare for economic recovery
Impact on cash resources[1] (continued)
(in millions of dollars)

	Revised commitment 2009	Forecast commitment 2010	Total	Population affected
Corporate tax reduction to stimulate investment				
– Increase in the amount of income eligible for the reduced tax rate for small businesses from $400 000 to $500 000	13.0	15.0	**28.0**	5 900 businesses
– Extension of accelerated depreciation for manufacturing and processing equipment	—	—	—	15 000 businesses
– 100% accelerated depreciation for computer hardware	18.0	41.0	**59.0**	70 000 businesses
Subtotal	**31.0**	**56.0**	**87.0**	
Improvements to certain tax credits for culture	**1.5**	**2.6**	**4.1**	100 businesses
TOTAL – ADDITIONAL, IMMEDIATE ACTIONS TO SUPPORT BUSINESSES AND WORKERS	**345.6**	**628.0**	**973.7**	
2. PREPARING QUÉBEC FOR ECONOMIC RECOVERY				
Northern Québec: a new site of sustainable development				
– Preserving the environment and promoting the value of northern Québec's natural heritage				
▪ Program to consolidate outfitting operations	0.3	1.2	**1.5**	26 outfitting operations
▪ Creation of protected areas	0.6	0.3	**0.9**	
▪ Creation of five national parks	2.0	3.8	**5.8**	
– Improving infrastructure in northern Québec				
▪ Construction of a road to the Otish Mountains	2.7	13.3	**16.0**	
▪ Repairs of highway 389 between Baie-Comeau and Fermont	6.3	15.1	**21.4**	
▪ Improvement of northern airports	17.0	25.7	**42.7**	
Subtotal	**28.9**	**59.4**	**88.3**	

Plan to support jobs and prepare for economic recovery
Impact on cash resources[1] (continued)
(in millions of dollars)

	Revised commitment 2009	Forecast commitment 2010	Total	Population affected
Stimulating gas exploration in Québec				
– Five-year royalty holiday for gas development	—	—	—	
– SGF support for the development of the gas exploration industry in Québec	—	—	—	
– Program for the acquisition of geoscientific knowledge	2.0	2.0	**4.0**	
– Strategic environmental assessment program	0.6	0.8	**1.4**	
Subtotal	**2.6**	**2.8**	**5.4**	
Supporting our technology companies				
– $125 million to create seed funds	—	125.0	**125.0**	50 businesses
– $825 million to finance venture capital funds[3]	200.0	150.0	**350.0**	175 businesses
– Introduction of a tax holiday encouraging the commercialization of intellectual property	—	0.4	**0.4**	200 businesses
Subtotal	**200.0**	**275.4**	**475.4**	
Québec, a leader in environmental protection and environmental technologies				
– Development of green energy technologies	0.2	3.0	**3.2**	
– New refundable tax credit for a new green vehicle	2.3	2.9	**5.2**	19 000 purchasers
– Financial assistance program for capital assets related to bioenergy production	—	—	—	
– Acceleration of the modernization of public dams	20.8	28.5	**49.3**	
– National parks: expansion in southern Québec	4.5	14.3	**18.8**	
– Resiting of snowmobile trails outside Monts-Valin and Mont-Tremblant national parks	0.4	1.0	**1.4**	
Subtotal	**28.2**	**49.7**	**77.9**	
TOTAL – PREPARING QUÉBEC FOR ECONOMIC RECOVERY	**259.7**	**387.3**	**647.0**	

Plan to support jobs and prepare for economic recovery
Impact on cash resources[1] (continued)
(in millions of dollars)

	Revised commitment 2009	Forecast commitment 2010	Total	Population affected
3. SUPPORTING THE FAMILY AND WELL-BEING OF QUEBECERS				
Supporting families				
– Improvement of the refundable tax credit for child care expenses	22.0	22.0	**44.0**	100 000 families
– Streamlining of the Québec education savings incentives	—	—	—	
– Increase in the maximum withdrawal limit under the Home Buyers' Plan to $25 000	5.0	5.0	**10.0**	10 000 taxpayers
– Deduction for loss of value of investments in an RRSP/RRIF after death	—	—	—	17 000 taxpayers
Subtotal	**27.0**	**27.0**	**54.0**	
Improving the quality of life of seniors				
– The Age-Friendly Municipalities initiative	—	1.0	**1.0**	50 municipalities
– Action Plan to counter elder abuse	2.5	4.0	**6.5**	
– Financial assistance for home adaptations for independent seniors	1.2	2.2	**3.4**	1 200 households
Subtotal	**3.7**	**7.2**	**10.9**	
Investments of $370 million for housing construction and renovating				
– Investment of $200 million for the construction of 3 000 community housing units	3.8	51.1	**54.9**	3 000 households
– Financial assistance for low-income owner-occupants living in rural areas (RénoVillage)	14.4	32.7	**47.1**	6 000 households
– Enhancement of shelters for victims of domestic violence	0.1	0.7	**0.8**	370 individuals
– Financial assistance for emergency repairs for low-income owner-occupants	1.1	2.6	**3.7**	1 300 households
– Financial support for home adaptations for people with disabilities	12.9	24.3	**37.2**	2 500 individuals
– Home improvements in rundown areas (Rénovation Québec)	42.0	183.1	**225.1**	17 000 households
Subtotal	**74.3**	**294.5**	**368.8**	

Plan to support jobs and prepare for economic recovery
Impact on cash resources[1] (continued)
(in millions of dollars)

	Revised commitment 2009	Forecast commitment 2010	Total	Population affected
Investments for social development				
– Injection of $5 million in the Réseau d'investissement social du Québec	5.0	—	**5.0**	
– Funding of a study for the Chantier de l'économie sociale	—	—	**—**	
– Extension of support for the Réseau québécois du crédit communautaire	2.3	2.3	**4.6**	21 agencies
– Promoting the development of female entrepreneurship	3.0	3.0	**6.0**	3 000 women
Subtotal	**10.3**	**5.3**	**15.6**	
TOTAL – SUPPORTING THE FAMILY AND WELL-BEING OF QUEBECERS	**115.3**	**334.0**	**449.3**	
TOTAL – MEASURES OF THE 2009-2010 BUDGET	**720.6**	**1 349.3**	**2 070.0**	
ADDITIONAL INVESTMENTS BY LOTO-QUÉBEC AND THE SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC	**22.1**	**136.6**	**158.7**	
2010-2011 BUDGET MEASURES				
Pursuit of the action plan				
– Plan Emploi Métropole	—	20.0	**20.0**	
– Support for the forest industry				
▪ Extension of the refundable tax credit for the construction and major repair of public access roads and bridges in forest areas	—	—	**—**	
▪ Financing for the production of seedlings	—	25.6	**25.6**	
▪ Silvicultural Investment Program south of the 49th parallel	—	14.9	**14.9**	
▪ Forest protection	—	59.6	**59.6**	
– Gaspésie—Iles-de-la-Madeleine development strategy	—	6.0	**6.0**	
Subtotal	**—**	**126.1**	**126.1**	

Plan to support jobs and prepare for economic recovery
Impact on cash resources[1] (continued)
(in millions of dollars)

	Revised commitment 2009	Forecast commitment 2010	Total	Population affected
Modern, high-quality infrastructure				
– Extensive sports infrastructure				
▪ Replacement of freon-based systems in arenas	—	—	—	
▪ Institut national du sport du Québec	—	—	—	
▪ Other projects	—	1.0	**1.0**	
– Better infrastructure funding				
▪ Gradual increase in the specific tax on fuel (4¢/L) as of April 1, 2010	—	—	—	
Subtotal	**—**	**1.0**	**1.0**	
– 2009-2014 Québec Infrastructures Plan: impact compared to 2008-2013	– 6.0	675.0	**669.0**	
TOTAL – MEASURES OF THE 2010-2011 BUDGET	**– 6.0**	**802.1**	**796.1**	
MEASURES IN THE INFORMATION BULLETINS				
– Modifications to the tax credits for the resource regions and the investment tax credit	—	13.0	**13.0**	700 businesses
– Enhancement of tax credits for culture				
▪ Tax credit for production services	23.0	42.0	**65.0**	
▪ Tax credit for publishing	—	0.5	**0.5**	
TOTAL – MEASURES IN THE INFORMATION BULLETINS	**23.0**	**55.5**	**78.5**	
GRAND TOTAL OF MEASURES TO SUPPORT JOBS AND PREPARE FOR ECONOMIC RECOVERY	**6 407.5**	**7 776.8**	**14 184.4**	

Note: Since figures are rounded, they may not add up to the total shown.
1 Including, as the case may be, contributions from partners, the private sector and other levels of government.
2 The 2010-2011 Budget ended the activities of the emergency fund.
3 The activities of the Fonds Teralys are continuing and the amounts budgeted will be invested in the coming years.

PART THREE :

EVOLUTION OF THE GOVERNMENT'S FINANCIAL POSITION

3. EVOLUTION OF THE GOVERNMENT'S FINANCIAL POSITION

3.1 Overall reduction of the deficits by 2013-2014

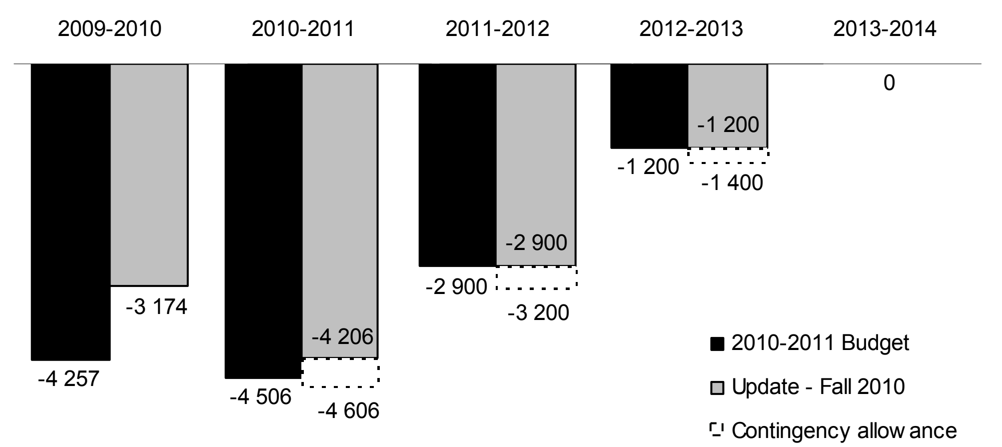
Given the impact of new economic perspectives and the latest budgetary information, the government's financial framework displays a $1.1-billion improvement in the budgetary balance in 2009-2010, in relation to the balance published at the time of the Budget Speech.

The upward adjustment in the deficits in subsequent years stems entirely from the increase in the contingency allowance for 2011-2012 and the incorporation of new contingency allowances for 2011-2012 and 2012-2013.

— All told, in relation to the forecasts in the latest Budget for 2009-2010 to 2013-2014, nearly $500 million less will be added to the debt by March 31, 2014.

CHART 63

Change in the budgetary balance since the last Budget[1]
(millions of dollars)



1 Budgetary balance within the meaning of the Balanced Budget Act.

More specifically, the real results for 2009-2010 reveal a $3.2-billion deficit in relation to the $4.3 billion forecast last March. For the two subsequent years, the budget deficits are raised by $100 million and $300 million, respectively, to reach $4.6 billion in 2010-2011 and $3.2 billion in 2011-2012.

