Fall 2014

UPDATE ON QUÉBEC'S ECONOMIC AND FINANCIAL SITUATION

Québec

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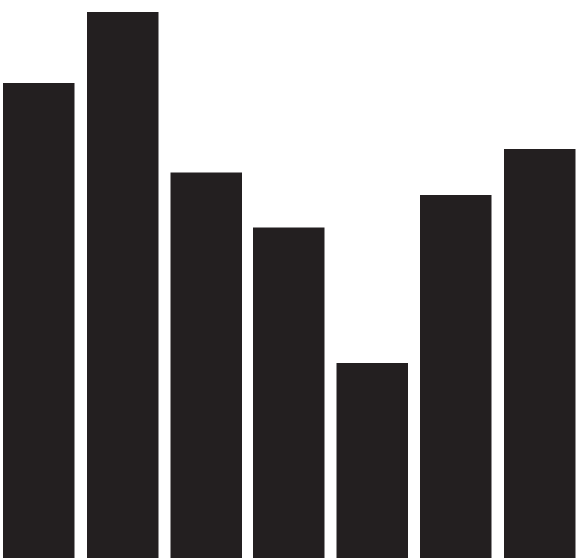

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Fall 2014

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UPDATE ON QUÉBEC'S ECONOMIC AND FINANCIAL SITUATION

HIGHLIGHTS

HIGHLIGHTS

The December 2014 Update on Québec's Economic and Financial Situation reports on the implementation of the policy directions set out in Budget 2014-2015 tabled last June. It also makes adjustments to the financial framework of Budget 2014-2015 to account for the most recent information concerning the economic situation and the government's revenue and expenditure.[1]

The update maintains the budgetary objectives set in Budget 2014-2015, that is:

— reduce the deficit to $2 350 million in 2014-2015;

— return to a balanced budget in 2015-2016 and keep it balanced thereafter;

— keep expenditure growth below revenue growth until the budget has been balanced;

— maintain the debt reduction objectives.

The fall update is also the opportunity for the government to report on:

— actions taken to return to a balanced budget in 2015-2016;

— economic recovery and the related support measures.

CHART 1

Budgetary balance(1) from 2013-2014 to 2016-2017
(millions of dollars)

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

1 Unless otherwise indicated, this update is based on data available as at November 11, 2014.

RETURN TO A BALANCED BUDGET IN 2015-2016

The financial framework for this update confirms a balanced budget in 2015-2016.[2]

Revenue growth is accelerating.

— Consolidated revenue will increase by 2.9% in 2014-2015 and 4.0% in 2015-2016.

Expenditure growth is under control.

— Consolidated expenditure growth of 2.2% in 2014-2015 and 1.2% in 2015-2016 will restore sound public finances while protecting the government priorities of health, education and access to services for the most vulnerable people in society.

TABLE 1

Consolidated summary financial framework – December 2014
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Own-source revenue	77 108	80 501	83 223
% change	*3.2*	*4.4*	*3.4*
Federal transfers	18 805	19 249	19 717
% change	*1.4*	*2.4*	*2.4*
Consolidated revenue	**95 913**	**99 750**	**102 940**
% change	***2.9***	***4.0***	***3.2***
Expenditure	–86 332	–87 058	–88 658
% change	*2.4*	*0.8*	*1.8*
Debt service	–10 646	–11 075	–11 594
% change	*0.5*	*4.0*	*4.7*
Consolidated expenditure	**–96 978**	**–98 133**	**–100 252**
% change	***2.2***	***1.2***	***2.2***
Contingency reserve	—	—	–400
SURPLUS (DEFICIT)	**–1 065**	**1 617**	**2 288**
BALANCED BUDGET ACT			
Deposits of dedicated revenues in the Generations Fund	–1 285	–1 617	–2 288
BUDGETARY BALANCE[(1)]	**–2 350**	**—**	**—**

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

2 The government's five-year financial framework is presented in Section A, p. A.26.

QUÉBEC'S ECONOMY IS GAINING MOMENTUM

The acceleration of economy growth forecast in Budget 2014-2015 is materializing. Exports are gaining momentum, consumption is sustained and governments' investments remain at high levels.

- Following weak growth of 1.0% of real gross domestic product (GDP) in 2013, Québec's economy is expected to expand by 1.6% in 2014 and 1.9% in 2015.
  - Growth will be driven primarily by exports, which have been gaining momentum since 2014.
- Economic growth is also firming up among Québec's main economic partners.
  - The outlook for the U.S. economy in the coming years is positive. The Québec and Canadian economies will benefit from accelerated growth in the United States.

TABLE 2

Economic growth outlook
(real GDP, percentage change)

	2013	2014	2015
Québec	1.0	1.6	1.9
Canada	2.0	2.2	2.5
United States	2.2	2.2	2.7
Euro area	–0.5	0.7	0.9
Advanced economies	1.4	1.7	2.1
Emerging economies	4.7	4.1	4.4
World	**3.3**	**3.0**	**3.4**

Sources: Institut de la statistique du Québec, Statistics Canada, IHS Global Insight, International Monetary Fund and Ministère des Finances du Québec.

MEASURES TO RETURN TO A BALANCED BUDGET

The budget will be balanced in 2015-2016 largely thanks to disciplined spending management.

In this regard, for 2015-2016:

- the identified measures represent nearly 85% of the overall effort required as determined in Budget 2014-2015. This effort includes the bulk of the measures to reduce tax expenditures;
- the balance of the measures, totalling roughly $1 billion, will be made known by Budget 2015-2016.

TABLE 3

Action to balance the budget
(millions of dollars)

	2015-2016	Share of identified effort	
BUDGETARY BALANCE BEFORE MEASURES – BUDGET 2014-2015(1)	**–7 274**		
MEASURES – BUDGET 2014-2015			
Control of government spending	3 078		
Reduction of tax expenditures	348		
Use of the contingency reserve	200		
Subtotal	**3 626**	**50%**	84%
MEASURES IDENTIFIED – DECEMBER 2014			
Control of government spending			
Reduction of the cost of public services	1 125		
Program review measures	736		
Subtotal	**1 861**		
Reduction of tax expenditures	600		
Total for identified measures – December 2014	**2 461**	**34%**	
BALANCE OF MEASURES TO BE IDENTIFIED BY BUDGET 2015-2016	**1 187**	**16%**	
BUDGETARY BALANCE – DECEMBER 2014	**—**	**100%**	

(1) Excluding the $49-million impact of the revenue measures and economic recovery plan announced in the June 2014 budget and the $285-million downward adjustment to program renewal costs, the budgetary balance before measures would be –$7 608 million for 2015-2016, that is, the same as forecast in Budget 2014-2015 (Budget 2014-2015 – Budget Plan, p. A.21).

ECONOMIC RECOVERY

The December 2014 economic and financial update announces government initiatives to enhance the economy recovery measures taken through Budget 2014-2015.

— These initiatives will have a financial impact of $195 million over three years and will increase private sector investment, foster Québec's transition to a green economy and encourage a new generation of farmers.

These measures are in addition to those announced in Budget 2014-2015, which represent $816 million over the same three years, and have three key pillars: the maritime strategy, relaunching of the Plan Nord and development of the oil and gas industry.

In addition, the Québec Taxation Review Committee will be proposing a revision of the tax system soon to boost Québec's economic growth.

Lastly, public infrastructure investment remains at high levels, thereby helping bolster the economy.

— The Québec Infrastructure Plan provides for investments totalling $11.5 billion in 2014-2015.

Section A

THE GOVERNMENT'S ECONOMIC AND FISCAL POLICY DIRECTIONS

INTRODUCTION

This section provides an overview of the government's economic and fiscal policy directions. It discusses:

— recent developments in the budgetary situation;

  — The gradual recovery in the economy and disciplined spending management allow the government to confirm a balanced budget in 2015-2016.

— government action to restore sound public finances;

  — The government is maintaining a return to a balanced budget and, to achieve that objective, plans on implementing savings measures as well as other initiatives to improve management of public finances.

  — With the measures announced in the update, nearly 85% of the efforts needed to balance the budget in 2015-2016 have been identified. These efforts include the bulk of the measures required to reduce tax expenditures in order to achieve the budgetary objectives.

— actions to bolster the economy.

  — The government is continuing with the economic recovery plan by taking initiatives to foster private investment.

1. THE GOVERNMENT'S FISCAL POLICY DIRECTIONS

1.1 Budgetary situation

The government's financial framework, which has been updated since Budget 2014-2015, confirms a return to a balanced budget in 2015-2016.

— The deficit for 2014-2015 is being held at $2 350 million.

Expenditure growth will remain below revenue growth this year and next.

— Consolidated expenditure will grow 2.2% in 2014-2015 and 1.2% in 2015-2016, while revenue will grow 2.9% and 4.0%, respectively.

These budgetary objectives will be met while still making deposits in the Generations Fund, for a total of $1 285 million in 2014-2015 and $1 617 million in 2015-2016.

TABLE A.1

Consolidated summary financial framework – December 2014
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Own-source revenue	77 108	80 501	83 223
% change	*3.2*	*4.4*	*3.4*
Federal transfers	18 805	19 249	19 717
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% change	***2.2***	***1.2***	***2.2***
Contigency reserve	—	—	–400
SURPLUS (DEFICIT)	**–1 065**	**1 617**	**2 288**
BALANCED BUDGET ACT			
Deposits of dedicated revenues in the Generations Fund	–1 285	–1 617	–2 288
BUDGETARY BALANCE(1)	**–2 350**	**—**	**—**

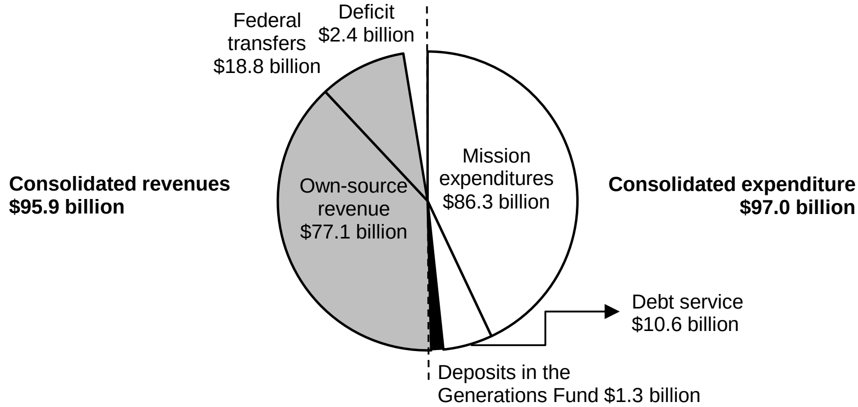
(1) Budgetary balance within the meaning of the *Balanced Budget Act*.

Breakdown of the government's consolidated revenue and expenditure

In 2014-2015, the government's consolidated revenue will be $95.9 billion and consolidated expenditure will be $97.0 billion. Of that amount, $86.3 billion will be used to finance the government's various missions.[1]

Debt service payments will amount to $10.6 billion. Including the $1.3-billion deposit in the Generations Fund, the deficit will be $2.4 billion.

Breakdown of the government's consolidated revenue and expenditure for 2014-2015
(billions of dollars)



1 Missions represent a government's primary functions. The five missions chosen by the Québec government are Health and Social Services, Education and Culture, Economy and Environment, Support for Individuals and Families, and Administration and Justice.

1.1.1 Summary of adjustments to the financial framework

Overall, the adjustments reported in the financial framework since Budget 2014-2015 still enable a balanced budget to be achieved in 2015-2016.

Changes in the economy call for downward adjustments to own-source revenue excluding government enterprises of $215 million in 2014-2015 and $206 million in 2015-2016, mainly to personal income tax. Furthermore, corporate income tax is adjusted upward.

These adjustments are offset by:

— federal transfer increases of $121 million in 2014-2015 and $131 million in 2015-2016, mainly as a result of an upward adjustment to anticipated equalization income;

— a $153-million downward adjustment in debt service in 2014-2015 due to lower-than-anticipated interest rates;

— additional adjustments totalling $114 million in 2015-2016 to reflect, in particular, revised spending plan for consolidated entities.

TABLE A.2

Adjustments to the financial framework since Budget 2014-2015
(millions of dollars)

	2014-2015	2015-2016	2016-2017
BUDGETARY BALANCE – BUDGET 2014-2015	**–2 350**	**—**	**—**
Adjustments in relation to the economy			
Own-source revenue	–215	–206	–304
Government enterprises	–28	–45	–84
Federal transfers	121	131	229
Debt service	153	6	3
Subtotal	**31**	**–114**	**–156**
Other adjustments			
Program spending	—	—	—
Results of consolidated entities and other(1)	–31	114	156
Subtotal	**–31**	**114**	**156**
BUDGETARY BALANCE – DECEMBER 2014	**–2 350**	**—**	**—**

(1) Includes adjustments to the results of consolidated entities, the measures needed to maintain the deficit target for 2014-2015 and the financial impact of the new economic recovery initiatives. Section E presents the adjustments in detail.

Actual results for 2013-2014

According to Public Accounts 2013-2014, the budgetary balance within the meaning of the *Balanced Budget Act* showed a deficit of $2 824 million for fiscal year 2013-2014.

- This is a $276-million downward adjustment to the budgetary balance compared to the forecast in Budget 2014-2015 tabled last June.

Consolidated revenue results were adjusted downward by $436 million, primarily to reflect a $270-million downward adjustment to federal transfers and a $152-million decrease in own-source revenue.

However, these adjustments were offset by a $196-million decrease in program spending. In addition, other consolidated expenditure, which includes, for example, spending by non-budget-funded bodies, special funds and networks, was down by $506 million due primarily to lower spending in the health and social services network.

Adjustments to the budgetary balance for 2013-2014 relative to Budget 2014-2015
(millions of dollars)

	2013-2014		
	Budget 2014-2015	**Adjustments**	**Actual results[1]**
Revenue			
Own-source revenue	69 403	–152	69 251
Government enterprises	5 444	–14	5 430
Federal transfers	18 820	–270	18 550
Consolidated revenue[2]	**93 667**	**–436**	**93 231**
% change	***4.2***		***3.9***
Expenditure			
Program spending	–64 518	196	–64 322
Other consolidated expenditure[3]	–20 520	506	–20 014
Debt service	–10 608	10	–10 598
Consolidated expenditure	**–95 646**	**712**	**–94 934**
% change	***5.7***		***5.1***
SURPLUS (DEFICIT)	**–1 979**	**276**	**–1 703**
BALANCED BUDGET ACT			
Deposits of dedicated revenues in the Generations Fund	–1 121	—	–1 121
BUDGETARY BALANCE[4]	**–3 100**	**276**	**–2 824**
% of GDP	***–0.8***	**—**	***–0.8***

(1) Public Accounts 2013-2014.
(2) For 2012-2013, consolidated revenue excludes Hydro-Québec's extraordinary loss on the closure of the Gentilly-2 nuclear power plant, resulting in 3.9% growth in 2013-2014. Including the extraordinary loss, to be consistent with the presentation adopted in Public Accounts 2013-2014, revenue growth would have been 6.1%.
(3) Includes consolidation adjustments.
(4) Budgetary balance within the meaning of the *Balanced Budget Act*.

1.2 Measures to return to a balanced budget

In its June 2014 budget, the government evaluated the extent of the measures needed to restore fiscal balance.

Including the measures announced in this update, the government has identified nearly 85% of the efforts needed to balance the budget in 2015-2016.

— Without measures to restore fiscal balance, the deficit would have been $7 274 million. In Budget 2014-2015, the government identified 50% of the measures required to offset the deficit, representing $3 626 million.

— This update identifies additional measures totalling $2 461 million, or 34% of the required effort.

The balance of the measures, totalling roughly $1 billion, will be identified between now and Budget 2015-2016.

TABLEAU A.3

Actions to balance the budget
(millions of dollars)

	2015-2016	Share of identified effort	
BUDGETARY BALANCE BEFORE MEASURES – BUDGET 2014-2015[1]	**–7 274**		
MEASURES – BUDGET 2014-2015			
Control of government spending	3 078		
Reduction of tax expenditures	348		
Use of the contingency reserve	200		
Subtotal	**3 626**	**50%**	84%
MEASURES IDENTIFIED – DECEMBER 2014			
Control of government spending			
Reduction of the cost of public services	1 125		
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Total for identified measures – December 2014	**2 461**	**34%**	
BALANCE OF MEASURES TO BE IDENTIFIED BY BUDGET 2015-2016	**1 187**	**16%**	
BUDGETARY BALANCE – DECEMBER 2014	**—**	**100%**	

(1) Excluding the $49-million impact of the revenue measures and economic recovery plan announced in the June 2014 budget and the $285-million downward adjustment to renewal costs, the budgetary balance before measures would have been –$7 608 million for 2015 2016, that is, the same as the balance forecast in Budget 2014-2015 (Budget 2014-2015 – Budget Plan, p. A.21).

Reminder of Budget 2014-2015
– Initial measures implemented –

Budget 2014-2015 presented the first measures to be implemented to restore fiscal balance and restore sound public finances.

Several measures have been implemented to control government spending, in particular:

- spending control measures within government departments, bodies and government enterprises;
- control of compensation, including a general freeze on staffing levels in the public and parapublic sectors in 2014-2015 and 2015-2016 in order to slow growth in compensation;
- immediate tightening of tax expenditures.

Measures announced in Budget 2014-2015
(millions of dollars)

	2014-2015	2015-2016
Control of government spending		
Contribution from departments and bodies	2 728	2 406
Contribution by non-budget-funded bodies and special funds	261	70
Contribution from government enterprises	177	102
Control of compensation through a general freeze on staffing levels	100	500
Subtotal	**3 266**	**3 078**
Reduction in tax expenditures		
Elimination or suspension of certain fiscal measures announced since September 2012	41	56
20% reduction in the rates of tax credits	36	270
Caps on fiscal measures for business capitalization	27	22
Subtotal	**104**	**348**
Use of the contingency reserve	—	200
MEASURES IDENTIFIED IN BUDGET 2014-2015	**3 370**	**3 626**

Source: Ministère des Finances du Québec, Budget 2014-2015 – Budget Plan, p. A.21.

1.3 Economic and fiscal outlooks

The financial framework for this update confirms a balanced budget in 2015-2016.

Six months after the tabling of Budget 2014-2015:

— revenue growth is increasing in pace with economic growth;

— expenditure growth is slowing down thanks to disciplined management;

— revenue growth in the first five months of 2014-2015 outstripped growth in expenditure for the first time in three years.

The fiscal outlook allows for a balanced budget for the coming years.

1.3.1 **Acceleration in economic growth**

As forecast in Budget 2014-2015, Québec is seeing stronger economic growth. Exports are gaining momentum, consumption is sustained and government investments remain at high levels.

- Following weak growth of 1.0% of real gross domestic product (GDP) in 2013, the Québec economy is expected to grow by 1.6% in 2014 and 1.9% in 2015.
  - The economy is already firming up. In the first seven months of 2014, real GDP grew 1.5% compared to the same period in 2013.

The economic situation is improving among Québec's main trading partners as well.

- Canada is expected to see 2.2% economic growth in 2014 and 2.5% growth in 2015. The acceleration in the economy is being driven by household consumption expenditure and a stronger U.S. economy, which is good for Canadian exports.
- In the United States, the economic outlook is particularly favourable, with forecast growth of 2.2% in 2014 and 2.7% in 2015. The U.S. economy will be sustained by consumer spending and business investment, as well as by the fact that a large part of the fiscal recovery has already occurred.
- Around the world, economic growth should firm up in 2015, after slowing down in 2014, particularly in emerging economies.

TABLEAU A.4

Economic growth outlook
(real GDP, percentage change)

	2013	2014	2015
Québec	1.0	1.6	1.9
Canada	2.0	2.2	2.5
United States	2.2	2.2	2.7
Euro area	–0.5	0.7	0.9
Advanced economies	1.4	1.7	2.1
Emerging economies	4.7	4.1	4.4
World	**3.3**	**3.0**	**3.4**

Sources: Institut de la statistique du Québec, Statistics Canada, IHS Global Insight, International Monetary Fund and Ministère des Finances du Québec.

❑ Renewed improvement in Quebecers' standard of living

The standard of living, as measured by real GDP per capita, has improved substantially in Québec since 2007, following a similar trend to that of economic growth.

— The latest recession was much less severe in Québec. In 2009, Québec's real GDP contracted 0.6%, compared with contractions of 3.1% in Ontario and 2.7% in Canada.

  — As a result, the decline in standard of living in Québec was limited to 1.7% in 2009, compared with declines of 3.8% and 3.9% in Canada and Ontario, respectively.

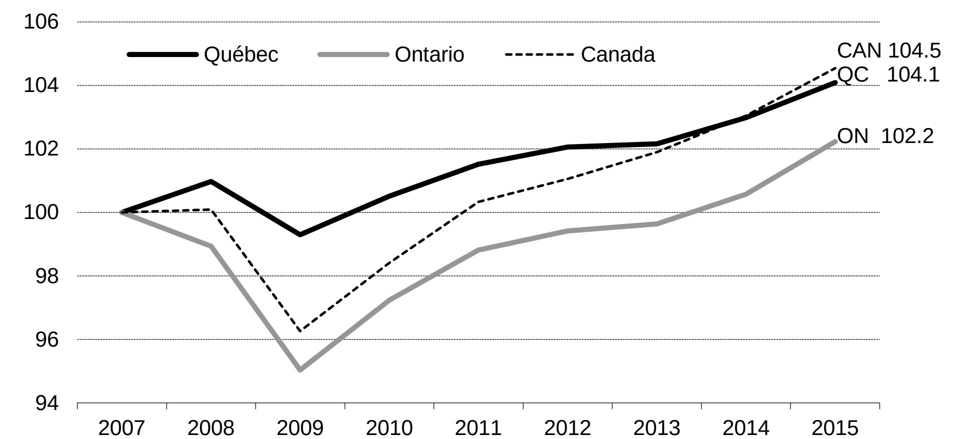
— Since 2010, Québec, Ontario and Canada have been gradually lifting their standards of living back to pre-recession levels. Thanks to economic growth, Quebecers' standard of living has continued moving up, rapidly surpassing the 2007 level.

— This trend was interrupted in 2013, when real GDP per capita rose by just 0.1% in Québec. In comparison, the standard of living rose by 0.8% in Canada the same year.

After stagnating in 2013, real GDP growth in 2014 and 2015 will enable Quebec's standard of living to start improving again. It should grow at about the same pace as expected in Ontario and in Canada.

CHART A.1

Real GDP per capita
(index 2007 = 100)



Sources: Institut de la statistique du Québec, Statistics Canada, Ministère des Finances du Québec for forecasts for Québec and Canada, and Conference Board du Canada for forecasts for Ontario.

❑ More robust economy in Québec

In the last few months, economic conditions have improved in Québec. A number of recent indicators show that Québec's economy is becoming more robust.

— Consumer spending is continuing to grow at a steady pace. After the first eight months of 2014, retail sales in nominal terms were up 3.0%, after climbing by 2.5% in 2013 and 1.2% in 2012.

— Exports are picking up pace, driven by stronger economic growth in the United States and depreciation of the Canadian dollar to more favourable levels for exporters.

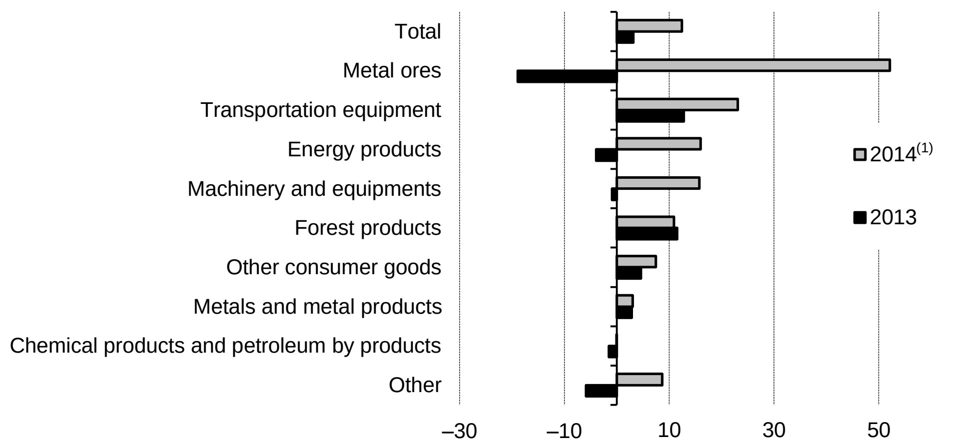
  — In the first eight months of 2014, goods exports to the United States rose by 11.0% over the same period in 2013.

  — The vast majority of export sectors contributed to this revival, in particular ore, transportation equipment, energy products and machinery and equipment.

— Prices are rebounding. The consumer price index (CPI) rose by 1.3% during the first nine months of the year. CPI growth slowed considerably in 2013, to 0.7%, reflecting weak domestic demand, among other things.

CHART A.2

Québec's international goods exports
(percentage change, in nominal terms)



(1) Data for the first eight months of 2014 in relation to the same period in 2013, on a customs basis.
Source: Institut de la statistique du Québec.

❑ Anticipated upturn in investment and employment

Investment and employment are expected to rebound in the coming quarters, even though the upturn is taking longer than predicted. We are seeing a number of precursors to the rebound, in particular:

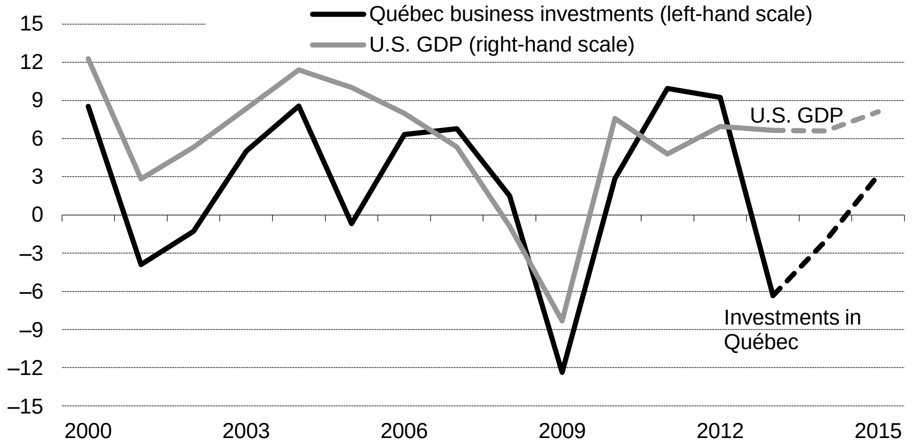
— strengthening of the U.S. economy, leading to increased demand for Québec products, which is already spurring exports;

— the observed increase in corporate profits, which will encourage businesses to invest in order to meet the increased demand;

— sustained growth in household consumption expenditures. In addition, households will benefit from the measures recently announced by the federal government as well as from lower fuel costs due to the recent drop in oil prices.

CHART A.3

Non-residential business investment in Québec and U.S. GDP
(annual percentage change, in real terms)



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

❑ Revised growth forecasts for several parts of the world since June

The forecast growth in Québec's real GDP, at rates of 1.6% in 2014 and 1.9% in 2015, reflects the favourable growth outlooks in Québec and its main trading partners.

However, economic growth in Québec has been adjusted downward by 0.2 percentage point in 2014 and 0.1 percentage point in 2015 relative to the Budget 2014-2015 forecast. These adjustments are primarily due to more moderate global growth prospects than in June 2014.

— In Ontario, according to the fall 2014 economic statement, real GDP growth is expected to be 1.9% in 2014 and 2.4% in 2015. These rates are lower by 0.2 percentage point and 0.1 percentage point, respectively, than the forecasts contained in Ontario's 2014 budget.

— In the United States, real GDP should be up again in 2014, by 2.2%, the same rate as in 2013, and then accelerate to 2.7% growth in 2015. This is a downward adjustment of 0.3 percentage point in 2014 and of 0.2 percentage point for 2015.

— In Canada, real GDP should increase by 2.0% in 2013, 2.2% in 2014 and 2.5% in 2015. These growth forecasts are the same as those in the June budget.

The growth forecasts in Budget 2014-2015 for several countries and regions in the world were also adjusted downward.

— A number of major regions of the world, including Japan and the euro area, are facing weak growth that could persist. In addition, emerging economies, including China, are seeing a slowdown in growth.

TABLE A.5

Real gross domestic product
(percentage change, and difference in percentage points)

	2013	2014	2015
Québec	1.0	1.6	1.9
Difference in relation to Budget 2014-2015	*–0.1*	*–0.2*	*–0.1*
Ontario	1.3	1.9	2.4
Difference in relation to Ontario's 2014 budget	*0.0*	*–0.2*	*–0.1*
Canada	2.0	2.2	2.5
Difference in relation to Budget 2014-2015	*0.0*	*0.0*	*0.0*
United States	2.2	2.2	2.7
Difference in relation to Budget 2014-2015	*0.3*	*–0.3*	*–0.2*
World	3.3	3.0	3.4
Difference in relation to Budget 2014-2015	*0.2*	*–0.4*	*–0.4*

Sources: Institut de la statistique du Québec, Statistics Canada, IHS Global Insight, International Monetary Fund, Ontario Ministry of Finance and Ministère des Finances du Québec.

Fiscal consolidation and economic growth are compatible[1]

The pursuit of fiscal consolidation is still appropriate

In the October 2014 issue of the *Fiscal Monitor*, the International Monetary Fund (IMF) reiterated the importance for advanced economies to put public finances on a firmer footing in order to reduce debt to more sustainable levels. What is more, this objective is in line with the objective of promoting economic growth.

- According to the IMF, faced with a hesitant recovery, fiscal policy must judiciously reconcile the objective of viable public finances and support for economic growth and job creation.

- Thus, fiscal policy must be integrated into a comprehensive view of structuring measures to boost growth.

In addition, detailed plans are crucial to a credible fiscal policy for restoring balance to public finances. These recommendations are especially aimed at higher-debt countries facing large projected increases in health care and pension spending.

Fiscal consolidation is compatible with stimulating economic growth

The IMF recommends that advanced economies adjust the pace and composition of fiscal consolidation in order to align efforts to return to balanced budgets with the need to promote economic growth.

- According to the IMF, in a general context of budgetary control, public policy should continue to include measures to support economic growth and employment.

- Fiscal policy can thus help support the labour market in the short term and over a longer horizon by strengthening the impact of structural reforms.

The IMF stresses that such measures can be targeted to specific groups, such as older people, to encourage them to stay in the labour market, or low-skilled workers or youth, who are at higher risk of unemployment.

Investments in infrastructure are an opportunity to be grasped

The IMF indicates that policies that facilitate infrastructure investment lead to economic growth, particularly in advanced economies. The international organization believes that the time is right to invest, given low interest rates, and that a number of advanced countries are lagging in this respect.

- Public infrastructure investment helps increase output in the short and long term. Such expenditures should target the most efficient investments.

For example, the IMF estimates, in a sample of advanced economies, that an infrastructure spending increase equal to 1 percentage point of GDP increases output by roughly 0.4% the same year and 1.5% after four years.

1 International Monetary Fund, *Fiscal Monitor, Back to Work: How Fiscal Policy Can Help*, October 2014, and International Monetary Fund, *World Economic Outlook*, October 2014.

1.3.2 Acceleration in revenue growth

❑ The results as at August 31 confirm expectations for 2014-2015

The monthly results since the beginning of the year confirm the expected acceleration in growth of own-source revenue throughout 2014-2015. Growth in the own-source revenue of the general fund excluding government enterprises has been more greatly sustained than during the same period last year.

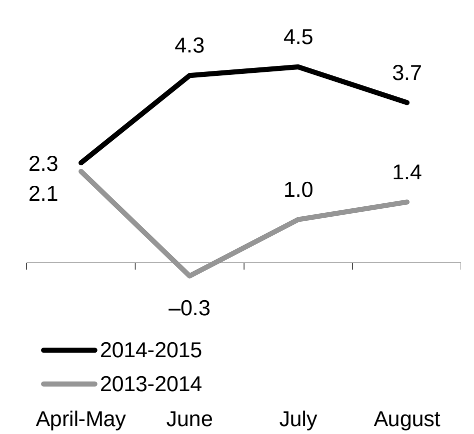
— As at August 31, 2014, the cumulative growth in the own-source revenue of the general fund excluding government enterprises, which essentially reflects tax revenue, is 3.7%, compared to 1.4% for the same period in 2013-2014.

The acceleration is mainly attributable to a substantial increase in corporate income tax revenue at the beginning of the year. The cumulative growth in this revenue has been sustained since the start of 2014-2015, reaching 8.7% as at August 31, 2014. This is in sharp contrast to the previous-year trend.

— Corporate income tax revenue fell by 16.8% in the first five months of 2013-2014, reflecting a less favourable economic climate.

CHART A.4

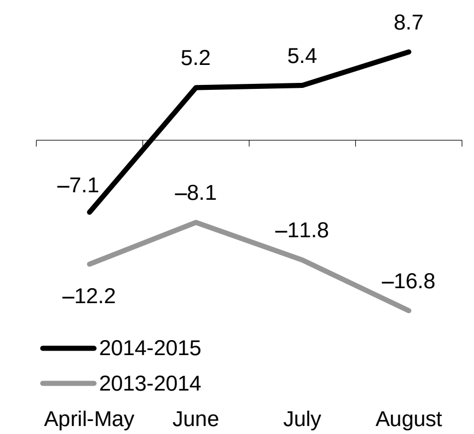
Cumulative growth in own-source revenue(1)
(per cent)



(1) Own-source revenue of the general fund excluding government enterprises.
Sources: Ministère des Finances du Québec, monthly reports on financial transactions.

CHART A.5

Cumulative growth in corporate income tax revenue(1)
(per cent)



(1) General fund.
Sources: Ministère des Finances du Québec, monthly reports on financial transactions.

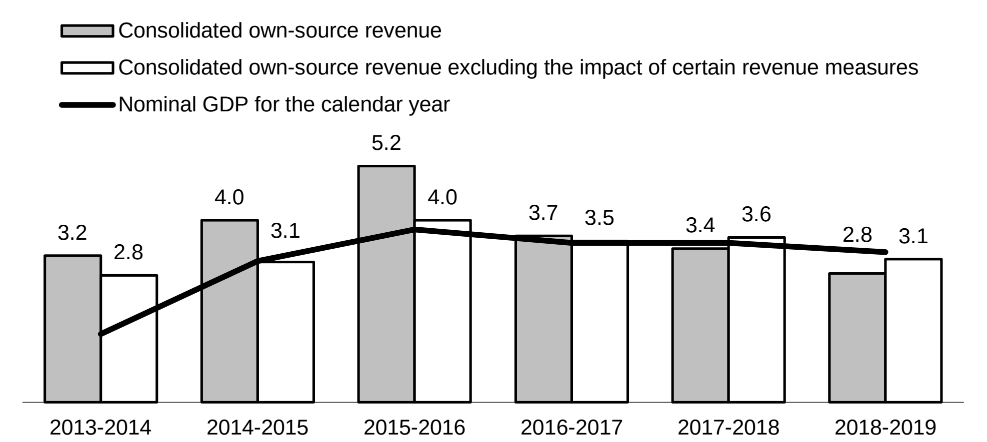
❑ Revenue growth in sync with changes in economic activity and revenue measures

Growth in consolidated own-source revenue excluding government enterprises will continue to gain momentum over the next two years, increasing from a rate of 3.2% in 2013-2014 to 4.0% in 2014-2015 and 5.2% in 2015-2016 due to economic recovery and measures to spur revenue growth. Thereafter, revenue will grow in sync with growth in the economy.