The budgetary deficit is thus expected to increase from $3.2 billion in 2009-2010 to $4.6 billion for 2010-2011. This $1.4-billion change is attributable, by and large, to:

— the depletion of the stabilization reserve, which contributed to reducing the deficit by $433 million in 2009-2010;

— the anticipated reduction in the results of consolidated entities;

— the recording of a $400-million contingency allowance.

TABLE 24

Summary of revised budgetary transactions – Fall 2010[1]
(millions of dollars)

	2009-2010	2010-2011F	2011-2012F
BUDGETARY TRANSACTIONS			
Budgetary revenue	63 155	65 721	68 781
Budgetary expenditure	– 67 696	– 69 921	– 71 987
Net results of consolidated entities	1 601	836	979
Contingency allowance	—	– 400	– 300
Measures to be identified	—	—	299
SURPLUS (DEFICIT)	**– 2 940**	**– 3 764**	**– 2 228**
BALANCED BUDGET ACT			
Payments of revenue dedicated to the Generations Fund	– 725	– 842	– 972
Stabilization reserve	433	—	—
Accounting changes	58	—	—
BUDGETARY BALANCE WITHIN THE MEANING OF THE BALANCED BUDGET ACT	**– 3 174**	**– 4 606**	**– 3 200**
As a % of GDP	*1.0*	*1.5*	*1.0*

F: Forecasts.
1 The measures announced in the Plan to return to balanced budgets are integrated into the financial framework.

❑ Contingency allowance

In order to guard against any contingency attributable, in particular, to economic uncertainty, the government is increasing the contingency allowance to $400 million for 2010-2011. In addition, it is incorporating a new $300-million allowance for 2011-2012 and a $200-million allowance for 2012-2013.

TABLE 25

Contingency allowance incorporated into the financial framework
(millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014
Risks on growth in GDP – Fall	– 0.2	– 0.4	0.2	0.4
Cumulative impact on revenue[1]	– 100	– 300	– 200	—
Contingency allowance in the financial framework				
2010-2011 Budget	– 300	—	—	—
Addition, fall 2010	– 100	– 300	– 200	—
TOTAL – FALL 2010	**– 400**	**– 300**	**– 200**	**—**

1 On average, a one percentage point discrepancy in GDP is equivalent to $500 million in revenue for the government.

3.1.1 A $1.1-billion improvement in 2009-2010

The real results show that the budgetary deficit has been revised downward by $1.1 billion in 2009-2010, to $3.2 billion.

This improvement stems, by and large, from higher revenue attributable to stronger economic recovery than anticipated in late 2009 and in the first quarter of 2010.

3.1.2 Forecast budgetary balance in 2010-2011 and 2011-2012

Generally speaking, the increases in certain revenue items offset adjustments in expenditure. Consequently, the amounts of the contingency allowance fully explain the adjustment of the forecast deficits.

2010-2011: a $4.6-billion anticipated deficit

- A $356-million increase in program spending attributable to new actuarial valuations in the retirement plans and a $24-million increase in debt service.
- These adjustments are offset by:
  - the $143-million increase in own-source revenue, excluding government enterprises, of which $75 million is drawn from personal income tax and contributions to the Health Services Fund;
  - a $51-million increase in the revenue of government enterprises;
  - the $50-million upward adjustment in federal transfers;
  - the $86-million upward adjustment in the results of consolidated entities in 2010-2011.
- Furthermore, the contingency allowance stands at $400 million.

2011-2012: an anticipated $3.2-billion deficit

- A $357-million increase in program spending attributable to new actuarial valuations of the retirement plans.
- This adjustment is offset by:
  - the $279-million upward adjustment in federal transfer revenue;
  - a $109-million improvement in debt service.
- Moreover, the contingency allowance stands at $300 million.

TABLE 26

Summary of adjustments to the budgetary balance since the 2010-2011 Budget[1]

(millions of dollars)

	2010-2011F			2011-2012F		
	2010-2011 Budget	Adjust-ments	Fall 2010	2010-2011 Budget	Adjust-ments	Fall 2010
BUDGETARY TRANSACTIONS						
Own-source revenue excluding government enterprises						
– Personal income tax and Health Services Fund	24 487	75	24 562	25 384	75	25 459
– Consumption taxes	14 713	68	14 781	16 969	– 64	16 905
– Corporate taxes	4 046	—	4 046	4 256	– 75	4 181
– Other	2 416	—	2 416	2 494	—	2 494
Own-source revenue excluding government enterprises	**45 662**	**143**	**45 805**	**49 103**	**– 64**	**49 039**
Government enterprises	4 490	51	4 541	4 737	45	4 782
Federal transfers	15 325	50	15 375	14 681	279	14 960
Total own-source revenue	**65 477**	**244**	**65 721**	**68 521**	**260**	**68 781**
Program spending excluding the retirement plans	– 60 557	—	– 60 557	– 61 894	—	– 61 894
Retirement plans	– 2 004	– 356	– 2 360	– 2 013	– 357	– 2 370
Program spending	**– 62 561**	**– 356**	**– 62 917**	**– 63 907**	**– 357**	**– 64 264**
Debt service	– 6 980	– 24	– 7 004	– 7 832	109	– 7 723
Total budgetary expenditure	**– 69 541**	**– 380**	**– 69 921**	**– 71 739**	**– 248**	**– 71 987**
Net results of consolidated entities	**750**	**86**	**836**	**979**	—	**979**
Contingency allowance	– 300	– 100	– 400	—	– 300	– 300
Measures to be identified	—	—	—	311	– 12	299
SURPLUS (DEFICIT)	**– 3 614**	**– 150**	**– 3 764**	**– 1 928**	**– 300**	**– 2 228**
BALANCED BUDGET ACT						
Payments of revenue dedicated to the Generations Fund	– 892	50	– 842	– 972	—	972
BUDGETARY BALANCE WITHIN THE MEANING OF THE BALANCED BUDGET ACT	**– 4 506**	**– 100**	**– 4 606**	**– 2 900**	**– 300**	**– 3 200**
As a % of GDP	*– 1.4*	—	*– 1.5*	*– 0.9*	—	*– 1.0*

Note: In the case of adjustments, a minus sign indicates a reduction in revenue or an increase in expenditure.
F: Forecasts.
1 The measures announced in the Plan to return to balanced budgets are integrated into the financial framework.

3.2 2009-2010 results

In relation to the situation anticipated in the March 2010 Budget, the budgetary balance within the meaning of the Balanced Budget Act as at March 31, 2010 displayed a $3 174-million deficit, an improvement of $1 083 million.

— The results published in the *2009-2010 Public Accounts* show a $2 940-million deficit, down $1 035 million in relation to the March 2010 Budget forecast.

— Bearing in mind the $725-million payment of revenue dedicated to the Generations Fund, the use of the $433-million balance from the stabilization reserve, and $58 million in respect of accounting changes, the budgetary balance within the meaning of the Balanced Budget Act stands at $3 174 million.

Budgetary revenue was $505 million higher than the forecasts announced in the last Budget.

— Own-source revenue, excluding government enterprises, is adjusted upward by $297 million, including $116 million from corporate taxes and $148 million from fees and licences.

— Revenue from government enterprises also increased by $276 million, of which $143 million is attributable to Hydro-Québec.

Moreover, program spending was $810 million higher than forecast in the last Budget. This change is essentially attributable to:

— $402 million because of the increase in the provision for doubtful accounts at Revenu Québec;

— $406 million stemming from additional expenditure in health care institutions.

TABLE 27

Adjustments to program spending in 2009-2010
(millions of dollars)

PROGRAM SPENDING OBJECTIVES – 2010-2011 BUDGET	**60 769**
Adjustments	
Provision for doubtful accounts at Revenu Québec	402
Additional expenditure in health care institutions	406
Other adjustments	2
Total adjustments	**810**
PROGRAM SPENDING – *2009-2010 PUBLIC ACCOUNTS*	**61 579**

The results of consolidated entities improved by $1 003 million compared with the March 2010 budget forecast. This improvement stems, among other things, from:

- an improvement in the results of health and social services and education establishments, including:
  - $179 million from additional government spending in health care and education establishments to take into account the impact of the harmonization of their accounting standards in respect of capital assets with those of the government;
  - $382 million from other improvements, including $230 million for the education network, in particular the harmonization of the pension plan of the Université du Québec with generally accepted accounting principles (GAAP) in the public sector.
- $79 million in additional revenue from the Autorité des marchés financiers from penalties and fines imposed with respect to asset-backed commercial paper (ABCP);
- $56 million in additional gains at the Régie des installations olympiques stemming from accounting adjustments to capitalizable items of capital assets;
- a $38-million improvement in the results of the Société de financement des infrastructures locales du Québec, bearing in mind expenditure that was lower than anticipated at the end of the year.

TABLE 28

Adjustments to the budgetary balance for 2009-2010

(millions of dollars)

	Budget 2010-2011	Adjustments	Real results
BUDGETARY TRANSACTIONS			
Own-source revenue excluding government enterprises	42 819	297	43 116
Government enterprises	4 602	276	4 878
Federal transfers	15 229	– 68	15 161
Total budgetary revenue	**62 650**	**505**	**63 155**
Program spending	– 60 769	– 810	– 61 579
Debt service	– 6 154	37	– 6 117
Total budgetary expenditure	**– 66 923**	**– 773**	**– 67 696**
Net results of consolidated entities	**598**	**1 003**	**1 601**
Contingency allowance	– 300	300	—
SURPLUS (DEFICIT)	**– 3 975**	**1 035**	**– 2 940**
BALANCED BUDGET ACT			
Payment of revenue dedicated to the Generations Fund	– 715	– 10	– 725
Stabilization reserve	433	—	433
Accounting changes	—	58	58
BUDGETARY BALANCE WITHIN THE MEANING OF THE BALANCED BUDGET ACT	**– 4 257**	**1 083**	**– 3 174**

3.3 Detailed adjustments in 2010-2011 and 2011-2012

3.3.1 Revenue adjustments

Budgetary revenue is adjusted upward by $244 million in 2010-2011 and by $260 million in 2011-2012.

TABLE 29

Adjustments to budgetary revenue since the 2010-2011 Budget
(millions of dollars)

	2010-2011F	2011-2012F
Adjustments to taxes		
Personal income tax and Health Services Fund	75	75
Québec sales tax	18	– 114
Corporate taxes	—	– 75
Tobacco tax	50	50
Total adjustments to taxes	**143**	**– 64**
Government enterprises	51	45
Total adjustments to own-source revenue	**194**	**– 19**
Federal transfers	**50**	**279**
ADJUSTMENTS TO BUDGETARY REVENUE	**244**	**260**

F: Forecasts.

❑ Own-source revenue

■ Taxes

In 2010-2011, own-source revenue is adjusted upward by $194 million in relation to the March 2010 Budget, including $143 million in taxes.

These adjustments are attributable to:

— a $75-million increase in personal income tax revenue and contributions to the Health Services Fund, stemming from the upward adjustment of employment and wages in 2010;

— an $18-million upward adjustment in the Québec sales tax, which mainly reflects a bigger than expected number of construction starts;

— no change in anticipated corporate tax revenue. The downward adjustment of anticipated growth in corporate profits in 2010 is offset by the recurrence of revenues higher than those anticipated since the March 2010 Budget in respect of 2009-2010;

— a $50-million upward adjustment of revenue from the specific tax on tobacco. Given efforts to combat tobacco smuggling, consumers have turned more extensively to the legal tobacco market, thus increasing the sales of taxed products.