Own-source revenue excluding government enterprises, which consists primarily of tax revenue, reflects the changes in both economic activity and the revenue measures implemented, leading to either stronger or weaker growth in revenue, as the case may be.

CHART A.6

Growth in consolidated own-source revenue excluding government enterprises – 2013-2014 to 2018-2019
(per cent)



Revenue growth in line with economic growth

Growth in consolidated own-source revenue excluding government enterprises – 2013-2014 to 2018-2019
(millions of dollars)

	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
Own-source revenue(1)	**74 681**	**77 108**	**80 501**	**83 223**	**85 859**	**88 153**
Government enterprises	5 430	5 077	4 750	4 701	4 685	4 685
Own-source revenue excluding government enterprises	**69 251**	**72 031**	**75 751**	**78 522**	**81 174**	**83 468**
% change	***3.2***	***4.0***	***5.2***	***3.7***	***3.4***	***2.8***
Revenue measures(2)						
December 2014 update	—	120	626	685	563	569
Budget 2014-2015	—	333	304	278	259	247
Budget 2013-2014	378	435	497	528	524	524
Budget 2012-2013	–8	141	483	572	672	777
Elimination of restrictions on input tax refunds for large businesses	—	—	—	—	–75	–370
Subtotal	**370**	**1 029**	**1 910**	**2 063**	**1 943**	**1 747**
Own-source revenue excluding government enterprises after adjustment to revenue measures	**68 881**	**71 002**	**73 841**	**76 459**	**79 231**	**81 721**
% change	***2.8***	***3.1***	***4.0***	***3.5***	***3.6***	***3.1***
Nominal GDP growth	***1.5***	***3.1***	***3.8***	***3.5***	***3.5***	***3.3***

(1) For 2012-2013, consolidated revenue excludes Hydro-Québec's extraordinary loss on the closure of the Gentilly-2 nuclear power plant.
(2) Main measures affecting consolidated revenue growth.

1.3.3 Slowdown in spending growth

Budget 2014-2015 reduced spending growth to below recent-year rates, bringing them more in line with taxpayers' ability to pay.

Keeping spending growth below revenue growth will enable a balanced budget to be achieved in 2015-2016.

❑ A trend reversal in 2014-2015

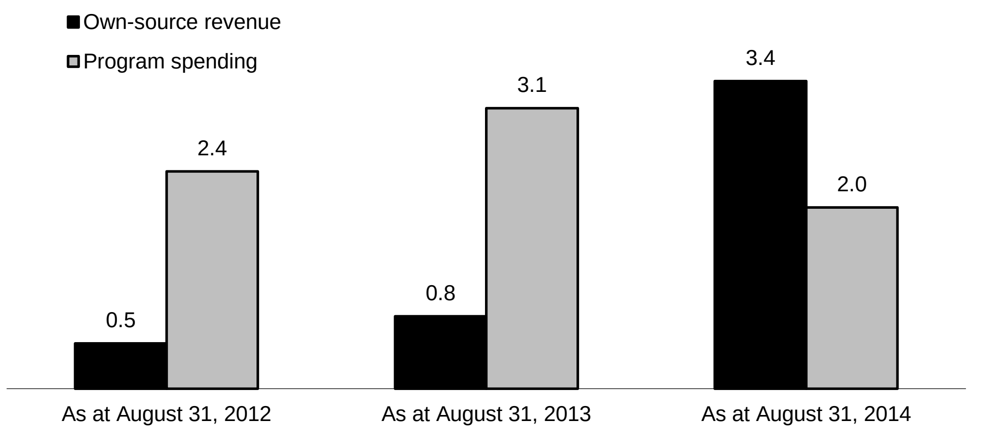
Between April and August 2014, own-source revenue grew at a steadier rate than program spending, breaking the previous two-year trend. In 2012-2013 and 2013-2014, program spending rose much more sharply than own-source revenue. The results as at August 31, 2014 are due to:

— faster economic growth in 2014-2015, which is reflected in the growth in own-source revenue;

— tight control of government spending.

CHART A.7

General fund
Cumulative growth in own-source revenue and program spending after five months
(per cent)



Sources: Ministère des Finances du Québec, monthly reports on financial transactions released on August 31 each year.

❑ Consolidated expenditure

Consolidated expenditure consists primarily of program spending by government departments, spending by special funds, non-budget-funded bodies, entities of the health and social services and education networks, and debt service.

In 2013-2014, consolidated expenditure excluding debt service increased by 4.7%. From 2014-2015 to 2016-2017, the average annual growth rate will be 1.7%, that is:

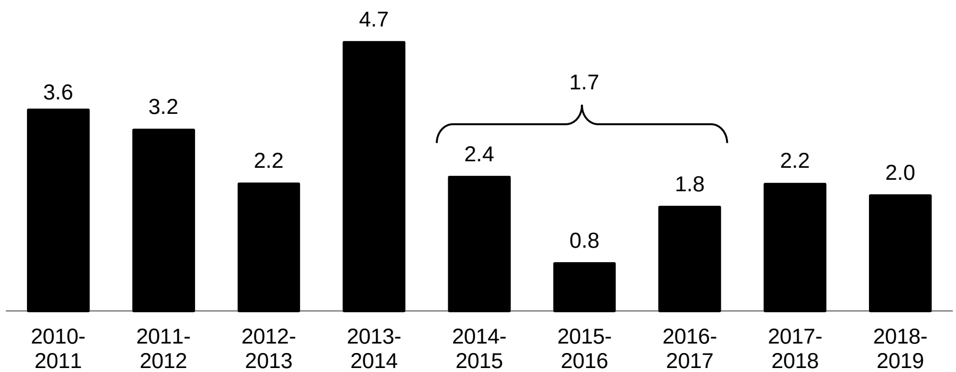
— 2.4% in 2014-2015;

— 0.8% in 2015-2016;

— 1.8% in 2016-2017.

CHART A.8

Consolidated expenditure growth excluding debt service from 2010-2011 to 2018-2019
(per cent)



❑ Reducing the weight of spending in the economy to a tolerable level for taxpayers

The government chose disciplined management of spending as the way to restore fiscal balance in 2015-2016.

Disciplined management will make it possible to, in particular:

— bring spending in line with taxpayers' ability to pay;

— gradually restore the weight of spending in the economy to a sustainable level without compromising economic recovery.

It is important to restore the weight of spending in the economy in order to:

— prevent excessively high spending from creating an onerous fiscal burden in relation to the other Canadian provinces, which could undermine tax competitiveness and limit economic growth in Québec;

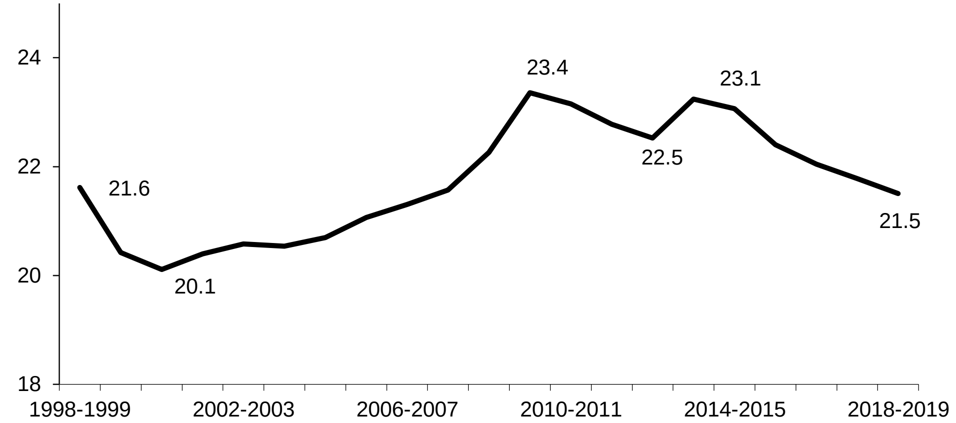
— ensure that the government has the capacity during difficult economic times to finance increased spending that might be necessary to boost the economy;

— bolster Québec's economy and foster economic and social development through responsible management of public finances.

Disciplined management will bring consolidated expenditure excluding debt service as a percentage of GDP to 21.5% by 2018-2019, that is, closer to the level seen prior to the 2009 recession.

CHART A.9

Change in the share of consolidated expenditure(1) in the economy
(as a percentage of GDP)



(1) Excluding debt service.
Source: Ministère des Finances du Québec.

A comparative look at spending

Québec's choices regarding spending growth targets compare to those forecast elsewhere in Canada.

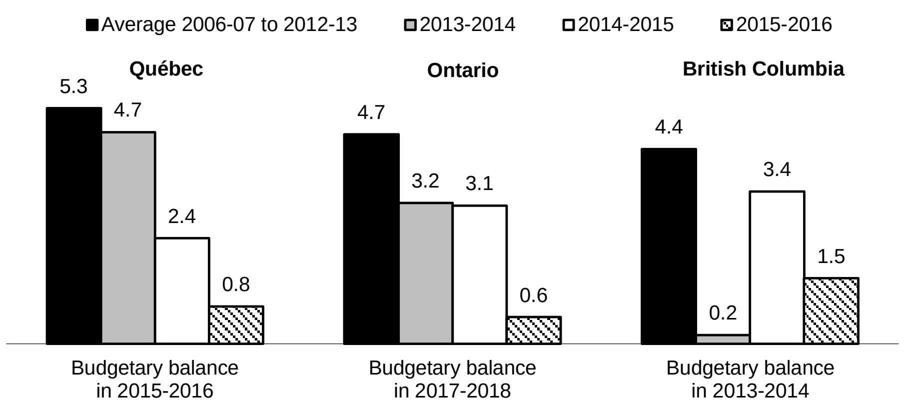
To ensure the return to a balanced budget in 2015-2016, Québec is gradually slowing growth in its consolidated expenditure excluding debt service to 2.4% in 2014-2015 and 0.8% in 2015-2016.

Ontario, which expects to balance its budget in 2017-2018, also chose to control spending growth, reducing it to expected rates of 3.1% in 2014-2015 and 0.6% in 2015-2016.

British Columbia returned to a balanced budget in fiscal 2013-2014 and kept spending growth at just 0.2% that year.

- B.C. forecasts spending growth of 3.4% in 2014-2015 and 1.5% in 2015-2016. These rates are lower than those seen in the years prior to balancing the budget.

Canadian provinces' consolidated expenditure growth
(per cent)



Note: Consolidated expenditure excluding debt service.
Sources: Ministère des Finances du Québec and Department of Finance Canada.

1.3.4 **The government's five-year financial framework**

This subsection presents the government's five-year budgetary outlook, that is, the consolidated financial framework for the period 2013-2014 to 2018-2019.

The government's budgetary outlook projects a return to a balanced budget in 2015-2016 and continued fiscal balance thereafter. A deficit of $2 350 million is forecast for 2014-2015.

— Consolidated revenue is expected to grow by 2.9% in 2014-2015 and 4.0% in 2015-2016.

— For the same years, consolidated expenditure growth of 2.2% and 1.2%, respectively, is expected, enabling a balanced budget in 2015-2016.

The financial framework includes contingency reserves of $400 million starting in 2016-2017.

Deposits in the Generations Fund to pay down the debt will total $1 285 million in 2014-2015 and $1 617 million in 2015-2016.

TABLE A.6

Consolidated financial framework from 2013-2014 to 2018-2019

(millions of dollars)

	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
Consolidated revenue						
Personal income tax	26 203	27 152	28 404	29 725	30 891	32 075
Contributions for health services	6 251	6 420	6 547	6 714	6 907	7 106
Corporate taxes	5 625	5 901	6 388	6 633	6 758	6 921
School property tax	1 786	1 906	2 043	2 135	2 197	2 256
Consumption taxes	17 135	17 597	18 463	18 436	18 802	18 972
Duties and permits	2 198	2 528	2 663	2 714	2 678	2 617
Miscellaneous revenue	8 932	9 242	9 626	9 877	10 115	10 359
Government enterprises	5 430	5 077	4 750	4 701	4 685	4 685
Revenue of the Generations Fund	1 121	1 285	1 617	2 288	2 826	3 162
Own-source revenue(1)	**74 681**	**77 108**	**80 501**	**83 223**	**85 859**	**88 153**
% change	***3.4***	***3.2***	***4.4***	***3.4***	***3.2***	***2.7***
Federal transfers	18 550	18 805	19 249	19 717	20 357	20 873
% change	*5.9*	*1.4*	*2.4*	*2.4*	*3.2*	*2.5*
Total consolidated revenue(1)	**93 231**	**95 913**	**99 750**	**102 940**	**106 216**	**109 026**
% change	***3.9***	***2.9***	***4.0***	***3.2***	***3.2***	***2.6***
Consolidated expenditure						
Expenditure	–84 336	–86 332	–87 058	–88 658	–90 647	–92 494
% change	*4.7*	*2.4*	*0.8*	*1.8*	*2.2*	*2.0*
Debt service	–10 598	–10 646	–11 075	–11 594	–11 893	–12 295
Total consolidated expenditure	**–94 934**	**–96 978**	**–98 133**	**–100 252**	**–102 540**	**–104 789**
% change	***5.1***	***2.2***	***1.2***	***2.2***	***2.3***	***2.2***
Contingency reserve	—	—	—	–400	–400	–400
SURPLUS (DEFICIT)	**–1 703**	**–1 065**	**1 617**	**2 288**	**3 276**	**3 837**
BALANCED BUDGET ACT						
Deposits of dedicated revenues in the Generations Fund	–1 121	–1 285	–1 617	–2 288	–2 826	–3 162
BUDGETARY BALANCE(2)	**–2 824**	**–2 350**	**—**	**—**	**450**	**675**

(1) For 2012-2013, consolidated revenue excludes Hydro-Québec's extraordinary loss on the closure of the Gentilly-2 nuclear power plant, resulting in 3.4% growth in own-source revenue and 3.9% growth in consolidated revenue in 2013-2014. Including the extraordinary loss, to be consistent with the presentation adopted for Public Accounts 2013-2014, own-source revenue would have risen by 6.2% and consolidated revenue, by 6.1%.
(2) Budgetary balance within the meaning of the *Balanced Budget Act*.

Financial framework for the general fund and consolidated entities

Financial framework for the general fund and consolidated entities from 2013-2014 to 2018-2019
(millions of dollars)

	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
GENERAL FUND						
Budgetary revenue						
Own-source revenue(1)	53 242	54 413	56 990	58 899	60 625	62 226
% change	*2.7*	*2.2*	*4.7*	*3.3*	*2.9*	*2.6*
Federal transfers	16 528	16 812	17 321	17 992	18 570	19 152
% change	*5.2*	*1.7*	*3.0*	*3.9*	*3.2*	*3.1*
Total budgetary revenue	**69 770**	**71 225**	**74 311**	**76 891**	**79 195**	**81 378**
% change	***3.3***	***2.1***	***4.3***	***3.5***	***3.0***	***2.8***
Budgetary expenditure						
Program spending	–64 322	–65 704	–66 141	–67 631	–69 530	–71 465
% change	*3.3*	*2.1*	*0.7*	*2.3*	*2.8*	*2.8*
Debt service	–8 434	–8 430	–8 671	–8 910	–8 903	–8 925
% change	*8.6*	*–0.0*	*2.9*	*2.8*	*–0.1*	*0.2*
Total budgetary expenditure	**–72 756**	**–74 134**	**–74 812**	**–76 541**	**–78 433**	**–80 390**
% change	***3.9***	***1.9***	***0.9***	***2.3***	***2.5***	***2.5***
CONSOLIDATED ENTITIES						
Non-budget-funded bodies and special funds(2)	223	639	532	50	88	87
Health and social services and education networks	–61	–80	–31	—	—	—
Generations Fund	1 121	1 285	1 617	2 288	2 826	3 162
Total for consolidated entities	**1 283**	**1 844**	**2 118**	**2 338**	**2 914**	**3 249**
Contingency reserve	—	—	—	–400	–400	–400
SURPLUS (DEFICIT)	**–1 703**	**–1 065**	**1 617**	**2 288**	**3 276**	**3 837**
BUDGETARY BUDGET ACT						
Deposits of dedicated revenues in the Generations Fund	–1 121	–1 285	–1 617	–2 288	–2 826	–3 162
BUDGETARY BALANCE(3)	**–2 824**	**–2 350**	**—**	**—**	**450**	**675**

(1) For 2012-2013, own-source revenue excludes Hydro-Québec's extraordinary loss on the closure of the Gentilly-2 nuclear power plant, resulting in 2.7% growth in own-source revenue and 3.3% growth in budgetary revenue in 2013-2014. Including the extraordinary loss, to be consistent with the presentation adopted for Public Accounts 2013-2014, own-source revenue would have risen by 6.5% and budgetary revenue, by 6.2%.
(2) Including consolidation adjustments.
(3) Budgetary balance within the meaning of the *Balanced Budget Act*.

Departmental program spending

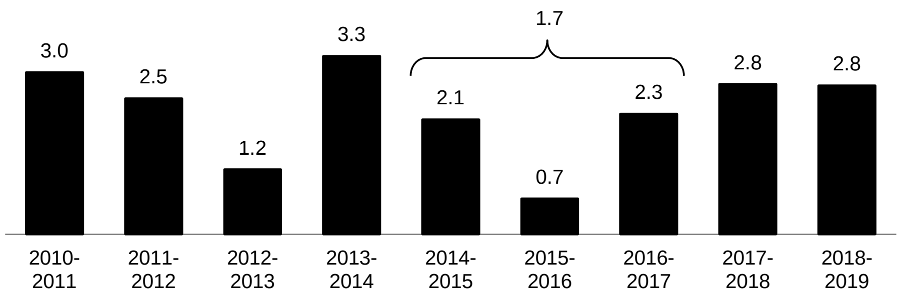
Program spending consists mainly of tax-funded spending by departments.