For 2011-2012, own-source revenue is adjusted downward by $19 million. The $45-million upward adjustment of the profits of government enterprises partly offsets the $64-million downturn in tax revenue. The latter adjustment stems, by and large, from:

— a $75-million increase in personal income tax revenue and contributions to the Health Services Fund that reflect the recurrence of the 2010-2011 adjustment;

— a $114-million reduction in Québec sales tax revenue attributable primarily to the downward adjustment of residential investments in 2011;

— the $75-million downward adjustment to corporate tax stemming essentially from the downward adjustment of corporate profits in 2011;

— the recurrence of the $50-million upward adjustment of revenue from the specific tax on tobacco.

■ Revenue from government enterprises

The profits of government enterprises are adjusted upward by $51 million in 2010-2011 and by $45 million in 2011-2012.

❑ Federal transfer revenue

Federal transfer revenue is adjusted upward by $50 million in 2010-2011 and by $279 million in 2011-2012.

In 2010-2011, the adjustment stems essentially from adjustments for previous years in transfers in respect of health care as well as transfers for post-secondary education and other social programs. These adjustments are mainly attributable to a reduction in the value of the special Québec abatement, which is deducted from these transfers.

In 2011-2012, the adjustments can be explained mainly by the upward adjustment in equalization revenue, which stems, among other things, from the relative improvement in Ontario's economic position in relation to what was forecast at the time of the March 2010 Budget.

3.3.2 Expenditure adjustments

Budgetary expenditure includes program spending and debt service.

Budgetary expenditure for 2010-2011 and 2011-2012 has been adjusted upward by $380 million and $248 million, respectively.

❑ Program spending

■ 2010-2011

In the last Budget, the program spending objective was set at $62 561 million for 2010-2011, up 2.9% over the preliminary results for 2009-2010.

The government continues to properly control spending. No over-run is presented in the *Update on Québec's Economic and Financial Situation*, aside from the impact on spending of new actuarial valuations of the retirement plans. These new valuations, which depend on demographic and economic parameters, several of which are beyond the government's control, will cost an additional $356 million in 2010-2011 and an additional $357 million in 2011-2012.

- These actuarial valuations are conducted every three years to reflect the experience of the plans, i.e. the difference, for the last three years, between the assumptions and reality, and to update the demographic and economic assumptions on which they are based (for instance, the life expectancy of benefit recipients, the pay of employees when they retire, and so on). The ministère des Finances received these valuations, produced by CARRA, in late October 2010.

- These valuations are intended to establish the present value of the retirement benefits that the government will ultimately pay its employees, bearing in mind the conditions governing their retirement plan and their years of service.

- The $356-million increase in 2010-2011 at once reflects the depreciation of the increase in the actuarial obligations and the increase in current service, i.e. the cost of one year of additional service. It can be explained as follows:

  - roughly $145 million is attributable to discrepancies in the experience of the retirement plans such, for example, as the increase observed in life expectancy;

  - approximately $150 million stems from the updating of economic assumptions, mainly the drop in the discount rate;

  - roughly $60 million results from the updating of demographic assumptions, mainly a reduction in the mortality rate.

In light of new actuarial valuations of the retirement plans, program spending has increased to $62 917 million. Revised growth in program spending for 2010-2011 stands at 2.2%.

■ 2011-2012

The program spending objective for 2011-2012 is increased by $357 million in relation to the objective published in the last Budget, an adjustment equivalent to that in 2010-2011, to $64 264 million. Growth stands at 2.1%.

TABLE 30

Adjustments to the program spending objective since the 2010-2011 Budget

(millions of dollars)

	2010-2011F	2011-2012F
PROGRAM SPENDING OBJECTIVE IN THE 2010-2011 BUDGET	**62 561**	**63 907**
% change[1]	*2.9*	*2.2*
Adjustments		
– New actuarial valuations of the retirement plans	356	357
– Other adjustments to program spending	—	—
Total adjustments	**356**	**357**
PROGRAM SPENDING OBJECTIVE, FALL 2010	**62 917**	**64 264**
% change[2]	*2.2*[3]	*2.1*

F: Forecasts.

1 When the additional contribution from the Fund to Finance Health and Social Services Institutions (FINESSS) is included, growth in program spending stands at 3.2% for 2010-2011 and 2.8% for 2011-2012.

2 When the additional contribution from FINESSS is included, growth in program spending stands at 2.5 % for 2010-2011 and 2.8% for 2011-2012.

3 This result takes into account the adjusted level of program spending in 2009-2010, i.e. to $61 579 million, as published in the *2009-2010 Public Accounts*.

❑ Debt service of the Consolidated Revenue Fund

In relation to the forecast in March 2010, debt service is adjusted upward by $24 million for 2010-2011, mainly because of the impact of new actuarial valuations of the main government employee retirement plans. For 2011-2012, debt service is reduced by $109 million because of the downward adjustment of interest rates.

❑ Spending growth that is compatible with our ability to pay

The measures put forward in the Plan to return to balanced budgets will reduce the weight of spending in the economy to a level compatible with key budgetary orientations:

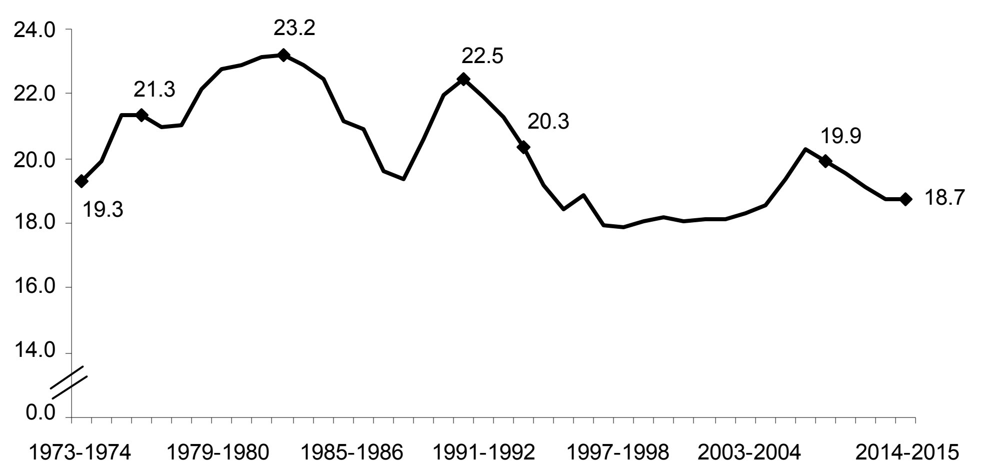
— spending growth that reflects our ability to pay;

— maintenance of the weight of spending in the economy compatible with the maintenance of competitive taxation that creates wealth.

Efforts to reduce growth in spending to be carried out in the Plan to return to balanced budgets will reduce the ratio of program spending as a percentage of GDP to 18.7% in 2014-2015, a level similar to the one that prevailed prior to the recession.

CHART 64

Program spending
(as a percentage of GDP)



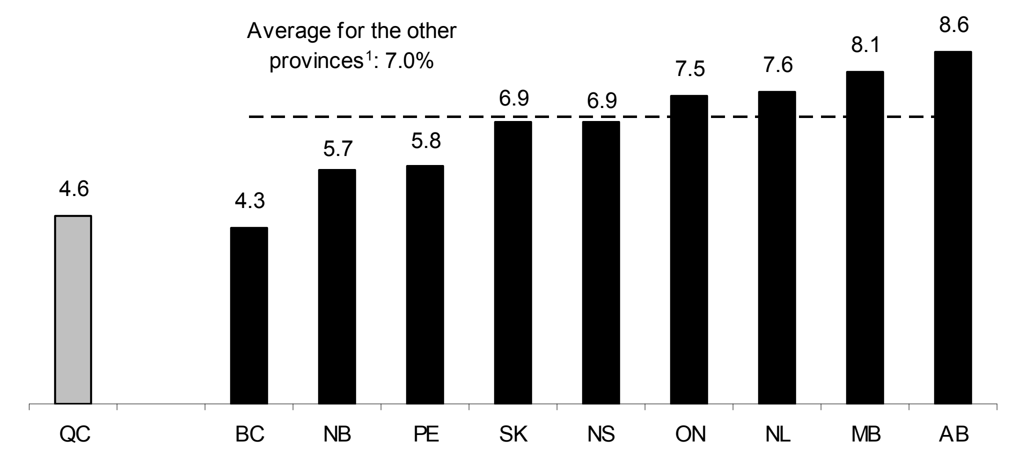
Note: Forecasts starting in 2010-2011.

❑ Spending control that ranks among the leaders in Canada

Since 2003-2004, Québec has displayed rigour in the management of its spending. Average annual growth in program spending stands at 4.6%, compared with 7.0% in the other provinces. Only British Columbia, where average annual growth stands at 4.3%, has done better.

CHART 65

Average annual growth in program spending between 2003-2004 and 2010-2011F
(annual average as a percentage)



F: Forecasts for 2010-2011.
1 Weighted average.
Source: The latest budget documents of the provinces as of November 22, 2010.

❑ Government action in its essential missions

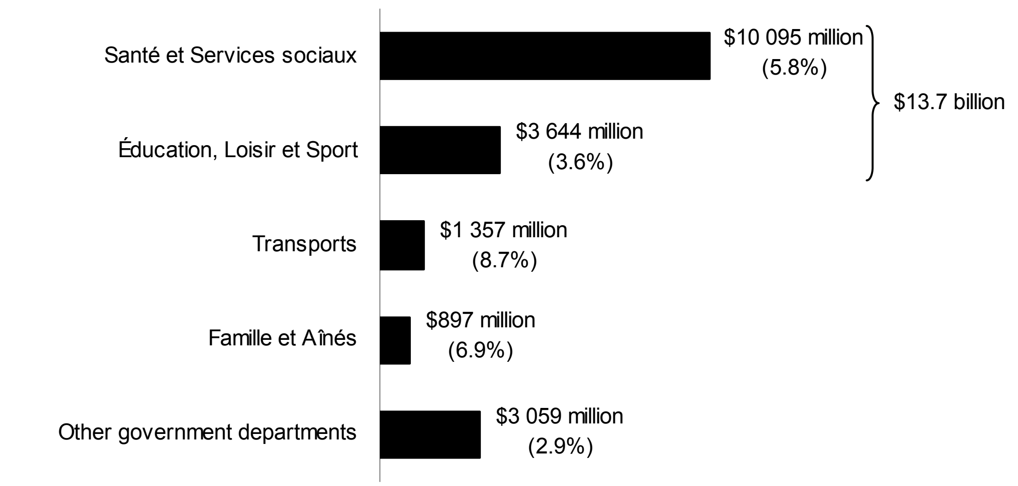
The government continues to invest in its essential missions, including health and education. Between 2003-2004 and 2010-2011, average annual spending on health and education will have increased by 5.8% and 3.6%, respectively.

All told, since 2003, the government has added $13.7 billion to the health and education budgets, i.e. $10.1 billion in the health sector, and $3.6 billion in the education sector.

— These expenditures alone have accounted for 72% of the increase in program spending since 2003-2004.

CHART 66

Increase in program spending between 2003-2004 and 2010-2011
(in dollars and average annual growth as a percentage)



Note: Forecasts for 2010-2011.

3.4 Detailed results

The following tables provide a detailed view of the major items that make up the government's adjusted financial framework in relation to the revenue and expenditure of the Consolidated Revenue Fund.

TABLE 31

Revenue of the Consolidated Revenue Fund[1]
(millions of dollars)

	2009-2010	2010-2011F	% change	2011-2012F	% change
Own-source revenue					
Own-source revenue excluding government enterprises					
– Personal income tax	17 351	18 709	7.8	19 427	3.8
– Contributions to the Health Services Fund	5 797	5 853	1,0	6 032	3.1
– Corporate taxes	3 878	4 046	4.3	4 181	3.3
– Consumption taxes	13 527	14 781	9.3	16 905	14.4
– Other	2 563	2 416	– 5.7	2 494	3.2
Subtotal	**43 116**	**45 805**	**6.2**	**49 039**	**7.1**
Revenue from government enterprises	4 878	4 541	– 6.9	4 782	5.3
Total own-source revenue	**47 994**	**50 346**	**4.9**	**53 821**	**6.9**
Federal transfers					
Equalization	8 355	8 552	2.4	8 156	– 4.6
Health transfers	4 148	4 308	3.9	4 520	4.9
Transfers for post-secondary education and other social programs	1 461	1 452	– 0.6	1 455	0.2
Other programs	1 197	1 063	– 11.2	829	– 22.0
Total federal transfers	**15 161**	**15 375**	**1.4**	**14 960**	**– 2.7**
BUDGETARY REVENUE	**63 155**	**65 721**	**4.1**	**68 781**	**4.7**

F: Forecasts.
1 The measures announced in the Plan to return to balanced budgets are integrated into the financial framework.

TABLE 32

Expenditure of the Consolidated Revenue Fund[1]
(millions of dollars)

	2009-2010	2010-2011F	% change	2011-2012F	% change
Program spending	– 61 579	– 62 917	2.2	– 64 264	2.1
Debt service	– 6 117	– 7 004	14.5	– 7 723	10.3
BUDGETARY EXPENDITURE	**– 67 696**	**– 69 921**	**3.3**	**– 71 987**	**3.0**

F: Forecasts.
1 The measures announced in the Plan to return to balanced budgets are integrated into the financial framework.

3.5 Consolidated revenue and expenditure budget estimates

The following table presents the government's consolidated financial framework. The consolidated budgetary transactions provide even more complete information on the government's financial projections.

TABLE 33

Consolidated financial framework – Fall 2010[1]
(millions of dollars)

	2009-2010	2010-2011F	2011-2012F
Revenue[2]			
Consolidated Revenue Fund	63 155	65 721	68 781
Consolidated entities[3]	9 319	8 828	9 280
Specified purpose accounts[3]	1 152	2 297	1 493
Consolidated revenue	**73 626**	**76 846**	**79 554**
Expenditure			
Consolidated Revenue Fund	– 67 696	– 69 921	– 71 987
Consolidated entities[3]	– 7 718	– 7 992	– 8 301
Specified purpose accounts[3]	– 1 152	– 2 297	– 1 493
Consolidated expenditure	**– 76 566**	**– 80 210**	**– 81 781**
Contingency allowance	—	– 400	– 300
Measures to be identified	—	—	299
SURPLUS (DEFICIT)	**– 2 940**	**– 3 764**	**– 2 228**
Payment of revenue dedicated to the Generations Fund	– 725	– 842	– 972
Stabilization reserve	433	—	—
Accounting changes	58	—	—
BUDGETARY BALANCE WITHIN THE MEANING OF THE BALANCED BUDGET ACT	**– 3 174**	**– 4 606**	**– 3 200**

F: Forecasts.
1 The measures announced in the Plan to return to balanced budgets are integrated into the financial framework.
2 For presentation purposes, government revenue in its capacity as an employer in the Health Services Fund is deducted from the revenues of the consolidated entities.
3 Amounts from entities in the reporting environment are deducted from revenue and expenditure.

3.6 Adjusted five-year financial framework

The table on the next page presents the final results for fiscal year 2009-2010, the government's financial forecasts for the current and subsequent fiscal years, and projections until 2014-2015.

The real results for 2009-2010 indicate a $3.2 billion deficit.

Bearing in mind all of the adjustments presented earlier, the budget deficits anticipated for 2010-2011, 2011-2012 and 2012-2013 stand at $4.6 billion, $3.2 billion and $1.4 billion, respectively. The return to fiscal balance is anticipated for 2013-2014.

— For the period 2009-2010 to 2013-2014, the deficits will total $12.4 billion, compared with $12.9 billion forecast in the last Budget, a $500-million improvement for the period.

Moreover, in 2010-2011, the government's budgetary revenue should total $65.7 billion, up 4.1% in relation to 2009-2010. Of this amount, own-source revenue will account for $50.3 billion and federal transfers, for $15.4 billion. For 2011-2012, budgetary revenue should reach $68.8 billion, a 4.7% increase.

Budgetary expenditure should stand at $69.9 billion in 2010-2011 and $72.0 billion in 2011-2012. Of this amount, program spending will total $62.9 billion in 2010-2011 and $64.3 billion in 2011-2012.

Lastly, debt service should amount to $7.0 billion in 2010-2011 and $7.7 billion in 2011-2012.

TABLE 34

Financial framework, fall 2010[1]
(millions of dollars)

	Real results	Forecasts		Projections		
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
BUDGETARY TRANSACTIONS						
Budgetary revenue						
Own-source revenue	47 994	50 346	53 821	57 583	60 244	62 514
% change	*– 1.8*	*4.9*	*6.9*	*7.0*	*4.6*	*3.8*
Federal transfers	15 161	15 375	14 960	15 223	15 784	16 420
% change	*8.1*	*1.4*	*– 2.7*	*1.8*	*3.7*	*4.0*
Total budgetary revenue	**63 155**	**65 721**	**68 781**	**72 806**	**76 028**	**78 934**
% change	***0.4***	***4.1***	***4.7***	***5.9***	***4.4***	***3.8***
Budgetary expenditure						
Program spending	– 61 579	– 62 917	– 64 264	– 65 640	– 67 046	– 69 644
% change	*5.2*	*2.2*	*2.1*	*2.1*	*2.1*	*3.9*
Debt service	– 6 117	–7 004	– 7 723	– 8 681	– 9 492	– 9 591
% change	*– 6.0*	*14.5*	*10.3*	*12.4*	*9.3*	*1.0*
Total budgetary expenditure	**– 67 696**	**– 69 921**	**– 71 987**	**– 74 321**	**– 76 538**	**– 79 235**
% change	***4.1***	***3.3***	***3.0***	***3.2***	***3.0***	***3.5***
Net results of consolidated entities	**1 601**	**836**	**979**	**1 067**	**612**	**812**
Contingency allowance		– 400	– 300	– 200		
Measures to be identified	—	—	299	304	1 015	1 015
SURPLUS (DEFICIT)	**– 2 940**	**– 3 764**	**– 2 228**	**– 344**	**1 117**	**1 526**
BALANCED BUDGET ACT						
Payments to the Generations Fund	– 725	– 842	– 972	– 1 056	– 1 117	– 1 526
Stabilization reserve	433					
Accounting changes	58					
BUDGETARY BALANCE WITHIN THE MEANING OF THE BALANCED BUDGET ACT	**– 3 174**	**– 4 606**	**– 3 200**	**– 1 400**	**0**	**0**

1 The measures announced in the Plan to return to balanced budgets are integrated into the financial framework.

3.6.1 Impact of the implementation of the Fund for Road and Public Transit Infrastructure

When it tabled the last Budget, the government announced the establishment of the following funds:

- the Fund for Road and Public Transit Infrastructure (FORT), under which, in particular, the fuel tax, driver's licence and vehicle registration fees and most registration fees will be earmarked for the funding of such infrastructure;
- the Fund to Finance Health and Social Services Institutions (FINESSS), into which the health contribution will be paid to fund institutions in this sector according to their performance.

The bill adopted in the wake of the Budget created the two funds, which allocate specific revenue to these activities.

Starting with the 2011-2012 Budget, the government will present, as is the case with other funds, the revenue earmarked and expenditure under FORT from the revenue and expenditure of consolidated entities.[10]

❑ Integration of the Fund for Road and Public Transit Infrastructure into the consolidated entities

The integration of FORT into the government's consolidated entities will not affect the fiscal framework. In fact, its integration reduces, on the one hand, own-source revenue and program spending and, on the other hand, increases by the same amount the revenues and expenditures of the consolidated entities. Consequently, this transaction has no impact on the budgetary balance.

The following tables present the impact until 2014-2015 of the implementation of FORT on the levels of revenue and expenditure under the financial framework. The 2009-2010 fiscal year has been adjusted to make comparable changes in revenue and expenditure.

Following the implementation of FORT, the level of own-source revenue for 2010-2011 falls by $2 503 million, to $47 843 million.

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10 It should be noted that in the 2010-2011 Budget, revenue and expenditure in respect of FORT and FINESSS were already accounted for in the government's financial framework. Moreover, revenue and expenditure under FINESSS were already included in consolidated entities. As for FORT, revenue was incorporated into own-source revenue and expenditure into program spending.

TABLE 35

Impact of the implementation of FORT on own-source revenue

(millions of dollars)

	2009-10	2010-11F	2011-12F	2012-13F	2013-14F	2014-15F
OWN-SOURCE REVENUE, FALL 2010	**47 994**	**50 346**	**53 821**	**57 583**	**60 244**	**62 514**
% change	*– 1.8*	*4.9*	*6.9*	*7.0*	*4.6*	*3.8*
Fund for Road and Public Transit Infrastructure	– 2 389	– 2 503	– 2 692	– 2 876	– 3 055	– 3 113
OWN-SOURCE REVENUE FOLLOWING THE IMPLEMENTATION OF FORT	**45 605**	**47 843**	**51 129**	**54 707**	**57 189**	**59 401**
% change	*– 2.0*	*4.9*	*6.9*	*7.0*	*4.5*	*3.9*

F: Forecasts.

As for program spending for 2010-2011, it has been reduced by $2 066 million, to $60 851 million. The growth rate of spending will thus stand at 1.7% instead of 2.2 % for 2010-2011. The reduction in the growth rate in relation to the anticipated rate of 2.2 % stems from the increase in commitments anticipated in respect of FORT, growth in which for 2010-2011 stands at 19.9%.

TABLE 36

Impact of the implementation of FORT on program spending

(millions of dollars)

	2009-10	2010-11F	2011-12F	2012-13F	2013-14F	2014-15F
PROGRAM SPENDING, FALL 2010	**– 61 579**	**– 62 917**	**– 64 264**	**– 65 640**	**– 67 046**	**– 69 644**
% change	*5.2*	*2.2*	*2.1*	*2.1*	*2.1*	*3.9*
Fund for Road and Public Transit Infrastructure	– 1 723	– 2 066	– 2 521	– 2 852	– 3 134	– 3 431
PROGRAM SPENDING, FALL 2010, AFTER THE IMPLEMENTATION OF FORT	**– 59 856**	**– 60 851**	**– 61 743**	**– 62 788**	**– 63 912**	**– 66 213**
% change	*5.1*	*1.7*	*1.5*	*1.7*	*1.8*	*3.6*

F: Forecasts.

The impact on own-source revenue and program spending of the implementation of FORT presented earlier is offset in the net results of consolidated entities. The following table indicates the impact of the net results of FORT on those of the overall net results of the consolidated entities.