The spending targets are the same as those presented in Budget 2014-2015.

Thus, over the next three years, program spending by government departments will grow at an average annual rate of 1.7%, a lower growth rate than that seen between 2010-2011 and 2013-2014.

− Spending will increase by 2.1%[1] in 2014-2015, 0.7% in 2015-2016 and 2.3% in 2016-2017.

Growth in program spending from 2010-2011 to 2018-2019
(per cent)



Starting in 2017-2018, spending growth will return to a rate of 2.8%, a level in line with changes in clientele and in the price of public services.

Thereafter, program spending growth will have to be below revenue growth to free up additional sums to pay down the debt and relieve the tax burden on taxpayers.

1 The level of spending for 2013-2014 is $196 million less than forecast in Budget 2014-2015. Thus, even in leaving the level of program spending in 2014-2015 at $65.7 billion, the adjusted growth rate is 2.1%, versus 1.8% growth forecast in June 2014.

1.4 Debt reduction

As at March 31, 2014, the gross debt was 54.3% of GDP and the debt representing accumulated deficits, 33.0%. The *Act to reduce the debt and establish the Generations Fund* sets the following debt reduction objectives for 2025-2026:

— 45% of GDP for the gross debt;

— 17% of GDP for the debt representing accumulated deficits.

Reducing the debt burden is a priority for the government. Deposits in the Generations Fund to pay down the debt are drawn from various revenue sources, in particular:

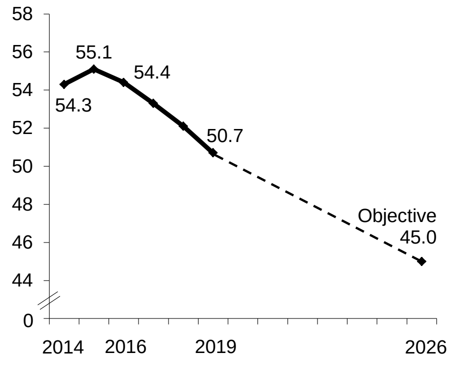
— amounts relative to annual indexing of the price of heritage pool electricity, like other government rates, as of 2014;

— $100 million in 2014-2015 and 2015-2016 and $500 million as of 2016-2017 from the specific tax on alcoholic beverages;

— all mining revenues as of 2015-2016.

CHART A.10

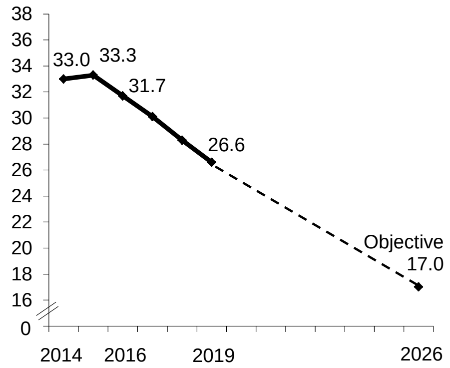
Gross debt as at March 31
(as a percentage of GDP)



Note: The gross debt excludes pre-financing and takes into account the sums accumulated in the Generations Fund.

CHART A.11

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



2. RESTORING SOUND PUBLIC FINANCES

Returning to a balanced budget in 2015-2016 and putting government finances in order are crucial to Québec's economic and social development.

To that end, the following directions will guide the conduct of the government's fiscal policy in the coming years:

— return to a balanced budget as of 2015-2016;

— alignment of spending growth with taxpayers' ability to pay;

— implementation of measures to support economic recovery;

— ongoing debt reduction, a commitment to future generations.

This subsection outlines the main government actions in relation to these first two directions.

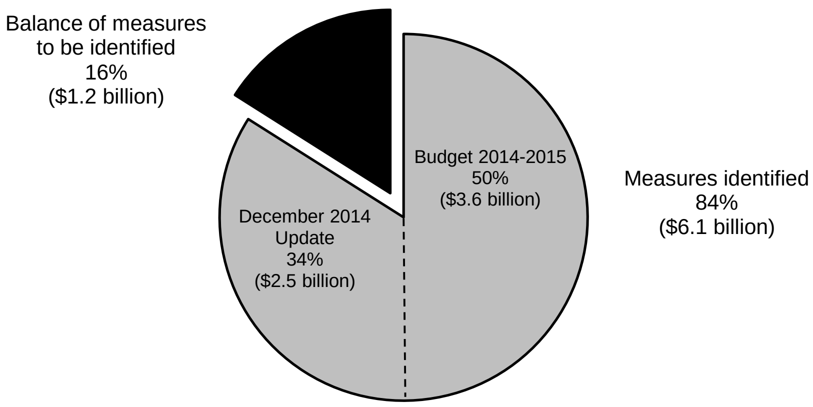
For 2015-2016:

— the identified measures now represent nearly 85% of the overall effort required as determined in Budget 2014-2015. This effort includes the bulk of the measures to reduce tax expenditures in order to meet the budgetary objective;

— the balance of the measures needed, totalling roughly $1 billion, or 16% of the overall effort, will be determined by Budget 2015-2016.

CHART A.12

Summary of efforts – 2015-2016
(per cent)



Why restore fiscal balance?

Significant pressure on public spending

Even though Québec is not as rich as several Canadian provinces, it offers a large basket of public services. Spending grew every year due to an increased number of service recipients, changes in the price of public service delivery and the enhancement and improvement of services.

More moderate growth in government revenues

The government finances public services mainly through tax revenue. However, growth in tax revenue has been weaker than anticipated in recent years, primarily due to less favourable economic conditions.

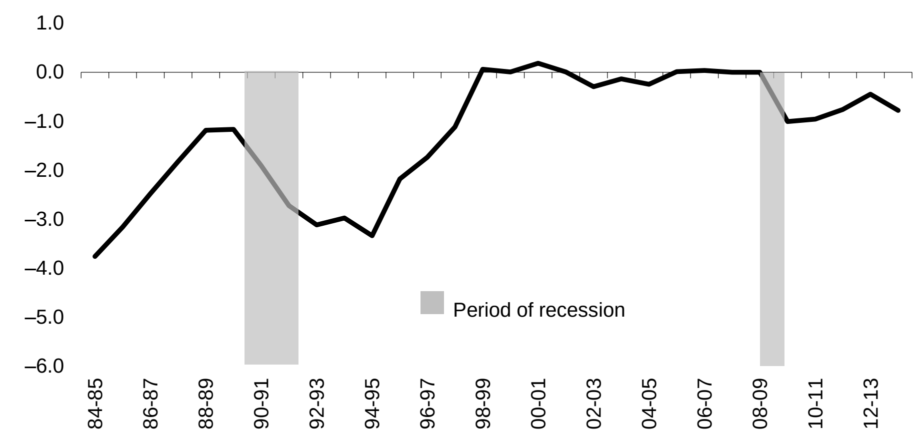
In the coming years, demographic change and potentially weaker growth among Québec's main trading partners will reduce Québec's potential of economic growth and hamper its revenue growth.

A continuing budget deficit that creates a heavier debt burden

Since the 2009 recession, Québec has been facing persistent deficits. This is not a recent problem, since the government has posted deficits in just over two thirds of the last three decades.

The continuing budget deficit contributes to a heavier debt and thus curtails Québec's ability to fund public services.

Budgetary balance(1) from 1984-1985 to 2013-2014
(as a percentage of GDP)



(1) Budgetary balance within the meaning of the *Balanced Budget Act*.
Sources: Statistics Canada and Ministère des Finances du Québec.

Source: Ministère des Finances du Québec, *Budget 2014-2015 – The Challenge of Québec's Public Finances*, [Budget Paper], June 2014.

2.1 Measures contained in the December 2014 update

The Update on Québec's Economic and Financial Situation is the opportunity for the government to confirm that it is on track to balance the budget in 2015-2016 and to report on the actions taken to ensure that objective is achieved.

This update contains measures totalling $122 million in 2014-2015 and $2 461 million in 2015-2016.

The sums represented by these measures result from the reduction of the cost of public services, the review of government programs and implementation of tax expenditure measures.

For 2015-2016:

— the savings related to budget programs total $1 861 million, consisting of $1 125 million from a reduction in the cost of public services and $736 million, from a program review;

— the bulk of the tax expenditure measures have been identified and amount to $600 million.

Details of the measures identified in this economic and financial update are provided in Section D.

TABLE A.7

Measures identified – December 2014
(millions of dollars)

	2014-2015	2015-2016
Control of government spending		
Reduction in the cost of public services	—	1 125
Program review measures	—	736
Subtotal	**—**	**1 861**
Reduction of tax expenditures	**122**	**600**
TOTAL	**122**	**2 461**

Reminder of Budget 2014-2015
– Spending control measures already implemented by departments and bodies –

The June 2014 budget called on government departments and bodies to identify specific spending control measures, primarily for 2014-2015.

- These measures help offset the anticipated spending overruns with regard to program renewal costs.

A number of measures have been achieved without affecting existing programs, including:

- administrative measures announced on April 24, 2014, i.e. productivity gains representing 2% of the payroll and efforts representing 3% of departments' and bodies' operating expenses, and tightening of subsidies granted;
- more specific administrative measures asked of certain departments;
- calling into question of certain spending initiatives, essentially undertaken by the previous government;
- other specific measures identified by each department.

Contribution of departments and bodies to offset the gap between program renewal costs and allocated expenditure
(millions of dollars)

	2014-2015	2015-2016
Administrative measures announced on April 24, 2014	305	305
Specific administrative measures	415	586
Calling into question of certain spending initiatives	576	513
Other specific measures	1 053	816
Subtotal	**2 349**	**2 220**
Updating of program renewal costs	379	186
TOTAL	**2 728**	**2 406**

2.1.1 Reduction in the cost of public services

Total savings of $1 125 million will be achieved in 2015-2016 through measures to reduce the cost of public services.

— Under the 2010-2015 collective agreements, the government is required to grant its employees a 1% pay raise on March 31, 2015. To follow through on that commitment, the government will curtail other factors that could increase compensation expenditures, in order to achieve savings of $689 million in 2015-2016.

— The agreement in principle reached with the Fédération des médecins spécialistes du Québec and the Fédération des médecins omnipraticiens du Québec to spread certain compensation parameters under the current agreement over a longer period represents additional savings of $194 million in 2015-2016.

— Another suspension of bonuses paid to senior executives and management personnel of government departments and agencies, including in the health and social services and education networks and ministers' offices, will enable savings of $42 million.

  — Comparable efforts will be asked of government enterprises.

— The government also reduced the contingency reserve for additional requirements or government priorities from $300 million to $100 million.

  — This measure will generate savings of $200 million.

  — The remaining $100 million will be set aside for economic development.

TABLE A.8

Reduction in the cost of public services
(millions of dollars)

	2015-2016
Limiting of factors related to compensation expenditures in 2015-2016	689
Compensation spreading for physicians(1)	194
Suspension of bonuses paid to senior executives and management personnel of government departments and agencies	42
Reduction in the contingency reserve for additional requirements, from $300 million to $100 million	200
TOTAL	**1 125**

(1) Taking into account the savings of $305 million already realized in 2014-2015 and provided for in Budget 2014-2015, total savings for 2015-2016 will be $499 million.

2.1.2 **Program review**

Program review measures have also been identified and will generate savings of $736 million in 2015-2016.

— The transitional fiscal pact reached with the municipal sector represents total savings of $300 million in certain government assistance measures.

— A review of childcare funding has been undertaken and $193 million in savings will be achieved.

— In the health care sector:

  — changes to the organization and governance of the health and social services network will generate savings of $55 million, primarily by abolishing the regional agencies;

  — several programs will be assessed based on best practices to ensure the quality of care and foster better use of resources, which will generate savings of $150 million.

TABLE A.9

Program review
(millions of dollars)

	2015-2016
Transitional fiscal pact regarding transfer payments to municipalities in 2015	300
Adjustment of childcare funding	193
Changes to the organization and governance of the health and social services network	55
Adoption of best practices to improve the appropriateness of health care and social services	150
Adjustment of fee exemptions for international university students	12
Adjustment of the fine-related penal contribution	21
Funding of operations relative to the administration of unclaimed property	5
Review of tax assistance for assisted procreation	—
TOTAL	**736**

Transitional fiscal pact concerning financial transfers to municipalities for 2015

The government examined the financial transfer programs for municipalities.

Further to the examination, the government negotiated a transitional fiscal pact with the municipalities regarding financial transfers for 2015 and a new regional governance. The pact identifies the reductions to be made to certain government assistance measures as of municipal fiscal year 2015.

Adjustment to transfer payments to municipal bodies

Under this arrangement, the government will continue reviewing the municipal legislative framework in order to redefine its relationship with municipalities. In so doing, it recognizes the importance of its partnership with the municipal sector in delivering services essential to the quality of life of citizens.

Until the completion of this review, the government's fiscal position and the burden on taxpayers should be taken into account in determining financial transfers to the municipalities. Municipalities are therefore required to participate in the collective effort to restore fiscal balance.

In this context, the mayors accepted a $300-million decrease in financial transfers in 2015, which represents 1.2% of their revenue. The scope of this reduction is moderate compared to the revenue of municipalities and the $3.2 billion in transfer payments that will continue to be paid to them.

The following principles guided the choice of measures to reduce financial transfers:

- fair distribution of the effort among municipalities, taking into account the fiscal position of small municipalities;
- reduction or elimination of assistance programs intended as transitional measures;
- maximum independence and flexibility for municipalities in deciding how to absorb the reduction in financial assistance.

2.1.3 **Review of the tax system**

This economic and financial update announces measures to reduce tax expenditures by a total of $122 million in 2014-2015 and $600 million in 2015-2016.

The measures concerning corporations total $338 million in 2015-2016. They include, among other measures:

— introduction of minimum eligible expenditure thresholds for R&D tax credits and the investment tax credit;

— elimination of the reduced rate of the tax on capital of insurance corporations applicable to personal insurance premiums;

— increase in the temporary contribution by financial institutions.

The measures concerning individuals, which represent a total of $262 million in 2015-2016, include in particular:

— reduction of the conversion rate for tax credits for union and professional dues from 20% to 10%;

— harmonization of the eligibility criteria for the work premium with those for the federal working income tax benefit;

— elimination of the reduced rate of the tax on insurance premiums for automobile insurance.[1]

TABLE A.10

Tax expenditure measures
(millions of dollars)

	2014-2015	**2015-2016**
Measures concerning corporations	93	338
Measures concerning individuals	29	262
TOTAL	**122**	**600**

1 This measure also affects corporations, albeit to a lesser extent.

2.2 More careful management of public finances

The government adopted control and management mechanisms to help achieve its budgetary objectives. It intends to use the following mechanisms in particular:

— control of staffing levels;

— a cap on public spending for new expenditures;

— multi-year planning of spending by departmental portfolios;

— publication of a pre-election report.

❑ Control of staffing levels

■ Bill 15

The government tabled Bill 15, an Act respecting workforce management and control within government departments, public sector bodies and networks and state-owned enterprises, which establishes rules to govern workforce management and control within public bodies mainly to monitor and provide a framework for changes in the workforce.

The bill provides, in particular, for control measures in relation to the staffing level of public bodies for each period specified by the Conseil du trésor.

In addition, it allows the Conseil du trésor and the minister responsible for each public body to obtain information on the workforce, including through a head count mechanism, particularly from:

— government departments;

— budget-funded bodies and bodies other than budget-funded bodies;

— health and social services agencies and institutions;

— school boards and general and vocational colleges;

— government enterprises.

The head count mechanism will enable the Conseil du trésor and ministers responsible to properly plan and monitor, within a reasonable time, the evolution of the workforce within the public and parapublic sectors and government agencies, thereby enabling more effective planning of public services.

■ General freeze on staffing levels

The other measure announced in Budget 2014-2015 and provided for in Bill 15 is a general freeze on staffing levels in the public and parapublic sectors in 2014-2015 and 2015-2016.

— This measure will allow the government to, in particular, use the leeway created by the retirement of nearly 15 000 employees a year to strategically reallocate available positions on the basis of public services that are determined a priority.

For 2015-2016, the general freeze on staffing levels in the public and parapublic sectors will generate savings of $500 million.

❑ Application of the cap on public spending

The current budgetary context demands disciplined spending management and adequate funding of any new initiatives. To that end, the government favours measures that reduce spending by an equivalent amount. It therefore imposed a cap on public spending.

— The cap means that no new initiative may be authorized unless savings equivalent to the cost of the initiative are achieved elsewhere within the government.

Implementation of the cap on public spending requires specific fiscal management related to the government's fiscal policy directions.

The cap on public spending applies specifically to initiatives and increases not provided for in the budget framework and that have a financial impact.

— Government departments must identify the measures that will free up the funds required to finance the initiative or increase, giving priority to spending reduction measures.