TABLE 37

Impact of the implementation of FORT on the net results of consolidated entities
(millions of dollars)

	2009-10	2010-11F	2011-12F	2012-13F	2013-14F	2014-15F
NET RESULTS, FALL 2010	**1 601**	**836**	**979**	**1 067**	**612**	**812**
Fund for Road and Public Transit Infrastructure[1]	666	437	171	24	– 79	– 318
NET RESULTS AFTER THE IMPLEMENTATION OF FORT	**2 267**	**1 273**	**1 150**	**1 091**	**533**	**494**

F: Forecasts.
1 The Road Network and Improvement Fund, the Fund for the Sale of Goods and Services of the ministère des Transports, the Fonds des partenariats en matière d'infrastructures de transport and the Fund for the Contributions of Motorists to Public Transit are being replaced by FORT. These entities have always been presented as balanced and their exclusion from the net results of organizations and special funds does not require any adjustment in the net results after the implementation of FORT.

The following table presents the five-year financial framework, including the implementation of FORT.

TABLE 38

Financial framework, fall 2010,[1] including the implementation of FORT
(millions of dollars)

	Real results	Forecasts		Projections		
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
BUDGETARY TRANSACTIONS						
Budgetary revenue						
Own-source revenue	45 605	47 843	51 129	54 707	57 189	59 401
% change	*– 2.0*	*4.9*	*6.9*	*7.0*	*4.5*	*3.9*
Federal transfers	15 161	15 375	14 960	15 223	15 784	16 420
% change	*8.1*	*1.4*	*– 2.7*	*1.8*	*3.7*	*4.0*
Total budgetary revenue	**60 766**	**63 218**	**66 089**	**69 930**	**72 973**	**75 821**
% change	***0.3***	***4.0***	***4.5***	***5.8***	***4.4***	***3.9***
Budgetary expenditure						
Program spending	– 59 856	– 60 851	– 61 743	– 62 788	– 63 912	– 66 213
% change	*5.1*	*1.7*	*1.5*	*1.7*	*1.8*	*3.6*
Debt service	– 6 117	–7 004	– 7 723	– 8 681	– 9 492	– 9 591
% change	*– 6.0*	*14.5*	*10.3*	*12.4*	*9.3*	*1.0*
Total budgetary expenditure	**– 65 973**	**– 67 855**	**– 69 466**	**– 71 469**	**– 73 404**	**– 75 804**
% change	***4.0***	***2.9***	***2.4***	***2.9***	***2.7***	***3.3***
Net results of consolidated entities	**2 267**	**1 273**	**1 150**	**1 091**	**533**	**494**
Contingency allowance		– 400	– 300	– 200		
Measures to be identified	—	—	299	304	1 015	1 015
SURPLUS (DEFICIT)	**– 2 940**	**– 3 764**	**– 2 228**	**– 344**	**1 117**	**1 526**
BALANCED BUDGET ACT						
Payments to the Generations Fund	– 725	– 842	– 972	– 1 056	– 1 117	– 1 526
Stabilization reserve	433					
Accounting changes	58					
BUDGETARY BALANCE WITHIN THE MEANING OF THE BALANCED BUDGET ACT	**– 3 174**	**– 4 606**	**– 3 200**	**– 1 400**	**0**	**0**

1 The measures announced in the Plan to return to balanced budgets are integrated into the financial framework.

Lastly, should the bill that creates the Agence du revenu and the Fonds spécial de l'Agence du revenu to fund these activities be adopted, the levels of budgetary revenue and expenditure and the revenue and expenditure of the consolidated entities will be modified in the same way.

3.7 The Québec government's debt

❑ Gross debt

Gross debt represents the sum of debt contracted on the financial markets and the net liabilities for the retirement plans and for future employee benefits of public and parapublic sector employees, minus the balance of the Generations Fund.

As at March 31, 2010, the gross debt stood at $163.3 billion, equivalent to 53.8 % of GDP.

In 2009-2010, the results of establishments in the health and social services and education networks were consolidated line by line.

TABLE 39

Gross debt as at March 31, 2010
(millions of dollars)

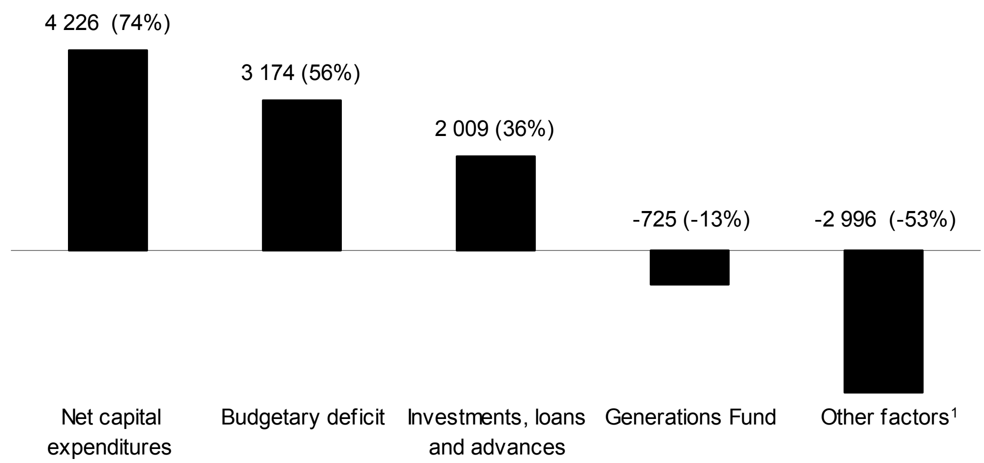
Consolidated direct debt[1, 2]	136 074
Plus: Net retirement plans liability	29 789
Plus: Net employee future benefits liability	132
Less: Generations Fund	– 2 677
GROSS DEBT	**163 318**
As a % of GDP	***53.8***

1 Excluding pre-financing.
2 Following the line-by-line consolidation of the results of establishments in the health and social services and education networks starting in 2009-2010, the direct consolidated debt includes the debt of these establishments contracted in their own name.

In 2009-2010, gross debt increased by $5.7 billion. This increase stems mainly from $4.2 billion in government investments in its fixed assets, e.g. roads.

CHART 67

Growth factors of the gross debt in 2009-2010
(millions of dollars)



1 The other factors include, in particular, the change in “other accounts” ($1.4 billion) such as accounts receivable, accounts payable and the change in the debt in foreign currencies ($1.7 billion).

The table below indicates the levels of gross debt since 1999 and projects them until 2015. Since March 31, 1999, the Québec government's gross-debt-to-GDP ratio has fallen markedly. Whereas gross debt was equivalent to 58.8% of GDP as at March 31, 1999, the ratio stood at 50.4% as at March 31, 2009.

The second part of the table presents the gross debt calculated following the line-by-line consolidation of the health and social services and education networks that came into force in 2009-2010. The gross-debt-to-GDP ratio stood at 53.8% as at March 31, 2010 and should rise to 55.7% as at March 31, 2012. It should subsequently fall to 53.1% as at March 31, 2015.

TABLE 40

The Québec government's gross debt

	In millions of $[1]	As a % of GDP
With networks consolidated on a modified equity basis		
1998-1999	115 432	58.8
1999-2000	116 761	55.4
2000-2001	120 562	53.6
2001-2002	123 912	53.5
2002-2003	129 135	53.5
2003-2004	133 231	53.1
2004-2005	136 894	52.1
2005-2006	139 728	51.4
2006-2007	144 505	51.2
2007-2008	149 225	50.4
2008-2009	152 514	50.4
With networks consolidated line by line[2]		
2008-2009	157 630	52.1
2009-2010	163 318	53.8
2010-2011[F]	173 306	54.8
2011-2012[F]	183 259	55.7
2012-2013[F]	190 256	55.5
2013-2014[F]	193 821	54.2
2014-2015[F]	197 128	53.1

F: Forecasts.
1 Excluding pre-financing.
2 The gross debt reflects the line-by-line consolidation of establishments in the health and social services and education networks. It thus takes into account the debt of the health and social services and education networks contracted in their own name. Data from 2009 to 2015 are not comparable to those from 1999 to 2008.

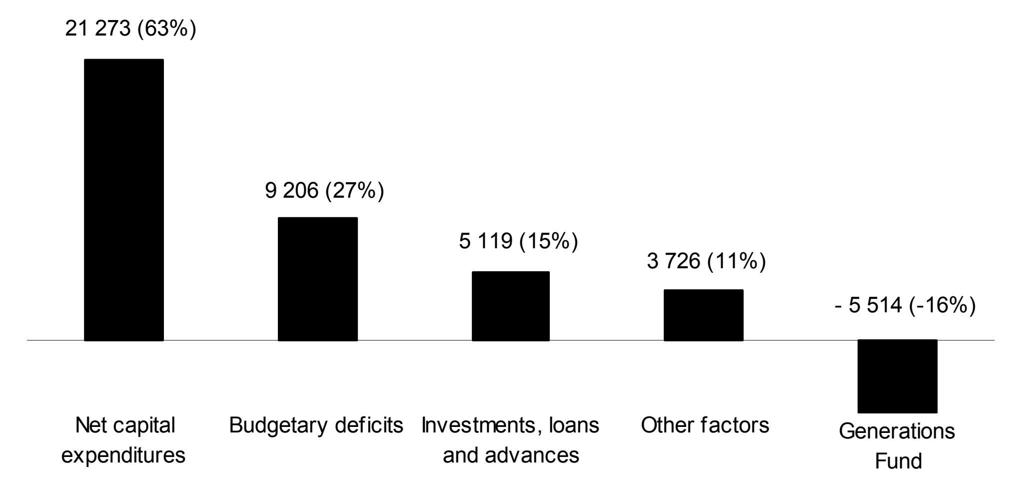
Over the next five years, gross debt should increase by $33.8 billion, from $163.3 billion as at March 31, 2010 to $197.1 billion as at March 31, 2015. This increase stems, by and large, from:

- $21.3 billion in investments by the government in its capital assets;
- anticipated budgetary deficits of $9.2 billion between 2010-2011 and 2012-2013;
- investments, loans and advances totalling $5.1 billion.

Deposits to the Generations Fund will reduce the debt by $5.5 billion.

CHART 68

Growth factors of the gross debt between 2011 and 2015
(millions of dollars)



❑ Debt representing accumulated deficits

The government owns substantial assets that offset the gross debt.

The concept of debt representing accumulated deficits corresponds to the difference between the government's liabilities and assets. This concept fully represents the government's financial position since it takes into account its liabilities and assets overall.

The debt representing the Québec government's accumulated deficits stood at $107.6 billion as at March 31, 2010, equivalent to 35.4% of GDP.

TABLE 41

Debt representing accumulated deficits as at March 31, 2010
(millions of dollars)

Gross debt	163 318
Less: Financial assets, net of other liabilities	– 13 218
Less: Non-financial assets	– 42 483
DEBT REPRESENTING ACCUMULATED DEFICITS	**107 617**
As a % of GDP	***35.4***

Over the next five years, the debt representing accumulated deficits should increase by $3.7 billion, to $111.3 billion as at March 31, 2015, equivalent to 30.0% of GDP. This increase is attributable to the deficits of $9.2 billion that will be recorded between 2010-2011 and 2012-2013, but will be partially offset by the $5.5 billion growth in the Generations Fund. The debt representing accumulated deficits will stop increasing when fiscal balance is achieved in 2013-2014. It will then decline year after year at the rate of the increase of the Generations Fund.