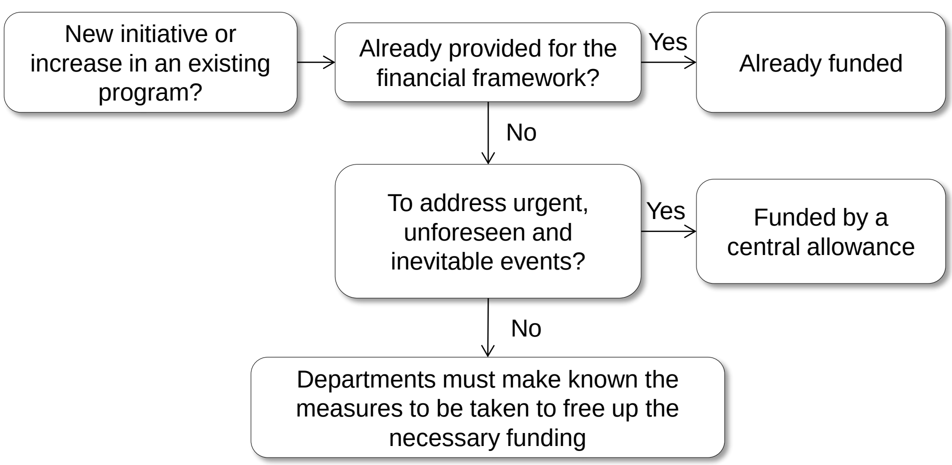
The cap on public spending will also apply to any new initiatives announced in the budget.

The cap on public spending does not apply to initiatives taken to address urgent and unforeseen events, such as natural disasters, given that they are unforeseeable, urgent and generally inevitable.

— These initiatives are funded out of amounts set aside for that purpose at the beginning of the year in the expenditure budget.

DIAGRAM A.1

Budgetary management of measures using the cap on public spending



❑ Multi-year planning of expenditure by departmental portfolio

The government's policy directions with regard to expenditure aim to ensure greater transparency and foreseeability in achieving the set objectives.

Currently, departments and agencies are responsible solely for achieving current-year spending targets.

— To help departments and agencies better plan their spending, Budget 2014-2015 presented the government's three-year spending plan for the major portfolios. The plan is intended to guide the departments in the use of their resources.

As of Budget 2015-2016, program spending for each portfolio will be planned for the next three years.

— The spending target will be firm for the first year. For later years, the allocated funding will be for information purposes and could be altered.

— However, this multi-year planning will not be a substitute for an annual budget, which will still have to be prepared.

❑ Pre-election report

With a view to transparency, the government committed in Budget 2014-2015 to publishing a report before each fixed-date provincial election to inform the public of Québec's economic and financial situation.

The objective of the pre-election report is to:

— provide Quebecers with the most recent financial information and allow them to gauge whether the forecasts are reasonable;

— provide a common ground on which the political parties can propose their own budget plan.

It is sound practice in matters of budgetary management for pre-election reports to be audited by an independent person. This practice ensures greater transparency as well as greater credibility of data for the public.

To that end:

— the Ministère des Finances will be responsible for preparing and making public a pre-election report on the state of Québec's public finances no later than the first Monday of August before the fixed election date (first Monday in October);[2]

— the Auditor General will be responsible for preparing a report containing his or her opinion on the plausibility of the forecasts and assumptions presented in the pre-election report. The Auditor General will be free to make any comments arising from the audit that he or she considers appropriate.

The pre-election report must contain the following information:

— the five-year economic forecasts and assumptions presented in the budget plan tabled with the previous Budget Speech;

— forecasts for the components of the government's financial framework contained in the budget plan;

— expenditure forecasts broken down by the government's sectors of activity;

— the reports referred to in section 15 of the *Balanced Budget Act* and section 11 of the *Act to reduce the debt and establish the Generations Fund*.

2 A pre-election report is not required where an election is called before the end of a government's term in office, such as in the case of a minority government.

3. SUPPORTING ECONOMIC RECOVERY

The transformational action taken by the government to bolster the economy and support job creation aims to restore confidence.

The government intends to continue its efforts so as to accelerate the economic recovery.

This subsection presents:

— additional measures to bolster the economy;

— continuation of the economic recovery plan presented in Budget 2014-2015;

— public capital investments.

3.1 Additional economic recovery initiatives

This economic and financial update announces government initiatives to enhance the actions taken in the context of Budget 2014-2015 to bolster economic recovery. The new initiatives will have a financial impact of $195 million over three years and will make it possible to:

- increase private sector investment;
- foster Québec's transition to a green economy;
- encourage a new generation of farmers.

To continue its actions to stimulate private investment and increase businesses' capacity to innovate, the government is announcing a reduction in the contribution to the Health Services Fund for SMEs in the primary and manufacturing sectors.

In addition, the government is pursuing its efforts to fight climate change, in particular by encouraging SMEs to innovate and invest in the use and development of green technologies.

The government is also announcing two measures aimed at encouraging the transfer of agricultural operations. In the context of an aging population, intergenerational transfer of farm property is of crucial importance in Québec's rural regions.

In the medium term, these new initiatives should boost private investment by $735 million and have a total impact of nearly $8 billion including the impact of the actions provided for in the economic recovery plan in Budget 2014-2015.

Furthermore, the government has initiated a thorough review of its intervention tools with the goal of making the tax system more competitive and spur private investment. The Québec Taxation Review Committee will be proposing a revision of the tax system soon to boost Québec's economic growth.

TABLE A.11

Financial impact of the additional economic recovery initiatives
(millions of dollars)

	2014-2015	2015-2016	2016-2017	Total
Increasing support for private investment	–17.5	–76.1	–80.5	**–174.1**
Fostering Québec's transition to a green economy	–27.0	–91.5	–105.8	**–224.3**
Encouraging a new generation of farmers	—	–10.1	–10.4	**–20.5**
TOTAL	**–44.5**	**–177.7**	**–196.7**	**–418.9**
Financing using Green Fund revenues(1)	**27.0**	**91.5**	**105.8**	**224.3**
Financial impact	**–17.5**	**–86.2**	**–90.9**	**–194.6**

(1) Funding of measures to foster Québec's transition to a green economy.

3.2 Continuation of the economic recovery plan in Budget 2014-2015

The new initiatives provided for in this economic and financial update enhance the actions taken by the government in Budget 2014-2015 to support Québec's economic recovery.

— The recovery measures announced in Budget 2014-2015 total $816 million over three years.

The economic recovery plan has three main pillars with potentially significant benefits for all Quebecers:

— the maritime strategy;

— revival of the Plan Nord;

— development of the oil and gas industry.

The government aims to develop the Québec economy by building on its strengths.

In addition to placing the focus on large-scale projects, the government intends to support businesses' efforts to innovate, export and create high-value-added jobs.

— Budget 2014-2015 offered an opportunity to announce measures in this regard, in particular general tax relief measures for SMEs.

The government presents the results of the initial months of the recovery plan's implementation in Section C of this economic and financial update.

3.3 Public capital investments

To meet Québec's significant needs for quality public infrastructure, the government announced, in Budget 2014-2015, that a high level of public capital investments would be maintained under the Québec Infrastructure Plan (QIP) and that priority would be given to replacing outdated infrastructure and projects that foster economic development.

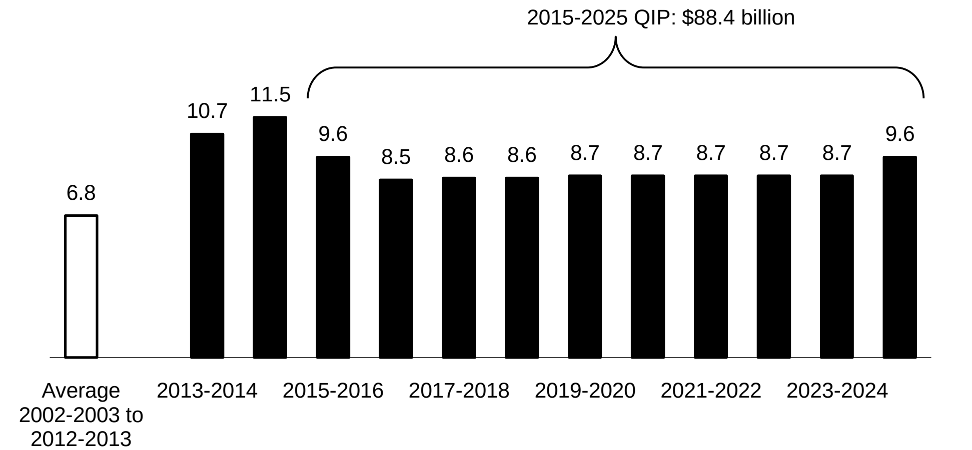
Accordingly, the 2015-2025 QIP provides for investments of $88.4 billion. This ten-year plan is part of a long-term approach to manage infrastructure maintenance and development funding while respecting the government's ability to pay and the debt reduction objectives.

— The Québec government allocates substantial sums to public infrastructure investment. By comparison, the federal government has a $47.5-billion 10-year plan for all of Canada.

The government confirms that capital investment levels will remain high in order to meet Québec's needs.

CHART A.13

Investments under the 2015-2025 Québec Infrastructure Plan
(billions of dollars)



In addition to the government's investments under the QIP, government enterprises also make substantial capital investments.

In 2014-2015, investments by government enterprises, such as Hydro-Québec, total some $4.3 billion.

Counting the $11.5 billion in investments under the QIP this year, total capital investments are expected to reach over $15.8 billion in 2014-2015.

Economic impacts of public capital investments in Québec

Substantial public capital investments are planned. These investments will be a powerful driver of economic activity in every region of Québec.

Capital investments in all sectors of the economy will help build a prosperous economy over the medium and long term. More specifically, investments in transportation infrastructure will facilitate trade and investments in education will contribute to workforce training, research and innovation, which are key determinants of productivity.

Capital investments of $15.8 billion in 2014-2015 under the QIP and by government enterprises will:

- generate spinoffs equal to 2.8% of real GDP;
- help create or maintain nearly 91 000 jobs, including 53 500 direct jobs.

Impact of capital investments

	2014-2015
Investments under 2014-2024 QIP	$11.5 billion
Investments of government enterprises	$4.3 billion
Total investments	**$15.8 billion**
Number of jobs created or maintained	91 000
Impact on GDP	2.8%

CONCLUSION

The government action will help restore sound public finances in Québec. This economic and financial update confirms the main fiscal policy directions set out in Budget 2014-2015:

— return to a balanced budget starting in 2015-2016;

  — In this regard, nearly 85% of the measures required to balance the budget have been identified. The balance of the measures will be made known by Budget 2015-2016.

— alignment of spending growth with taxpayers' ability to pay;

— implementation of measures to support economic recovery;

— continued debt reduction through deposits of dedicated revenues in the Generations Fund.

Section B

THE QUÉBEC ECONOMY: RECENT DEVELOPMENTS AND OUTLOOK FOR 2014 AND 2015

1. QUÉBEC'S ECONOMIC OUTLOOK

1.1 The economy is gaining momentum

In the wake of a disappointing 2013, the acceleration of the economy, forecasted in Budget 2014-2015, is materializing. Exports are picking up pace, consumption is sustained and government investments remain at high levels.

Accordingly, economic growth in Québec should stand at 1.6% in 2014 and 1.9% in 2015, compared to 1.0% growth in real gross domestic product (GDP) in 2013.

However, the results for the first two quarters of 2014 reveal that certain factors that contributed to poor economic results in 2013 are disappearing more gradually than forecast in the budget.

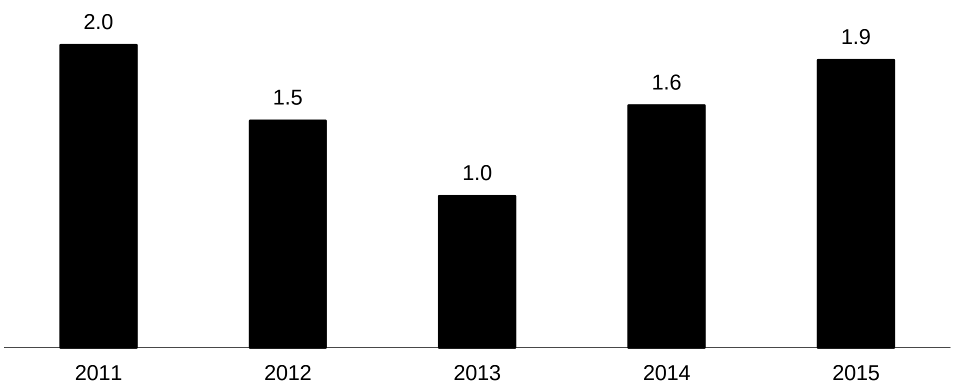
— Following a 1.1% increase in the first quarter of 2014 compared to the same quarter in 2013, growth in real GDP accelerated to 1.6% in the second quarter.

— The drop in business investment continued in the first quarter of 2014, followed by a stabilization in the second quarter. Employment is slow to pick up, but should rebound with the improved economy.

Thus, after slowing in 2013, Québec's economic growth is on firmer footing. The rebound in exports and the good performance on the consumption side will encourage businesses to increase their investments and hiring in the coming quarters.

CHART B.1

Economic growth in Québec
(real GDP, percentage change)



Note: Unless otherwise indicated, the information concerning Québec and Canada contained in this section reflects the historical data from Statistics Canada's provincial economic accounts published on November 5, 2014. Forecasts are based on the quarterly economic accounts previously published by the Institut de la statistique du Québec and Statistics Canada.
Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

❑ The increase in Quebecers' standard of living resumes

The standard of living, as measured by real GDP per capita, has improved substantially in Québec since 2007, following a similar trend to that of economic growth.

— The latest recession was much less severe in Québec. In 2009, Québec's real GDP contracted 0.6%, compared with contractions of 3.1% in Ontario and 2.7% in Canada.

  — Consequently, Quebecers saw only a slight 1.7% decline in their standard of living in 2009, compared with important declines of 3.8% and 3.9% in Canada and Ontario, respectively.

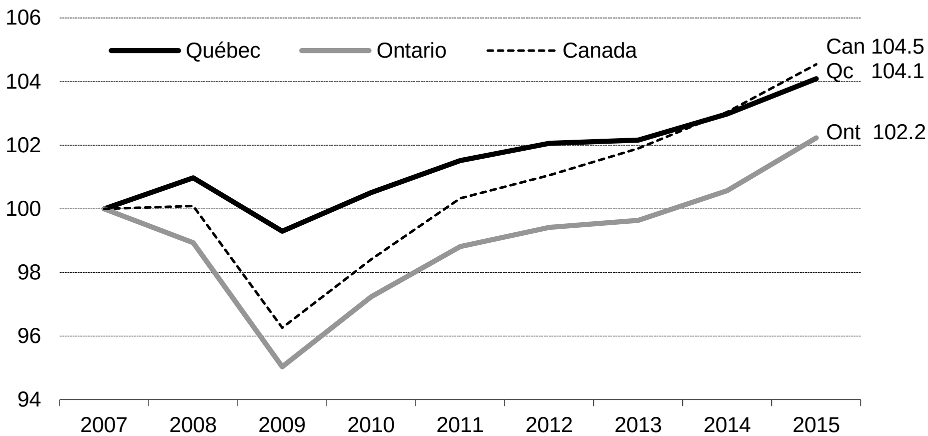
— Since 2010, Québec, Ontario and Canada have been gradually lifting their standards of living back to pre-recession levels. Thanks to economic growth, Quebecers' standard of living has continued to increase, rapidly surpassing its 2007 level.

— This upward trend was interrupted in 2013, when real GDP per capita rose by just 0.1% in Québec, compared with 0.8% growth in Canada's standard of living the same year.

After stagnating in 2013, real GDP growth in 2014 and 2015 will enable Quebec's standard of living to start improving again. It should rise at about the same pace as that expected in Ontario and in Canada.

CHART B.2

Real GDP per capita
(index 2007 = 100)



Sources: Institut de la statistique du Québec, Statistics Canada, Ministère des Finances du Québec for forecasts for Québec and Canada, Conference Board of Canada for forecasts for Ontario.

❑ Exports are the main driving force in economic growth

Exports, which are set to be the main driving force in economic growth over the next two years, will sustain growth in real GDP of 1.6% in 2014 and 1.9% in 2015.

— The vigour of exports is a key factor that will stimulate growth in domestic demand.

— The upturn in exports that already began in 2014 will continue. Their vigour, combined with a modest increase in imports, will ensure that the external sector contributes positively to economic growth.

  — In particular, international exports recorded robust growth in 2014 and such vitality should continue in 2015.

  — The solid performance of the U.S. economy and the depreciation of the Canadian dollar, which will have fallen from parity in 2012 to 90.5 U.S. cents on average in 2014 and to 86.2 cents in 2015, are factors that will foster Québec exports. These factors will continue to support exports in 2015.

— Furthermore, household consumption expenditures will rise appreciably in 2014 and continue to sustain economic growth in 2015.

TABLE B.1

Real GDP and its major components
(percentage change and contribution in percentage points)

	2013	2014	2015
Contribution of domestic demand	**0.5**	**1.1**	**1.5**
Household consumption	2.0	2.1	2.0
Residential investment	−3.7	−1.2	0.5
Non-residential business investment	−6.3	−2.0	3.1
Government spending and investment	0.7	0.5	0.0
Contribution of foreign trade	**0.7**	**0.7**	**0.8**
Total exports	0.4	3.1	3.5
– International exports	0.6	5.7	4.7
Total imports	−1.0	1.5	1.6
Contribution of inventories	**−0.1**	**−0.2**	**−0.5**
REAL GDP	**1.0**	**1.6**	**1.9**

Note: The figures in the table have been rounded off.
Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

■ A positive outlook for investments

Despite positive changes in output, consumption and exports, certain components of domestic demand have taken longer to pick up.