TABLE 42

Growth factors of the debt representing accumulated deficits
(millions of dollars)

	Debt, beginning of year	Budgetary deficit	Generations Fund	Restatements	Debt, end of year	As a % of GDP
2009-2010	103 433[1]	3 174	– 725	1 735[2]	107 617	35.4
2010-2011[F]	107 617	4 606	– 842	—	111 381	35.2
2011-2012[F]	111 381	3 200	– 973	—	113 608	34.5
2012-2013[F]	113 608	1 400	– 1 056	—	113 952	33.2
2013-2014[F]	113 952	—	– 1 117	—	112 835	31.6
2014-2015[F]	112 835	—	– 1 526	—	111 309	30.0

F: Forecasts.
1 After taking into account the stabilization reserve.
2 Includes, in particular, the restatement stemming from the implementation of line-by-line consolidation of the health and social services and education networks demanded by the new CICA standards in 2009-2010.

❑ Debt-reduction objectives

The government set new debt-reduction objectives in the last Budget.

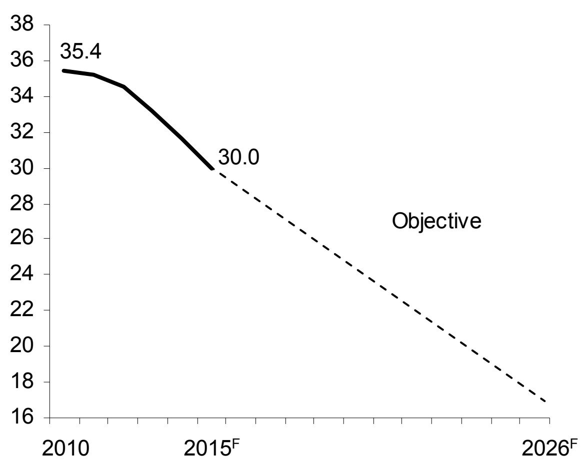
The first objective concerns the debt resulting from accumulated deficits, i.e. "bad debt," which does not correspond to any asset. The objective is to halve such debt to 17% of GDP in 2025-2026.

The second objective focuses on gross debt. The government is seeking to reduce the gross-debt-to-GDP ratio to 45% in 2025-2026.

These are maximum limits. If the government can do better, it will do so.

CHART 69

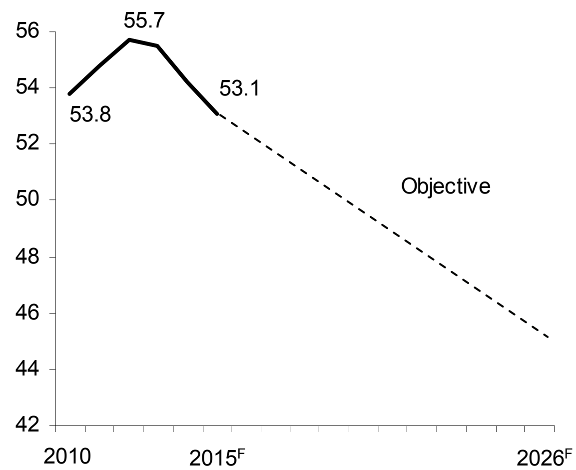
Debt representing accumulated deficits
(as at March 31, as a percentage of GDP)



F: Forecasts for 2011 to 2015 and projections for subsequent years.

CHART 70

Gross debt[1]
(as at March 31, as a percentage of GDP)



F: Forecasts for 2011 to 2015 and projections for subsequent years.
1 Excluding pre-financing.

PART FOUR :
PLAN TO RETURN TO BALANCED BUDGETS BY 2013-2014

4. PLAN TO RETURN TO BALANCED BUDGETS BY 2013-2014

The Plan to return to balanced budgets, announced in March 2009, did not include restraint measures for 2009-2010 to avoid hampering efforts to revive the economy.

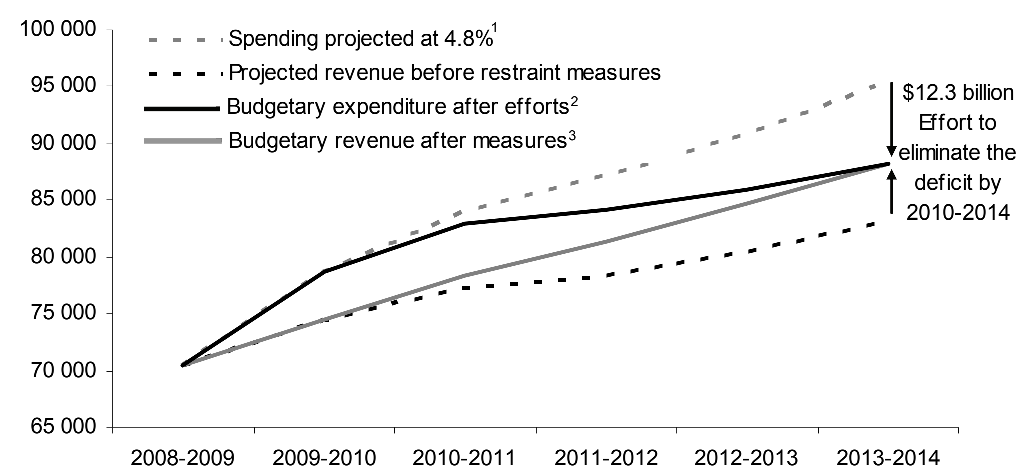
However, with the recovery well under way, the government is implementing, in 2010-2011, the initial efforts to reduce spending growth as well as the first revenue measures.

The plan announced in the March 2010 Budget Speech set the effort required to balance the budget by 2013-2014 at $12.3 billion.

— This figure was reached by holding annual spending growth to 4.8%, the average annual growth from 2003-2004 to 2009-2010[11].

CHART 71

Impact of the Plan to return to balanced budgets on revenue and expenditure, 2008-2009 to 2013-2014P
(millions of dollars)



P: Preliminary data for 2009-2010, forecasts for 2010-2011 and 2011-2012 and projections for subsequent years.
1 Total budgetary expenditure including 4.8% growth in program spending, i.e. the average annual growth rate for the period 2003-2004 to 2009-2010 indicated in the 2010-2011 Budget.
2 Bearing in mind the payments to the Generations Fund and spending efforts as of 2010-2011.
3 Including the net results of consolidated entities, the contingency allowance, the stabilization reserve and revenue efforts, in particular efforts to combat tax evasion and tax avoidance.

[11] Total budgetary expenditure including 4.8% growth in program spending, i.e. the average annual growth rate for the period 2003-2004 to 2009-2010 indicated in the 2010-2011 Budget.

4.1 Reminder of the measures announced in March 2009

The Plan to return to balanced budgets intabled with the 2009-2010 Budget in March 2009 contained restraint measures that were not to take effect until 2010-2011, i.e. when economic recovery was forecast to take hold. These measures will accordingly be implemented this year, namely:

- an effort to reduce annual program spending;
- the intensification of efforts to curb tax evasion and tax avoidance;
- revenue measures:
  - $400 million in 2010-2011 from the rise in the Québec sales tax rate from 7.5% to 8.5% as of January 1, 2011. This measure will generate $1.3 billion in 2013-2014;
  - $15 million from indexing of all user fees not currently indexed as of January 1, 2011. This measure will generate $195 million in 2013-2014.

4.2 Reminder of the measures announced in March 2010

The last Budget stipulated the implementation of new measures under the Plan to return to balanced budgets. These measures, excluding those affecting program spending, will total $436 million in 2010-2011 and $2.2 billion in 2013-2014.

In keeping with its budget policy stance, the government has opted for measures that are among the least damaging to economic growth.

Remain within our ability to pay:

- program spending growth limited to 2.9% in 2010-2011 and 2.2% annually until 2013-2014;
- efforts to control spending within public organizations.

Ensure that everyone pays their fair share:

- additional efforts to combat tax evasion and tax avoidance.

Ensure adequate funding of publics services:

- a further rise in the Québec sales tax rate from 8.5% to 9.5% on January 1, 2012;
- introduction of an annual health contribution for each adult of $25 in 2010,[12] $100 in 2011 and $200 in 2012;
- the temporary increase in the compensatory tax on financial institutions;
- implementation of the revision of the mining duties regime.

Modernize our road and public transit infrastructures:

- rise in the fuel tax rate of 1 ¢/L on April 1 of each year from 2010 to 2013.

Reduce the debt for future generations once budget balance has been restored:

- a payment to the Generations Funds of the gradual rise of 1 ¢/kWh in the price of heritage block electricity, over five years, beginning in 2014.

Compensatory measures will reduce, and even eliminate the impact of these measures for low-income individuals and households, in particular concerning the rise of the Québec sales tax.

- Accordingly, thanks to the solidarity tax credit, the rise in the sales tax will have no impact on the financial situation of low-income households. For middle-class households, the impact of the rise in the sales tax will be greatly attenuated.

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[12] The health contribution will be $50 in 2010. However, since it applies only as of July 2010, that is equivalent to $25 for 2010.

❑ Identified measures that will total $11.2 billion in 2013-2014

The implementation of the measures in the last Budget will bring the total effort already announced to return to fiscal balance to $11.2 billion in 2013-2014.

TABLE 43

Efforts to be carried out under the Plan to return to balanced budgets, 2010-2011 to 2013-2014 – 2010-2011 Budget
(millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014
BUDGETARY BALANCE WITH PROGRAM SPENDING GROWTH HELD AT 4.8%	**– 6 709**	**– 8 800**	**– 10 390**	**– 12 262**
Spending efforts[1]	**1 152**	**2 864**	**4 694**	**6 649**
Measures announced in the 2009-2010 Budget[2]				
Stepped-up efforts by Revenu Québec to curb tax evasion and tax avoidance	200	300	600	900
Indexing of all non-indexed user fees as of January 1, 2011	15	75	135	195
Rise in the Québec sales tax rate by one percentage point on January 1, 2011	400	1 215	1 215	1 265
Measures in the 2009-2010 Budget	**615**	**1 590**	**1 950**	**2 360**
Measures announced in the 2010-2011 Budget[2]				
Control over spending and tax evasion				
– Efforts to control spending in public organizations	80	240	365	530
– Fight against tax evasion and tax avoidance	120	255	275	300
Funding of public services				
– Rise in the Québec sales tax (QST) rate from 8.5% to 9.5% on January 1, 2012	—	400	1 500	1 550
– Temporary increase in the compensatory tax on financial institutions	112	115	120	124
– Revision of the mining duties regime	32	39	57	60
Financing of transportation infrastructure				
– Rise in the fuel tax rate of 1¢/L on April 1 of each year from 2010 to 2013	120	240	360	480
Fund to Finance Health and Social Services Institutions (FINESSS)				
– Introduction of a health contribution as of July 1, 2010	180	575	945	945
– Additional funding of health institutions	– 180	– 575	– 995	– 1 445
Assistance for low-income individuals and households				
– Solidarity tax credit[3]	—	—	– 260	– 260
Other Budget measures	– 28	– 154	– 145	– 82
Measures in the 2010-2011 Budget[2]	**436**	**1 135**	**2 222**	**2 202**
Total identified measures[4]	**2 203**	**5 589**	**8 866**	**11 211**
Balance to be offset to achieve deficit objectives	—	311	324	1 051
Total measures	**2 203**	**5 900**	**9 190**	**12 262**
BUDGETARY BALANCE WITHIN THE MEANING OF THE BALANCED BUDGET ACT	**– 4 506**	**– 2 900**	**– 1 200**	**0**

1 Excludes the additional contribution from the Fund to Finance Health and Social Services Institutions (FINESSS) in order to maintain at 5% growth in total health care spending.
2 Excluding program spending measures.
3 The impact of $250 million in 2011-2012 is already included in the government's fiscal framework.
4 Including program spending measures.