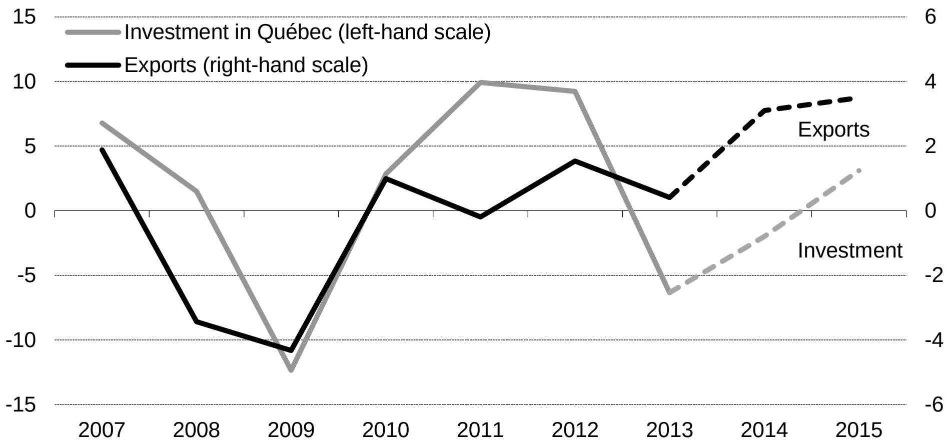
— Non-residential business investment was down 6.3% in 2013. The downturn continued in the first quarter of 2014 with a 1.8% decrease, followed by stabilization in the second quarter, when such investment grew by a lacklustre 0.3%.

— The brisk upturn in exports should, nonetheless, lead to a revival in investments in the second half of 2014 and in 2015.

  — In 2014, non-residential business investment will decline by 2.0% and will rise by 3.1% in 2015.

CHART B.3

Exports and non-residential business investment in Québec
(percentage change, in real terms)



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

❑ A rebound in price growth

Inflation increased gradually in 2014. In terms of annual variation, the consumer price index (CPI) rose from a trough of 0.4% in February 2014 to 1.6% in September 2014.

— When food and energy, two more volatile components, are excluded, the CPI rose in an equivalent manner, in terms of annual variation, from 0.4% in February 2014 to 1.5% in September.

The increase in inflation reflects the bolstering of the Québec economy. Certain factors are thus exerting stronger pressure on prices in 2014:

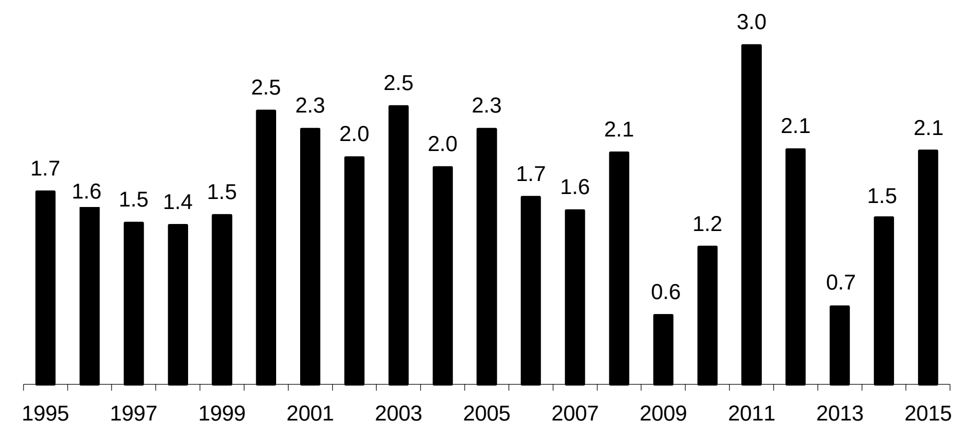
— more robust domestic demand and exports are spurring higher capacity utilization rates;

— the depreciation of the Canadian dollar is putting upward pressure on the prices of certain goods and services through imports.

Inflation should strengthen and reach 1.5% in 2014. This trend should continue in 2015, with an anticipated increase in the CPI of 2.1%.

CHART B.4

Change in the consumer price index in Québec
(percentage change)



Sources: Statistics Canada and Ministère des Finances du Québec.

❑ Accelerated growth of nominal GDP

The strengthening of the real economy and the acceleration in prices should further sustain growth in nominal GDP, which measures the value of production by incorporating the impact of prices.

— Growth in real GDP of 1.6% in 2014 and 1.9% in 2015, combined with an anticipated increase in the GDP deflator of 1.6% in 2014 and 1.9% in 2015, should result in growth in nominal GDP of 3.1% in 2014 and 3.8% in 2015.

It should be noted that the GDP deflator, i.e. the price index that measures changes in GDP prices, is determined by two key components:

— the prices of domestic demand, in respect of which an important indicator is the consumer price index (CPI);

— the ratio between export and import prices, which constitutes the terms of trade.

TABLE B.2

Economic growth in Québec
(percentage change)

	2012	2013	2014	2015
Real GDP	1.5	1.0	1.6	1.9
Prices – GDP deflator	1.8	0.5	1.6	1.9
Nominal GDP	3.4	1.5	3.1	3.8

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

1.2 The upturn in exports will continue

Following a weak 0.4% increase in 2013, Québec's total exports in real terms should grow by 3.1% in 2014 and by 3.5% in 2015. The rebound in 2014 is driven by economic bolstering in the United States, Québec's main international trading partner, and a weaker Canadian dollar.

— Québec's international goods exports are especially dynamic and will grow by 6.6% in 2014 and by 5.0% in 2015.

The vigour of exports is a key factor in the growth of Québec's overall economy, as it stimulates, in particular, business investment and job creation.

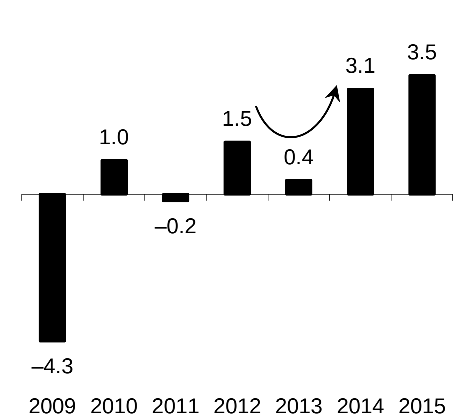
Following a 1.0% downturn in 2013, Québec's imports should gradually gather pace. Their growth in real terms should reach 1.5% in 2014 and 1.6% in 2015.

This moderate increase reflects, notably, the gradual upswing in investment and the depreciation of the Canadian dollar, which is curbing growth in imports.

— Moreover, Québec is a net importer of oil. Consequently, it should benefit from the recent drop in oil prices, especially through lower spending on gasoline by consumers and businesses.

CHART B.5

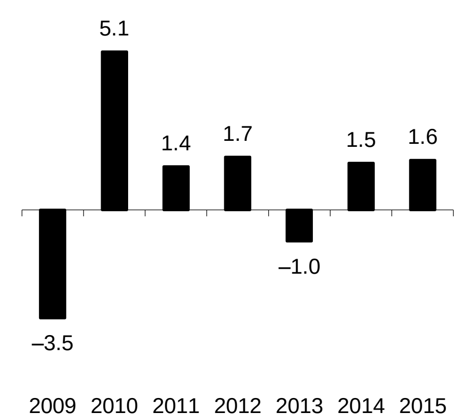
Québec's total exports
(percentage change, in real terms)



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

CHART B.6

Québec's total imports
(percentage change, in real terms)



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

Strong growth in Québec's international exports

Québec's international goods exports have strengthened since the beginning of the year, rising 12.4% in value in the first eight months of the year compared to the same period in 2013.

- In particular, Québec goods exports to the United States, by far Québec's leading international economic partner, rose by 11.0% during the same period.

A clear improvement is apparent in most exporting sectors

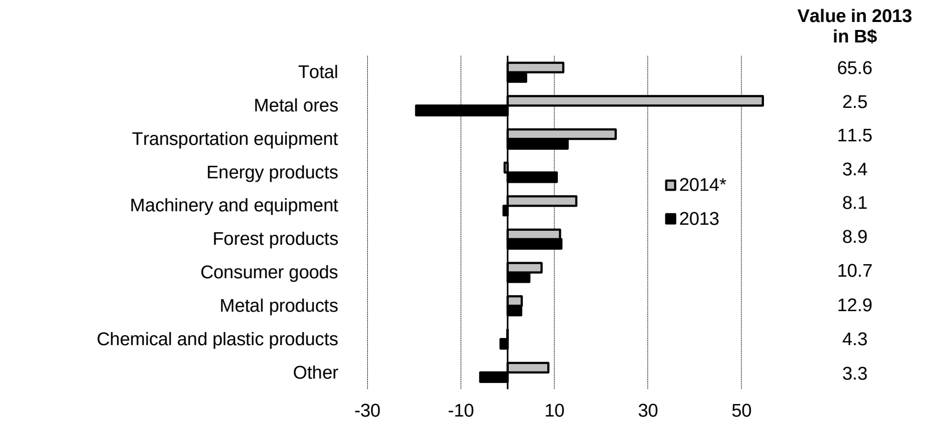
The vast majority of sectors have contributed to this revival, in particular transportation equipment (+23.1%), energy products (+16.0%), machinery and equipment (+15.7%), and forest products (+10.9%).

- Moreover, the value of metal ore exports has climbed a cumulative 52.1% in the first eight months of 2014, despite a drop in commodity prices.

Growth in Québec's international exports should continue in 2015, in particular because of:

- economic bolstering in the United States, Québec's main trading partner;
- the Canadian dollar, which should continue to depreciate in the coming quarters;
- an increase in unfilled orders for aerospace products and parts. In Canada, such orders were up 20.7% in the first eight months of 2014 compared to the same period in 2013, which bodes well for exports from this sector in Québec.

Québec's international goods exports
(percentage change, in nominal terms)



* Data for the first eight months of 2014 compared to the same period in 2013, on a customs basis.
Source: Institut de la statistique du Québec.

Stronger foreign demand for Québec products

The index of foreign demand for Québec products (IFDQP)[1] reveals the growth potential of Québec's international goods exports, bearing in mind global economic activity.

Despite the slowdown in global growth in 2014, foreign demand for Québec products should accelerate, mainly sustained by more vigorous growth in investment by American businesses.

- After increasing by 1.0% in 2013, foreign demand for Québec products should accelerate and grow by 2.3% in 2014 and 2.6% in 2015.

A turnaround has been under way since 2011

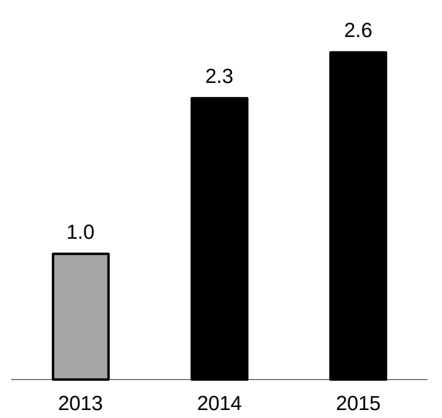
Between 2009 and 2011, international exports of Québec goods in real terms fell short of expectations suggested by changes in foreign demand.

- Growth in exports was limited by the upward trend of the Canadian dollar, especially against the U.S. dollar.

More recently, Québec's international goods exports have begun a turnaround to levels more in line with foreign demand.

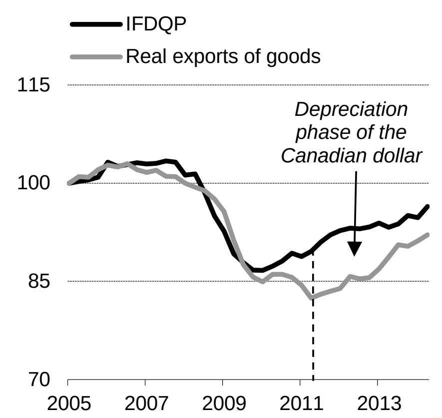
- This turnaround has occurred at a time when the Canadian dollar was falling against the U.S. dollar.

Change in the index of foreign demand for Québec products
(annual percentage change)



Sources: IHS Global Insight, Bank of Canada, Institut de la statistique du Québec and Ministère des Finances du Québec.

Québec's international exports(1) and IFDQP
(index, 2005 Q1 = 100, in real terms)



(1) Moving average over four quarters.
Sources: IHS Global Insight, Bank of Canada, Institut de la statistique du Québec and Ministère des Finances du Québec.

1 The IFDQP is an enhanced version of the index of U.S. demand for Québec products (IUSDQP), published previously. It is based on research by the Bank of Canada and makes it possible to assess the impact of global economic activity on Québec's international goods exports. The index is estimated using the economic accounts.

❑ A positive contribution of the external sector to economic growth

Net exports, which comprise both changes in exports and in imports, should contribute 0.7 pp to economic growth in 2014 and 0.8 pp in 2015.

- In 2013, the positive contribution from the external sector was due mainly to the downturn in imports tied to weak domestic demand.

- In 2014, the positive contribution from the external sector stems in particular from strong export growth.

1.3 Non-residential investment is expected to recover

In 2014, total non-residential investment, including investments by governments and businesses, should decline by 2.0% in Québec in real terms, after falling by 3.9% in 2013.

— In 2013, economic conditions were unfavourable to investment.

  — The feebleness of non-residential investment continued in early 2014, according to the quarterly economic accounts of the Institut de la statistique du Québec. Such investment declined by 1.5% in the first quarter, followed by a trend reversal in the second quarter when it rose by 0.6%.

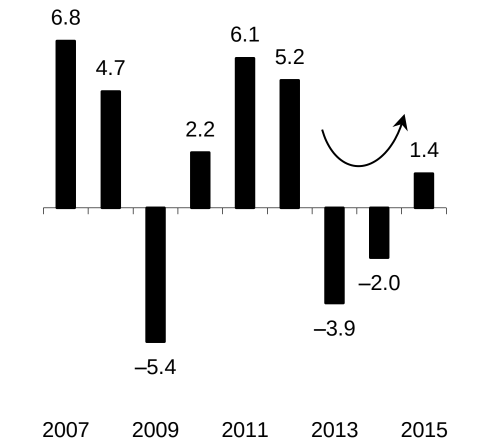
— An upturn is anticipated in 2015, when total non-residential investment should increase by 1.4%. The value, in nominal terms, of such investment should stand at $55 billion in 2015.

Non-residential business investment will spur the rally in total non-residential investment.

— Indeed, growth in exports and the increase already observed in corporate profits should encourage companies to invest more to cope with rising demand.

CHART B.7

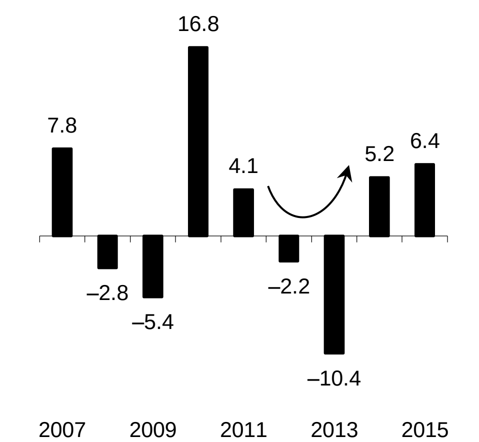
Total non-residential investment in Québec
(percentage change, in real terms)



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

CHART B.8

Net operating surplus of Québec companies
(percentage change, in nominal terms)



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

❑ Favorable conditions for business investment

After displaying robust growth in 2012, business investment declined in 2013. Companies remained cautious and waited for confirmation of demand before pursuing investments.

Several fundamentals reveal that a revival in business investment should occur in the coming quarters.

— On the one hand, the reinforcement of the American economy is sustaining increased demand for Québec products. Such demand is already spurring exports and will lead to more sustained job creation and a revival in investment in Québec.

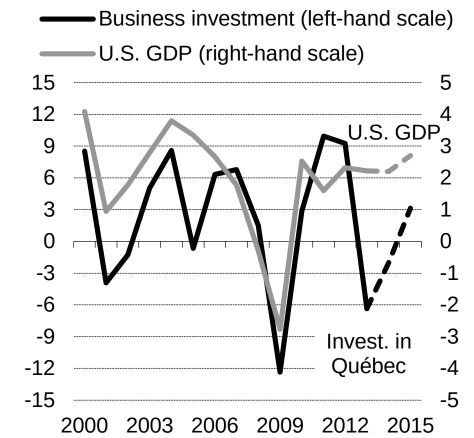
— On the other hand, the industrial capacity utilization rate in the manufacturing sector in Canada has been rising since 2009. The increase indicates, in particular, the acceleration of manufacturing output in the country.

  — The utilization rate stood at 82.0% in the second quarter of 2014 and is still slightly below its pre-recession level.

— Industrial production in Québec, which includes in particular manufacturing, mine production and public services, is also up, expanding by 3.6% in the first seven months of 2014.

CHART B.9

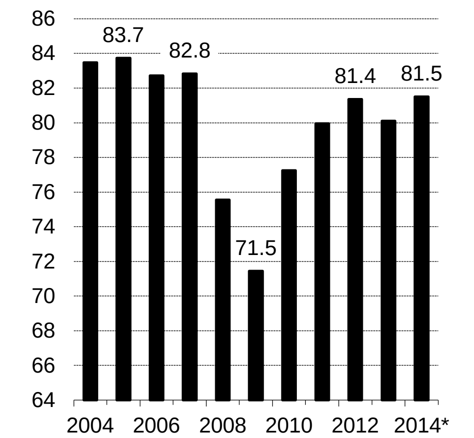
Non-residential business investment in Québec and U.S. GDP
(percentage change, in real terms)



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

CHART B.10

Industrial capacity utilization rate in the manufacturing sector in Canada
(as a percentage)



* Cumulative of available quarters.
Source: Statistics Canada.

A gradual revival in non-residential business investment

Following a 9.2% increase in 2012, non-residential business investment fell by 6.3% in 2013.

— The downturn in investment continued in the first quarter of 2014, when they declined by 1.8%. This was followed by a slight increase of 0.3% in the second quarter.

— An acceleration in non-residential business investment is anticipated starting in the second half of 2014, underpinned by the rebound in exports and higher corporate profits.

Accordingly, following a 2.0% downturn in 2014, growth in non-residential business investment in real terms should stand at 3.1% in 2015. The value, in nominal terms, of such investment should stand at more than $36 billion in 2015.