4.2.1 Apportioning efforts to return to balanced budgets: 62% for the government, 38% for taxpayers

The restraint measures attributable to the government stand at 62% and can be broken down as follows:

- $5.2 billion (46.4%) in respect of the reduction in the growth of spending by government departments and bodies;
- $530 million (4.8%) attributable to expenditure control in other public bodies;
- $1.2 billion (10.7%) from the fight against tax evasion and tax avoidance to ensure that everyone pays his fair share to fund public services.

The effort demanded of taxpayers is equivalent to 38% of the total:

- $3.5 billion (31.0%) stemming essentially from the increase in the QST and the fuel tax;
- $796 million (7.1%) assumed by businesses.

The measures announced will total $11.2 billion for 2013-2014.

TABLE 44

Breakdown of the effort identified to return to fiscal balance for 2013-2014
(millions of dollars)

	Government[1]				Taxpayers[2]			
	Tax evasion	Public bodies	Expenditure and bodies[3]	Subtotal	Individuals[4]	Businesses and other	Subtotal	Total
Total effort	1 200	530	5 204	**6 934**	3 481	796	**4 277**	**11 211**
Breakdown of the effort (%)	10.7	4.8	46.4	**61.9**	31.0	7.1	**38.1**	**100.0**

1 Effort in respect of expenditure or revenue without increasing taxes and user fees.
2 Efforts stemming from increases in taxes and uses fees.
3 Excluding the additional contribution of the FINESSS.
4 Including the health contribution.

❑ Follow-up on the Plan to return to balanced budgets

All of the adjustments presented above have an impact on the budgetary balance. The following table indicates the new budgetary balance before the Plan to return to balanced budgets.

TABLE 45

Impact of the Fall 2010 adjustment on the budgetary balance before the Plan to return to balanced budgets
(millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014
BUDGETRY BALANCE BEFORE THE PLAN TO RETURN TO BALANCED BUDGETS – 2010-2011 BUDGET	**– 6 709**	**– 8 800**	**– 10 390**	**– 12 262**
Adjustments – Fall 2010				
Budgetary revenue	380	260	310	300
Budgetary expenditure	– 380	– 248	– 290	– 264
Contingency allowance	– 100	– 300	– 200	—
Total adjustments	**– 100**	**– 288**	**– 180**	**36**
BUDGETARY BALANCE BEFORE THE PLAN TO RETURN TO BALANCED BUDGETS – FALL 2010	**– 6 809**	**– 9 088**	**– 10 570**	**– 12 226**

As the following table shows, the update to the financial framework in this document confirms the government's commitment to assume 62% of the effort identified of $11.2 billion to eliminate the deficit in 2013-2014. To this end, it has identified all of the initiatives totalling $6.9 billion:

- spending control measures amounting to $5.2 billion;
- savings of $530 million to be achieved by public bodies;
- additional tax recover efforts of $1.2 billion.

Moreover, $1.0 billion remains to be identified from now until 2013-2014 to balance the budget.

TABLE 46

Follow-up on the Plan to return to balanced budgets

(millions of dollars)

	2010-2011						
	March 2010 Budget	Fall 2010		2011-2012	2012-2013	2013-2014	
BUDGETARY BALANCE BEFORE THE PLAN TO RETURN TO BALANCED BUDGETS	**– 6 709**	**– 6 809**		**– 9 088**	**– 10 570**	**– 12 226**	
PLAN TO RETURN TO BALANCED BUDGETS							
GOVERNMENT							
– Departments and bodies	1 152	1 152		2 864	4 694	6 649	
– **Additional funding of health institutions**	– 180	– 180		– 575	– 995	– 1 445	
Subtotal	**972**	**972**	62%	**2 289**	**3 699**	**5 204**	62%
– Public bodies	80	80		240	365	530	
– Fight against tax evasion and tax avoidance	320	320		555	875	1 200	
Subtotal	**1 372**	**1 372**		**3 084**	**4 939**	**6 934**	
TAXPAYERS							
– Individuals	421	421		1 553	2 329	2 536	
– Health contribution	180	180		575	945	945	
Subtotal	**601**	**601**	38%	**2 128**	**3 274**	**3 481**	38%
– Businesses and other	230	230		377	653	796	
Subtotal	**831**	**831**		**2 505**	**3 927**	**4 277**	
Total identified efforts	**2 203**	**2 203**		**5 589**	**8 866**	**11 211**	
EFFORTS YET TO BE IDENTIFIED – FALL 2010							
Measures to be identified – 2010-2011 Budget				311	324	1 051	
Less: Adjustments – Fall 2010							
Budgetary revenue	—	380		260	310	300	
Budgetary expenditure	—	– 380		– 248	– 290	– 264	
Total adjustments – Fall 2010	—	0		12	20	36	
Measures to be identified – Fall 2010	—	—		**299**	**304**	**1 015**	
Total measures	**2 203**	**2 203**		**5 888**	**9 170**	**12 226**	
BUDGETARY BALANCE	**– 4 506**	**– 4 606**		**– 3 200**	**– 1 400**	**0**	

■ Spending control measures identified for 2013-2014

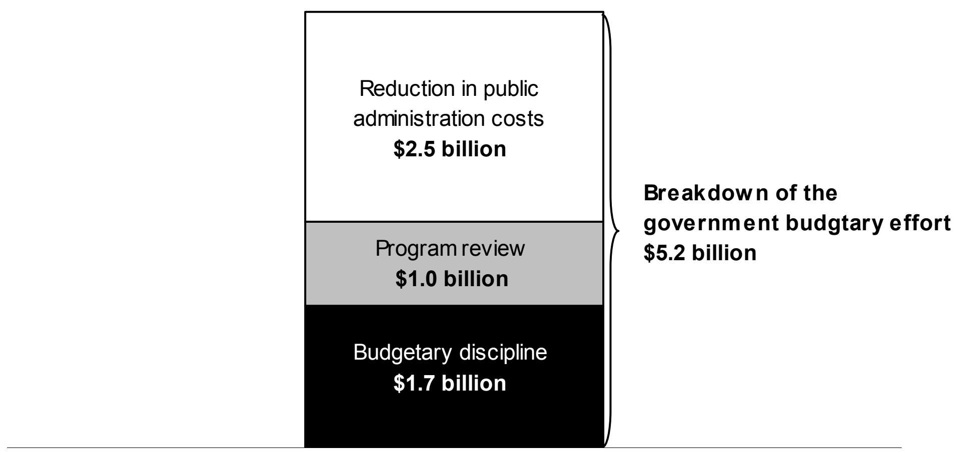
To ensure that the government effort is achieved, an organized approach shared throughout the public sector is being implemented.

Accordingly, the government has identified all of the measures, amounting to $5.2 billion, that will enable it to reduce its spending growth. The objective will be gradually achieved in 2010-2014 by:

- reducing public administration costs by $2.5 billion;
- reducing program delivery costs by $1 billion;
- achieving savings that will reach $1.7 billion through greater budgetary discipline.

CHART 72

Breakdown of the measures identified on account of the $5.2-billion reduction in program spending in 2013-2014



4.3 Follow-up on the government effort

4.3.1 Approach for reducing spending growth by $5.2 billion by 2013-2014

A number of measures to reduce spending growth were announced in the 2010-2011 Budget, in particular in the 2010-2014 spending control and reduction action plan as well as in Bills 100 (L.Q. 2010, c. 20).

The government pursued its efforts and other measures have been identified, in order to achieve the objective of $5.2 billion set for 2013-2014.

TABLE 47

Spending efforts to return to balanced budgets – Fall 2010
(millions of dollars)

	By 2013-2014
Reduction in program spending growth from 4.8% to 2.2% in 2010-2011 and to 2.1% thereafter	**6 649**
Fund to Finance Health and Social Services Institutions (FINESSS)	– 1 445
TOTAL GOVERNMENT EFFORT	**5 204**

❑ Reduction in public administration costs: $2.5 billion

A number of measures will reduce public administration costs:

- the agreement with union partners to limit wage and salary growth to 0.5% in 2010-2011, 0.75% in 2011-2012, 1.0% in 2012-2013 and 1.75% in 2013-2014, for $1.4 billion;
- the 10% reduction in administrative operating expenditures, including 25% of advertising, training and travel expenses, for $320 million;
- the freeze of total payroll of government departments and bodies until 2013-2014, in particular by maintaining the general rule of filling only some of the positions left vacant by retirement, for $260 million;
- new management rules for computer systems projects and the development of new projects, for $200 million.

❑ Program review: $1.0 billion

The government will consolidate programs to simplify their management and administration and reduce their management costs, in a “one-stop” approach, for $50 to $60 million:

— regional development assistance programs;

— immigrant francization and job integration programs.

The parameters of some programs will be reviewed:

— nearly $300 million in business assistance;

— $190 million for the reduction in the prescription drug program, bearing in mind the lower prices reimbursed for generic drugs.

❑ Budget discipline: $1.7 billion

The government will limit the envelops to fund spending growth resulting from the announcement of new programs or new initiatives.

— Compared to the average observed from 2003-2004 to 2009-2010, this represents a reduction in spending growth of $950 million in 2013-2014.

Under the 2010-2011 Expenditure Budget, growth in spending has been limited to 2.9%, including 3.7% growth in health and social services spending and 2.2% in education spending, for $700 million.

— Measures are being implemented to enhance the performance of institutions and limit spending growth.

TABLE 48

Spending efforts required of government departments and bodies
(millions of dollars)

	By 2013-2014
IDENTIFIED SPENDING MEASURES	
1. Reduction in public administration costs	
Parameters to limit wage growth	1 382
10% reduction in administrative operating expenses, including a 25% reduction in advertising, training and travel expenses	322
Freeze of total payroll, in particular by continuing to fill only one position out of two left vacant by retirement	257
Stringent control over computer projects	200
Streamlining of diagnostic and laboratory services	100
Reduction in development projects in government premises and spaces	30
Abolition and merging of bodies and funds	9
Other measures	252
Subtotal – Reduction of public administration costs	**2 552**
2. Program review	
Consolidation of programs under a “one-stop” approach	60
Business assistance	298
Reimbursed price of generic drugs	189
Other measures	445
Subtotal – Program review	**992**
3. Budget discipline	
Budget growth limited in 2010-2011, including 3.7% in the health sector and 2.2% in the education sector	710
Reduction in the envelope allocated to new programs	950
Subtotal – Budget discipline	**1 660**
TOTAL IDENTIFIED MEASURES	**5 204**

4.3.2 Effort by public bodies

Under the legislation implementing certain provisions of the March 30, 2010 Budget Speech and targeting a return to balanced budgets by 2013-2014 and debt reduction (L.Q. 2010, c. 20), the government has stipulated that all public sector entities should make efforts to reduce spending and increase productivity.

In practical terms, the government is requiring savings from public bodies as a whole that will reach $530 million in 2013-2014.

TABLEAU 49

Spending cuts by public bodies
(millions of dollars)

	2010-2011	**2011-2012**	**2012-2013**	**2013-2014**
Spending cuts and productivity gains by commercial government corporations				
– Hydro-Québec	25	100	150	250
– Loto-Québec	5	25	40	50
– Société des alcools du Québec	5	25	40	50
Spending cuts and productivity gains by other public bodies				
– Special funds, non-budget-funded bodies and others	20	40	60	80
– Gradual reduction of health network deficits	25	50	75	100
TOTAL	**80**	**240**	**365**	**530**

The ministers responsible have presented the spending reduction plans of commercial government corporations. The objective of a $35-million spending reduction in 2010-2011 will be achieved. For subsequent years, the plans contain spending-reduction measures that will enable the government to achieve the $350-million objective in 2013-2014 set in the Budget.

The ministers responsible have also submitted the plans of non-budget-funded bodies and special funds. The $20-million savings target announced in the Budget for 2010-2011 will be achieved. Moreover, of the total amount of $80 million anticipated in 2013-2014, over $70 million has already been identified.

4.3.3 Intensification of the effort to combat tax evasion and tax avoidance

❑ Ambitious tax recovery objectives maintained

Under the Plan to return to balanced budgets, the government has set ambitious tax recovery targets for Revenu Québec.

- Originally, the plan set the total tax recovery target for 2013-2014 at $900 million.
- In the 2010-2011 Budget, overall recovery target was raised from $900 million to $1.2 billion, again for 2013-2014.

TABLE 50

Tax recovery targets – Plan to return to balanced budgets
(millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014
2009-2010 Budget	200	300	600	900
Increase announced in the 2010-2011 Budget	120	255	275	300
TOTAL TAX RECOVERY	**320**	**555**	**875**	**1 200**

To enable Revenu Québec to achieve its annual targets, the government has given it substantial resources:

- additional human and financial resources, which are or will be allocated to various tax audits and intervention in at-risk sectors project;
- a new status transforming as of April 1, 2011 the ministère du Revenu into the Agence du revenu du Québec.

❑ Additional resources

The additional resources granted under the Plan to return to balanced budgets and the gradual implementation of intervention projects in at-risk sectors enabled Revenu Québec to recover $86 million as of September 30, 2010.

— The target set for the first two quarters of the year was $90 million.

— The target of $320 million for the 2010-2011 fiscal year overall is being maintained.

Revenu Québec's overall tax audits enabled it to recover $1.6 billion as of September 30, 2010, equivalent to 124% of the mid-year target, set at $1.3 billion.

TABLEAU 51

Tax recovery results – 2010-2011
(millions of dollars)

		At September 30, 2010		
	2010-2011 target	**Sept. 30, 2010 target**	**Result as of Sept. 30, 2010**	**% attained**
Plan to return to balanced budgets	320	90	86	96
Other tax recovery initiatives	2 272	1 184	1 495	126
TOTAL – ALL INITIATIVES	**2 592**	**1 274**	**1 581**	**124**

■ More personnel for tax audits

In the fall 2009 Update on Québec's Economic and Financial Situation, the government granted resources to Revenu Québec to hire 250 additional staff in 2010-2011.

— These 250 people have been hired, have already taken up their positions and are conducting tax audits.

■ Intervention in at-risk sectors

As stipulated in the 2010-2011 Budget, Revenu Québec is moving ahead on its projects and developing new ones to combat tax evasion in at-risk sectors such as the restaurant industry. When it intervenes in other problem sectors, especially construction, economic and financial crime and tobacco smuggling, Revenu Québec is supported by its partners.

- **Restaurant industry: mandatory bill and installation of sales recording modules**

Since September 1, 2010, restaurateurs have been required to give their customers a bill.

— The bill contains information to verify the accuracy of the transaction and the taxes collected.

By November 1, 2011 at the latest, all covered establishments registered in the QST file must provide their customers with a bill produced using a sales recording module (SRM) chosen by Revenu Québec.

— The SRM is a micro-computer linked to a cash register or point-of-sale system that makes it more difficult to hide sales.

Moreover, on August 30, 2010, the Minister of Revenue announced an improvement to the grant program for restaurateurs to help them make their sales recording systems compatible with the SRMs.

The SRM implementation phase began September 1, 2010 and as of October 31, 2010, 424 SRMs had been installed in 227 restaurants.

- **Construction: new teams to combat tax evasion**

The last Budget announced additional funding for Revenu Québec, the Commission de la construction du Québec and the Régie du bâtiment du Québec to intensify efforts to combat unreported work and tax evasion in the construction industry.

- ***New initiatives of Revenu Québec***

The Revenu Québec team assigned to tax audits in the construction sector will increase from 200 to 350 employees, in particular following the implementation of four new projects.

Revenu Québec has implemented new auditing methods including the "Présence soutenue sur 50 grands chantiers" project.

— This project began in September 2010 and, as at October 31, 2010, 10 worksites were under sustained surveillance. Revenu Québec's objective is to maintain a presence on 50 worksites by the spring of 2011.

Another Revenu Québec project that specifically affects the construction sector is the tax compliance certificate. This measure was announced in the 2008-2009 Budget Speech and became effective on June 1, 2010.

— Henceforth, a ministère du Revenu certificate is required from suppliers of goods and services before obtaining a public contract of $25 000 or more.

— As at October 31, 2010, 7 416 certificates had been issued to 4 558 businesses. Of this number, 597 businesses had brought their tax situation into order to obtain the certificate, generating additional tax revenue of $9.1 million.

Revenu Québec has also set up a special team to combat embezzlement and corruption, to which 10 additional employees have been allocated.

Lastly, Revenu Québec has also set up a team to check compliance of claims for the refundable tax credit for home renovation and improvement, which was introduced in 2009 to support Québec's economy.

- ***New initiatives of the Commission de la construction du Québec***

Since the last Budget Speech, the Commission de la construction du Québec (CCQ) has initiated three new projects.

The CCQ has set up a tactical squad to detect worksites where false invoicing and money laundering are present. Of the 40 team members, the government will fund 17, 15 of whom are already on the job. This team will work in collaboration with ACCES construction[13] partners and will pay particular attention to public contracts.

The "Service intégrité construction" project offers public clients a variety of services prior to the contract awarding phase to fight against unreported work.

Another project under way, "Service de plaintes et de dénonciations," is intended to collect information from complaints, subjecting it to preliminary analysis, crosschecking it against other available data and forwarding problem cases to intervention teams on the ground.

— Since March 2010, 58 complaints have resulted in investigations regarding unreported work (examination of books or on-site investigation) and 11 regarding discrimination and intimidation.

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13 Concerted action to counter the underground economy in the construction industry. The partners are: the CCQ, Revenu Québec, the Régie du bâtiment du Québec, the Commission de la santé et de la sécurité du travail, the Directeur des poursuites criminelles et pénales and the ministère des Finances du Québec. The Canada Revenue Agency, the Sûreté du Québec and the Unité anticollusion in the ministère des Transports are participating on an *ad hoc* basis in the committee's investigations.

The teams dedicated to these last two projects will be fully operational by January 2011.

Moreover, since January 2010, CCQ teams have inspected more than 3 000 public worksites. In addition, 166 joint worksite inspections with ACCES construction partners have been carried out, demonstrating the government's determination to act in a concerted manner in this sector. The 2011-2012 Budget will take stock of these initiatives.[14]

- ***New initiative of the Régie du bâtiment du Québec***

To ensure the probity of construction contractors, last fall the government mandated the Régie du bâtiment du Québec to continue and intensify its efforts to curb criminal infiltration of the construction industry.

A 13-member team has been set up for this purpose. As at October 31, 2010, the results were as follows:

— 200 investigations had been carried out;

— 9 220 requests to check criminal records had been sent to the Sûreté du Québec;

— four licences had been cancelled in relation to criminal acts;

— seven licences had been suspended in relation to tax violations;

— 25 restricted licences had been issued for the purposes of obtaining a public contract.

[14] See the 2010-2011 Economic and Budgetary Action Plan.

TABLEAU 52

New measures to combat tax evasion – Construction
Results as at October 31, 2010

Department/Body	Projects	Additional personnel	Results
Revenu Québec	Sustained presence on 50 major worksites	50 (22 in place)	10 worksites were subject to sustained surveillance
	Ministère du Revenu certificate[1]		7 416 certificates had been issued to 4 558 businesses 597 businesses had put their tax situation in order Additional tax revenue of $9.1 million
	Special squad to deal with embezzlement and corruption	10 (hiring under way)	Being carried out
	Audit of the tax credit for home renovation and improvement	10 (full team)	3 596 audits $1.3 million in taxes recovered
Commission de la construction du Québec	Tactical squad	17 (15 in place)	Targeting of nine businesses enabled investigations of 75 others related to them or not and inspections of 169 construction sites The investigations are continuing
	Service intégrité construction	7 (hiring under way)	Being carried out
	Service de plaintes et de dénonciations	6 (hiring under way)	58 complaints had given rise to investigations regarding unreported work and 11 regarding discrimination and intimidation
Régie du bâtiment du Québec	Integrity of contractors	13 (full team)	200 investigations had been carried out 9 220 requests to check criminal records had been sent to the Sûreté du Québec Four licences had been cancelled in relation to criminal acts Seven licences had been suspended in relation to tax violations 25 restricted licences had been issued for the purposes of obtaining a public contract.

1 The ministère du Revenu certificate is required from suppliers of goods and services before obtaining a public contract of $25 000 or more. The results presented reflect all applications for a ministère du Revenu certificate and not just those of suppliers in the construction industry.

- **New initiatives concerning economic and financial crime**

To combat economic and financial crime, the government announced in its last Budget that it will table a bill and that it would make available additional funding to the Autorité des marchés financiers and police forces.

- ***Ministère des Finances bill***

On November 10, 2010, the Minister of Finance tabled Bill 128,[15] intended, in particular, to oversee money services businesses.

— These businesses, whether wittingly or unwittingly, are often used to facilitate illegal activities such as tax fraud and money laundering.

- ***Autorité des marchés financiers***

The Autorité des marchés financiers has been granted additional funding to hire three people to further monitor financial cyber crime. As at October 31, 2010, 26 cases had been detected and required audits:

— four cases are currently under investigation;

— 14 cases had given rise to alerts or warnings;

— three cases will give rise to court proceedings;

— five case had been closed with no further action.

- ***Police forces***

The Sûreté du Québec is to set up a new team specializing in economic and financial crime in Eastern Québec. Hiring is under way and the full team should be in place in January 2011.

Moreover, two additional resources have been granted and hired at the Service de police de la Ville de Montréal to combat laundering of the proceeds of crime.

15 Bill n° 128: An Act to enact the Money-Services Businesses Act and to amend various legislative provisions mainly concerning special funds and the financial sector.

- **New initiatives to combat tobacco smuggling**

The 2010-2011 Budget called for an increase in police presence to cut the supply of raw materials intended for illegal manufacturing facilities, intercept contraband products from the United States and curb local smuggling networks.

— A new mixed investigation team will be established shortly in the Montérégie region.

— Additional Sûreté du Québec or municipal police officers are in place and working to dismantle local smuggling networks.

- **Funding efforts to combat tax evasion**

The 2010-2011 Budget granted the ministère des Finances an additional $30 million to fund projects to combat tax evasion. The total budget earmarked for such efforts stands at $94.6 million in 2010-2011.

— As at November 25, 2010, $80.6 million had been paid to government departments and bodies involved in efforts to combat tax evasion.

❑ Creation of the Agence du revenu du Québec

Bill 107 creating the Agence du revenu du Québec was tabled on June 8, 2010 and adopted in principle on October 21, 2010. The Commission des finances publiques held special consultations on September 22 and 28, 2010. Detailed study concluded on November 16, 2010 and the Commission tabled its report on November 17, 2010.