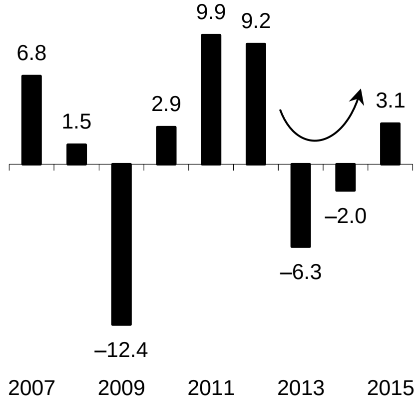
In particular, the sub-category investment in machinery and equipment should experience a more sustained upturn.

— In the second quarter of 2014, investment in machinery and equipment increased by 1.2%. Businesses have already resumed investment in machinery and equipment to enhance their productivity and production capacity.

— Overall in 2014, investment in machinery and equipment should decline by 1.0%, then increase by 3.8% in 2015.

CHART B.11

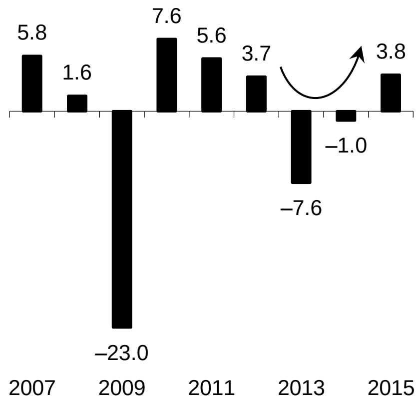
Non-residential business investment in Québec
(percentage change, in real terms)



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

CHART B.12

Business investment in machinery and equipment in Québec
(percentage change, in real terms)



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

❑ Investments by governments remain at high levels

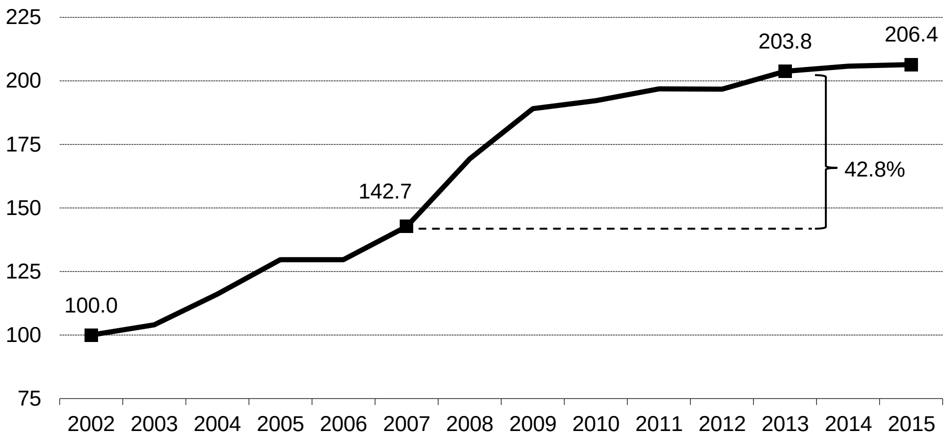
While pursuing their efforts to return to a balanced budget, public administrations in Québec will continue to maintain investments in infrastructure at high levels. More specifically, the Québec government has made substantial efforts in the realm of public investments since 2007.

— Thus, government investments, especially in infrastructure, rose by more than 40% between 2007 and 2013.

— The value of investments by all levels of government, i.e. federal, provincial and local, has stabilized at high levels. Government investments will remain at these levels in the coming years.

CHART B.13

Government investments in Québec
(index, 2002 = 100)



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

Fiscal consolidation is compatible with the objective of economic growth[1]

The pursuit of fiscal consolidation is still appropriate

In the October 2014 issue of the *Fiscal Monitor*, the International Monetary Fund (IMF) reiterated the importance for advanced economies to put public finances on a firmer footing in order to reduce debt to more prudent levels. Furthermore, this objective is not incompatible with that of promoting economic growth.

- Indeed, according to the IMF, faced with a hesitant recovery, fiscal policy must judiciously reconcile the objective of viable public finances and support for economic growth and job creation.
- Thus, fiscal policy must be integrated into a comprehensive view of structuring measures to boost economic growth.

In addition, detailed plans are crucial to a credible fiscal policy for restoring balance to public finances. These recommendations are especially aimed at higher-debt countries facing large projected increases in health care and pension spending.

Fiscal consolidation is compatible with the objective to support economic growth

The IMF recommends that advanced economies adjust the pace and composition of fiscal consolidation in order to align efforts to return to balanced budgets with the need to foster growth.

- According to the IMF, in a general context of budgetary control, public policies should continue to include measures to support economic growth and employment.
- Fiscal policy can thus help support the labour market in the short term and over a longer horizon by strengthening the impact of structural reforms.

The IMF stresses that such measures can be targeted to specific groups, such as older people, to encourage them to stay in the labour market, or low-skilled workers or youth, who are at higher risk of unemployment.

Investments in infrastructure are an opportunity to be grasped

What is more, the IMF indicates that policies that facilitate infrastructure investment foster economic growth, particularly in advanced economies. The international organization believes that, with interest rates being low, this is the time to invest and that a number of advanced countries are lagging in this respect.

- Public infrastructure investment helps increase output in the short and long term. Such expenditures should target the most efficient investments.
- For example, the IMF estimates, in a sample of advanced economies, that an infrastructure spending increase equal to 1 percentage point of GDP increases output by roughly 0.4% the same year and 1.5% four years later.

1 International Monetary Fund, *Fiscal Monitor - Back to Work: How Fiscal Policy Can Help*, October 2014, and International Monetary Fund, *World Economic Outlook*, October 2014.

1.4 Sustained growth in household consumption

Growth in household consumption expenditures is usually closely aligned with growth in disposable income. However, temporary divergences can occur in the short term because of changes in the propensity of households to consume or to save.

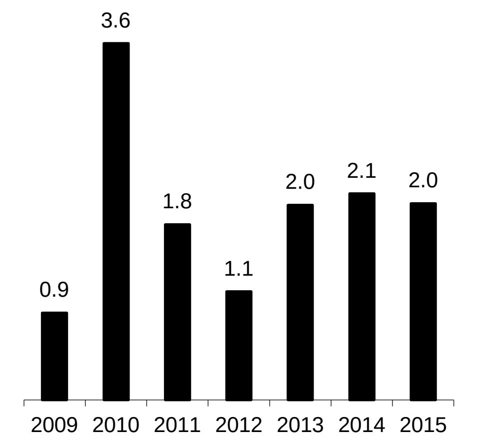
— In real terms, household disposable income should increase by 1.5% in 2014 and by 2.1% in 2015.

— Despite slower growth in disposable income in 2013, household consumption remained steady. It should grow by 2.1% in 2014 and 2.0% in 2015, thereby reaching the same pace of growth as in disposable income.

In 2014 and 2015, household consumption expenditures will benefit from the drop in oil prices and the measures recently announced by the federal government[1].

CHART B.14

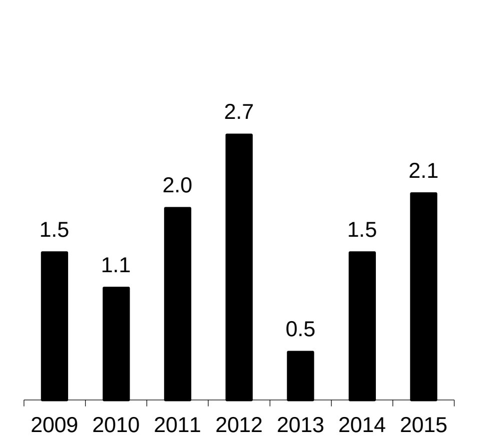
Household consumption expenditures in Québec
(percentage change, in real terms)



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

CHART B.15

Household disposable income in Québec
(percentage change, in real terms)



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

1 The measures announced on October 30, 2014, in particular income splitting for families, the increase in the Universal Child Care Benefit and the increase in the amounts that can be claimed as a deduction for childcare expenses.

1.5 The residential market is nearly balanced

After several years in which the number of housing starts outstripped the pace of household formation, recent changes in the Québec residential sector reveal that the market is now close to being balanced.

— Following modest growth of 1.5% in 2014, housing starts should decline by 5.4% in 2015. They should, accordingly, reach 36 200 units in 2015, a level compatible with the pace of household formation in Québec, which is roughly 40 000 per year.

Residential investment should decline by 1.2% in 2014, then increase by 0.5% in 2015.

— On the one hand, renovation expenditures should rise by 2.9% in 2014, spurred by the LogiRénov tax credit that the Québec government introduced last spring. They should continue to grow in 2015 and increase by 3.8%.

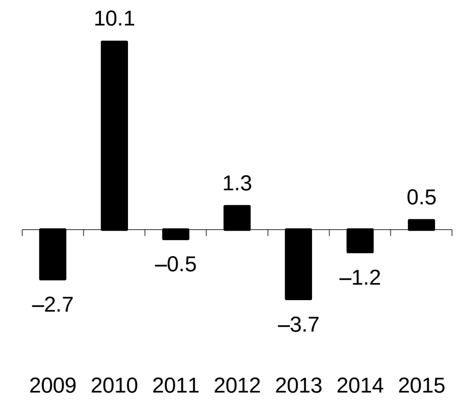
— On the other hand, investment in new residential construction should fall by 6.4% in 2014 and by 4.0% in 2015.

The current balance between housing supply and needs suggests that the Québec real estate market should stabilize in the coming years.

CHART B.16

Residential investment in Québec

(percentage change, in real terms)

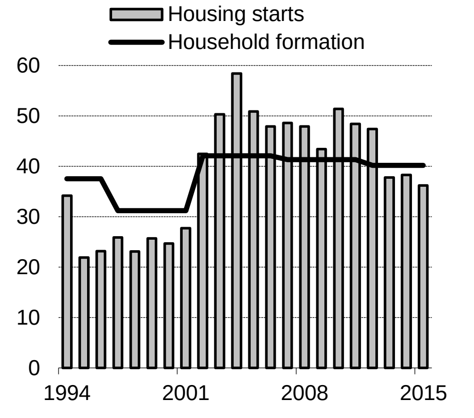


Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

CHART B.17

Housing starts and household formation in Québec

(thousands of units)



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

1.6 Change in employment in 2014

Data from Statistics Canada's Labour Force Survey (LFS) reveal that the improvement in economic statistics since the second quarter is slow to show on the employment data.

— In 2014, the average employment level will be lower than in 2013, by 1 600 jobs. The unemployment rate in 2014 should average 7.8%.

The change in employment in Québec in 2014 contrasts with growth in other economic indicators, which show accelerated growth.

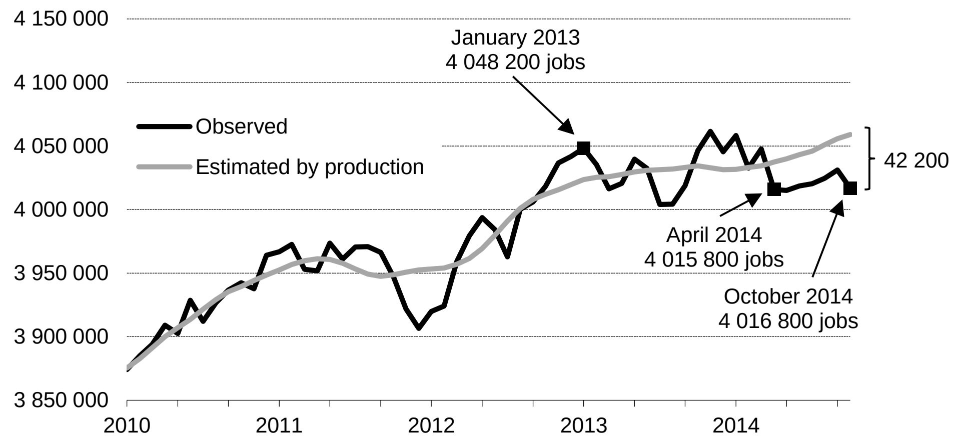
— For example, estimated employment based on output is higher than the LFS estimate by 42 200 jobs.

This difference suggests that job creation should regain a more sustained momentum in 2015, with the expansion of exports and steady consumption that will encourage businesses to hire more workers.

— In 2015, some 31 800 jobs should be created, a 0.8% increase. The unemployment rate should fall to 7.7%.

CHART B.18

Change in employment in Québec
(total number of jobs)



Sources: Statistics Canada and Ministère des Finances du Québec.

❑ Productivity has improved markedly

The change in employment and output statistics reveals a significant improvement in productivity in 2014.

— Indeed, output per job should rise by 1.6% in 2014, a reflection of the willingness of businesses to fully utilize their resources before stepping up the hiring of new workers.

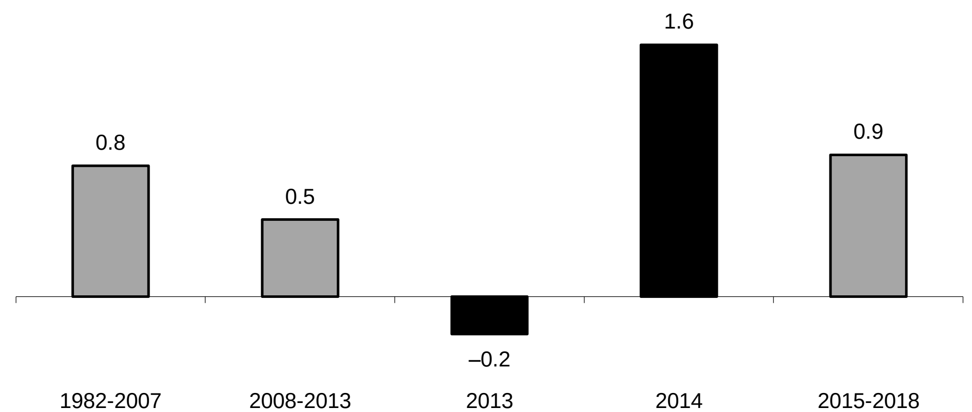
Although in the coming years the labour pool will increase less rapidly than in the past, economic growth in Québec will continue through enhanced productivity.

— From 2015 to 2018, productivity should increase, on average, by 0.9% per year.

— In this way, the Québec economy and the labour market will adjust to the aging of the population.

CHART B.19

Real GDP per job
(annual percentage change)



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

1.7 Demographic changes that are beginning to make themselves felt

According to the latest demographic scenario released by the Institut de la statistique du Québec[2], population aging, already underway in Québec, will continue and intensify over the coming decades.

— While the new scenario reveals slightly more favourable demographic evolution, in particular because of more sustained immigration and stronger natural growth, Québec continues to face significant demographic challenges.

❑ The number of potential workers is stagnating

The aging of the population poses a major challenge to the Québec economy, especially because of its impact on the labour pool. Indeed, the population 15 to 64 years of age, which represents the main potential labour pool, has already begun to decline.

— Because of the decline, the relative weight of the population 15 to 64 years of age in the total population should fall from 68.0% in 2013 to 63.3% in 2021. The previous peak occurred in 1986, at 69.9%.

The reduction in the potential labour pool will affect Québec's economic growth in the coming decades.

TABLE B.3

Change in the population of Québec
(population in thousands, annual percentage change and breakdown in the total population as a percentage)

	Population 15 to 64 years of age			Total population	
	Level	Change	Share in total population	Level	Change
2013	5 544.1	0.1	68.0	8 154.0	0.9
2014	5 541.3	−0.1	67.5	8 214.7	0.7
2015	5 542.0	0.0	66.9	8 282.1	0.8
2016	5 538.3	−0.1	66.3	8 348.3	0.8
2017	5 533.7	−0.1	65.8	8 413.8	0.8
2018	5 526.1	−0.1	65.2	8 478.7	0.8
2019	5 514.9	−0.2	64.6	8 542.8	0.8
2020	5 500.5	−0.3	63.9	8 606.1	0.7
2021	5 489.9	−0.2	63.3	8 668.4	0.7

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

[2] Reference demographic scenario released on September 8, 2014. For details, see section "A New Demographic Scenario".

Change in part-time employment in Québec and in Canada

An increase in the share of seniors in the total population leads to an increase in the number of part-time workers, as seniors are more likely to choose to work part time than the average worker.

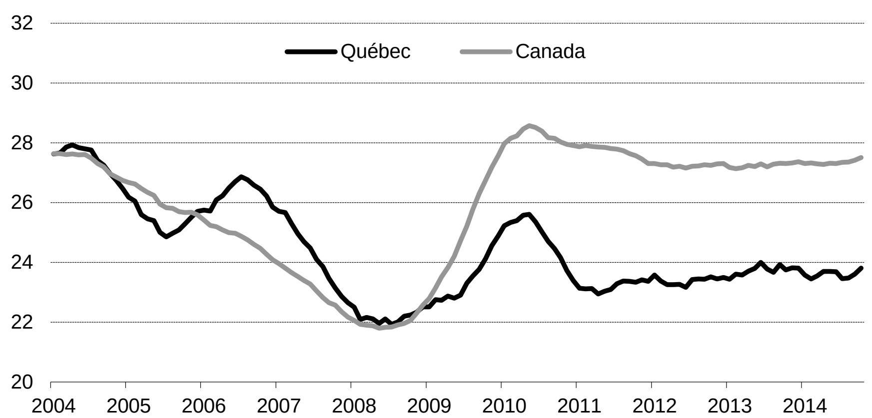
- In 2013, for example, 45.1% of workers aged 65 and over held a part-time job, compared to 19.2% for all workers.

In Québec, these new part-time jobs are filled by people who choose this type of work on a voluntary basis.

As a result, Québec has not seen a significant increase in the proportion of involuntary part-time workers in recent months, despite an increase in this type of work.

- In 2013, the share of involuntary part-time workers in Québec was 23.7%. During the last 12 months, this proportion averaged 23.8%, while part time employment increased during this period.
- Currently, the level of involuntary part-time employment is similar to the pre-recession level, unlike in Canada, which still has a significantly high level of this type of employment.

Involuntary part-time employment
(as a percentage of total part-time employment, 12-month moving average)



Sources: Statistics Canada and Ministère des Finances du Québec.

Note: Since Statistics Canada does not adjust this data for seasonal variation, a 12-month moving average must be used to analyze monthly data.

❑ Changes to adjust to a new demographic situation

■ Québec's labour market has caught up to Canada's

In recent years, Québec's labour market has succeeded in adapting to demographic changes. The vitality of the labour market has made it possible to substantially reduce and even to eliminate the gaps between Québec and Canada, in particular as regards the labour force participation rate and the employment rate.

— In 2000, in Québec, the **labour force participation rate** in the 15 to 64 age group, i.e. the proportion of individuals who are employed or actively seeking employment in this population bracket, was 2.8 percentage points (pp) lower than the rate in Canada. In 2013, it exceeded by 0.1 pp the rate in Canada.

— In 2000, the **employment rate** in the 15 to 64 age group, i.e. the proportion of individuals who are employed in this population bracket, was 3.8 pp lower than the rate in Canada. In 2013, the gap had virtually disappeared.

The increase in the labour force participation rate and the employment rate in the 15 to 64 age group in Québec represents a positive change. However, it also means that future gains in terms of the labour force participation rate and the employment rate in this population segment will henceforth be more limited.

— Economic growth and Quebecers' prosperity will hinge more extensively on optimal use of existing capital and human resources.

TABLE B.4

Change in the labour market – Population 15 to 64 years of age
(percentage rate)

	Unemployment rate		Employment rate		Labour force participation rate	
	Québec	Canada	Québec	Canada	Québec	Canada
1980	10.1	7.6	60.8	66.1	67.7	71.6
1990	10.5	8.2	65.3	70.3	72.9	76.6
2000	8.5	6.9	67.1	70.9	73.4	76.2
2011	7.8	7.5	71.4	72.0	77.4	77.8
2012	7.8	7.3	71.6	72.2	77.7	77.9
2013	7.7	7.2	72.2	72.5	78.2	78.1

Source: Statistics Canada.

■ Gains are still possible, especially for experienced workers

From a long-term perspective, the population aged 65 and over will growth faster than the population aged 15 to 64.

Despite the reduction in the potential labour pool, progress on the labour market is still possible in the coming years, in particular in the category of experienced workers, who are now under-represented on the labour market.

For example, in 2013, the employment rates in the population 55 years of age or over in Québec were still below the rates in Canada:

— the employment rate in the population 55 to 59 years of age stood at 67.9% in Québec, compared with 69.5% in Canada;

— the employment rate in the population 60 to 64 years of age stood at 41.8% in Québec, compared with 50.0% in Canada;

— the employment rate in the population 65 to 69 years of age stood at 17.8% in Québec, compared with 24.4% in Canada.

In the short term, the improvement in these employment rates could mitigate the negative impact on economic growth of the aging of the population by increasing the labour supply and enhancing the potential labour pool.

However, the characteristics of these age groups mean that the economic impact of the decline in the 15 to 64 age group can only be partially offset.

— For example, the older cohorts are more likely to work part time, thereby reducing the potential supply of working hours.

— Furthermore, elderly workers are hardly likely to remain in the labour force when they become unemployed.

TABLE B.5

Employment rate by age group in 2013
(rate in per cent, difference in percentage points)

	Québec	Canada	Difference
15 – 24 year olds	58.1	55.1	+3.0
25 – 54 year olds	81.7	81.5	+0.2
55 – 59 year olds	67.9	69.5	−1.6
60 – 64 year olds	41.8	50.0	−8.2
65 – 69 year olds	17.8	24.4	−6.6

Source: Statistics Canada.

Productivity will become the main factor of economic growth in Québec

Between 2008 and 2013, growth in the potential labour pool, the higher employment rate and enhanced productivity sustained economic growth. This trend is destined to change.

- In 2014 and 2015, growth in the 15 to 64 age group should stagnate and not contribute to economic growth. Productivity gains and a higher employment rate will support real GDP growth.
- From 2016 onwards, the potential labour pool should decline slightly according to the demographic scenario, thereby reducing economic growth. Additional gains in the employment rates will also be harder to achieve once the potential gains have been made.
- In the longer term, productivity gains will mainly support real GDP growth.

Capital investments are a key component

The impact of the anticipated changes on the labour market may be offset by attaching greater importance to the role of investment and capital stock, which are essential determinants of productivity.

Public policies aimed at enhancing the attraction of capital and encouraging investment can foster this transition.

- Healthy public finances, competitive taxation, and adequate allocation of infrastructure and public capital are such instruments. Public policy should also promote better use of the available capital and labour.

TABLE B.6

Contribution of factors to Québec's economic growth
(percentage change and contribution in percentage points)

	1982-2007	2008-2013	2014-2015	2016-2020
Real GDP (variation)	2.1	1.3	1.7	1.6
Growth factors (contribution):				
– Potential labour pool(1)	0.6	0.6	0.0	−0.1
– Employment rate(2)	0.6	0.3	0.4	0.9
– Productivity(3)	0.8	0.5	1.3	0.8

Note: Since figures are rounded off, they may not add up to the total shown.
(1) Population 15 to 64 years of age.
(2) Total number of workers over the population 15 to 64 years of age.
(3) Real GDP per job.
Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

1.8 Comparison with private sector forecast

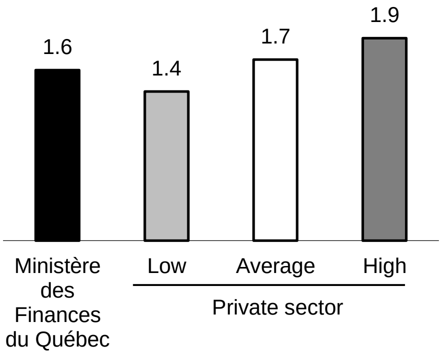
The economic growth forecast of the Ministère des Finances du Québec for 2014 and 2015 is comparable to the average private sector forecast. It is slightly lower than the average private sector forecast which provides a measure of prudence.

— In 2014, the forecast 1.6% growth in real GDP is 0.1 percentage point below the average private sector average of 1.7%.

— For 2015, anticipated real GDP growth is 1.9%, which is also slightly below the average private sector forecast of 2.0%.

CHART B.20

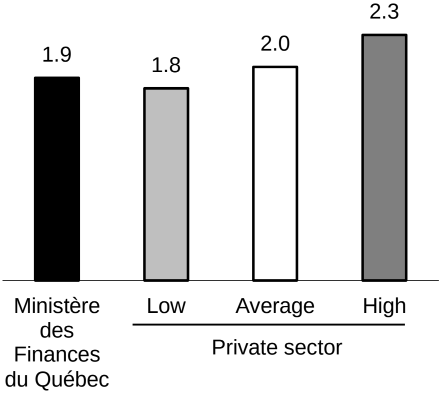
Economic growth in Québec in 2014
(real GDP, percentage change)



Source: Ministère des Finances du Québec summary as of November 7, 2014, which includes the forecasts of 11 private sector institutions.

CHART B.21

Economic growth in Québec in 2015
(real GDP, percentage change)



Source: Ministère des Finances du Québec summary as of November 7, 2014, which includes the forecasts of 11 private sector institutions.

TABLE B.7

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

	2013	2014	2015
Output			
Real gross domestic product	1.0	1.6	1.9
– *Budget 2014-2015*	*1.1*	*1.8*	*2.0*
Nominal gross domestic product	1.5	3.1	3.8
– *Budget 2014-2015*	*1.9*	*3.4*	*3.9*
Components of GDP (in real terms)			
Household consumption	2.0	2.1	2.0
– *Budget 2014-2015*	*2.1*	*2.2*	*2.0*
Government spending and investment	0.7	0.5	0.0
– *Budget 2014-2015*	*1.1*	*0.2*	*0.1*
Residential investment	−3.7	−1.2	0.5
– *Budget 2014-2015*	*−5.1*	*−0.5*	*−0.4*
Non-residential business investment	−6.3	−2.0	3.1
– *Budget 2014-2015*	*−6.0*	*1.3*	*5.3*
Exports	0.4	3.1	3.5
– *Budget 2014-2015*	*3.8*	*3.0*	*3.8*
Imports	−1.0	1.5	1.6
– *Budget 2014-2015*	*0.5*	*1.9*	*2.1*
Labour market			
Job creation (thousands)	47.8	−1.6	31.8
– *Budget 2014-2015*	*47.8*	*31.3*	*46.3*
Unemployment rate (%)	7.6	7.8	7.7
– *Budget 2014-2015*	*7.6*	*7.5*	*7.2*
Other economic indicators			
Nominal household consumption (excluding food and rent)	3.3	3.4	3.6
– *Budget 2014-2015*	*2.9*	*3.3*	*3.7*
Wages and salaries	2.3	2.2	3.5
– *Budget 2014-2015*	*2.2*	*2.7*	*3.6*
Household income	2.3	2.8	3.7
– *Budget 2014-2015*	*2.4*	*2.8*	*3.5*
Net operating surplus of companies(1)	−10.4	5.2	6.4
– *Budget 2014-2015*	*−7.1*	*4.4*	*5.4*

(1) According to the new nomenclature used by Statistics Canada, the net operating surplus of companies includes, in particular, the profits and investment income of enterprises.
Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

1.9 Five-year economic outlook for 2014-2018

The five-year forecast of the Ministère des Finances du Québec is comparable to that of the private sector regarding real GDP growth, price increases and nominal GDP growth.

— Real GDP is expected to grow at an average rate of 1.7% from 2014 to 2018, compared with the private sector forecast of 1.8%.

— Nominal GDP is expected to grow at an average rate of 3.5% from 2014 to 2018, compared with the private sector forecast of 3.6%.

TABLE B.8

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

	2013	2014	2015	2016	2017	2018	Average 2014-2018
Real GDP							
Ministère des Finances du Québec	1.0	1.6	1.9	1.8	1.7	1.6	1.7
Private sector average		1.7	2.0	1.9	1.7	1.6	1.8
Price increases(1)							
Ministère des Finances du Québec	0.5	1.6	1.9	1.7	1.7	1.7	1.7
Private sector average		1.7	1.7	1.9	1.9	1.9	1.8
Nominal GDP							
Ministère des Finances du Québec	1.5	3.1	3.8	3.5	3.5	3.3	3.5
Private sector average		3.4	3.7	3.7	3.7	3.6	3.6

Note: Since figures are rounded off, they may not add up to the total shown.
(1) GDP deflator.
Source: Ministère des Finances du Québec summary as of November 7, 2014, which includes the forecasts of 11 private sector institutions.

2. A NEW DEMOGRAPHIC SCENARIO

On September 8, 2014, the Institut de la statistique du Québec (ISQ) made public new population forecasts for Québec[3] that cover the period 2011-2061. The previous version, up to 2056, dated from 2009.

The Ministère des Finances du Québec is relying on the ISQ's reference demographic scenario to establish its economic and budgetary forecasts. The scenario is dubbed "reference scenario" since it is based on what are deemed to be the most plausible hypotheses.

2.1 More favourable demographic trends

Since the mid-2000s, the unfavourable differences previously observed with the rest of Canada in terms of population growth have dwindled.

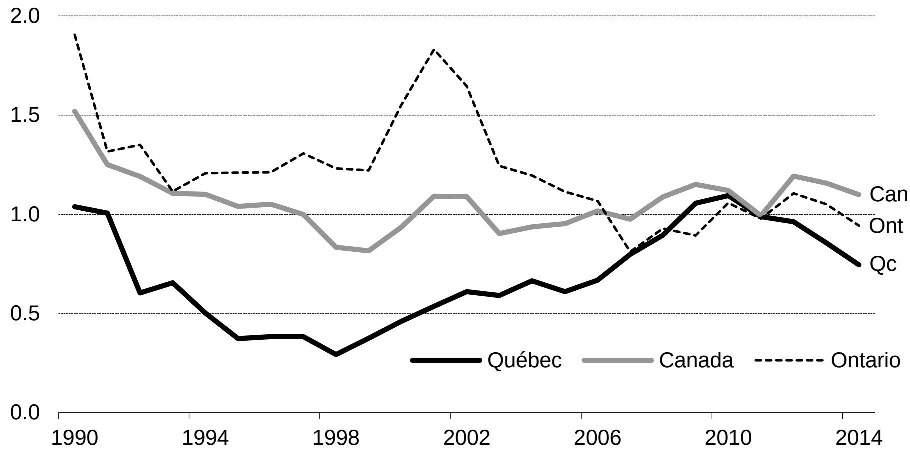
— Over the past five years, average annual growth in the population was 0.9% in Québec, 1.0% in Ontario, and 1.1% in Canada.

— Demographic growth rates are thus converging, while a bigger gap prevailed previously. In 2000, growth in Québec's population was 0.5 percentage point (pp) below the rate in Canada and 1.1 pp below that in Ontario.

Natural growth and net migration are the two main components of population growth that account for the catching up.

CHART B.22

Growth in the population of Québec, Canada and Ontario
(annual percentage change)



Source: Statistics Canada.

[3] Institut de la statistique du Québec, *Perspectives démographiques du Québec et des régions, 2011-2061. Édition 2014,* September 2014.

2.2 Natural growth and migratory flows have improved

Since 2006, Québec has displayed a **total fertility rate**[4] that is higher than the Canadian average and the Ontario rate.

— In 1987, when the total fertility rate reached a trough of 1.36 in Québec, it stood at 1.58 in Canada and in Ontario.

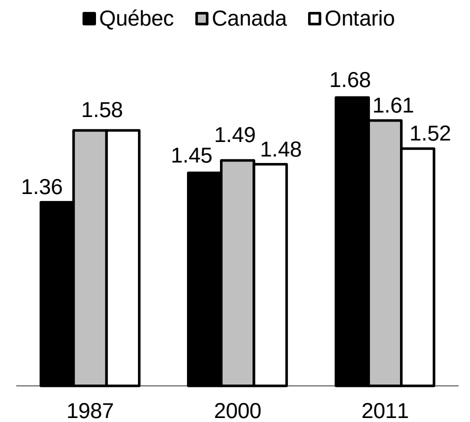
— In 2011, the number of children per woman stood at 1.68 in Québec, compared with 1.61 in Canada and 1.52 in Ontario.

The **flow of international immigrants** to Québec has corresponded, for the past five years, to just over 53 000 per year, i.e. roughly 0.7% of the total population, which is close to the Canadian and Ontarian average of 0.8%.

— In 2000, international immigration to Québec represented 0.5% of its total population, a proportion that was markedly lower than those in Canada and Ontario, which were 0.8% and 1.3%, respectively.

CHART B.23

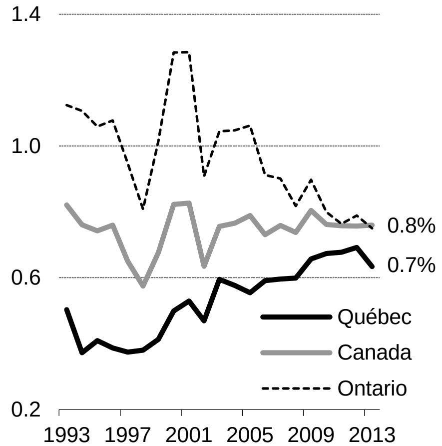
Total fertility rate
(average number of children per woman of child-bearing age)



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

CHART B.24

Flow of immigration
(annual flows of international immigrants as a percentage of the total population)



Source: Statistics Canada.

4 This rate corresponds to the average number of children that a woman would have during her reproductive life.

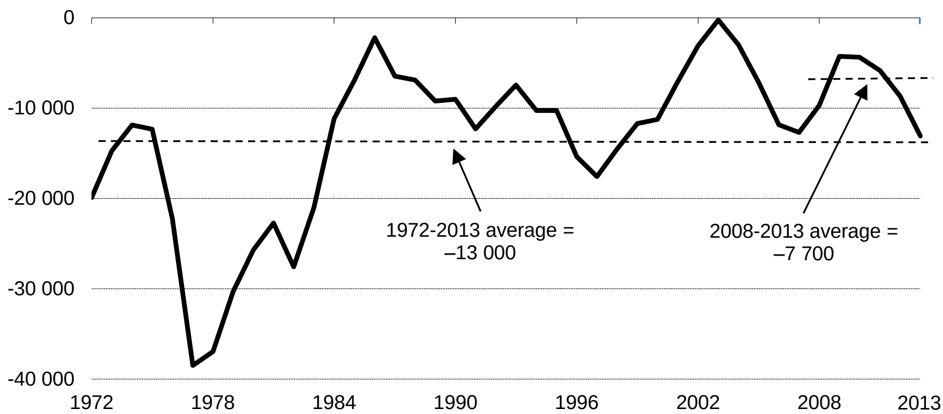
Lastly, Québec's **net interprovincial migration** maintained itself, on average, at nearly −7 700 individuals between 2008 and 2013.

— It means that Québec is still losing part of its population for the benefit of the other provinces.

— However, this loss represents half of the long-term average observed since 1972, which was −13 000 people.

CHART B.25

Québec's net interprovincial migration
(number of people)



Source: Institut de la statistique du Québec.

2.3 A more positive demographic scenario, but challenges that persist

❑ More optimistic assumptions

The new ISQ reference scenario reflects these trends and hinges on more optimistic assumptions in relation to the 2009 reference scenario, in particular:

— a total fertility rate that would stand at 1.70 from 2021 onwards;

— higher net migration centered on an annual volume of international immigration of 50 000 individuals and net interprovincial migration of −7 500 people per year starting in 2016;

— constantly improving life expectancy by 2061.

TABLE B.9

Main assumptions – Reference demographic scenarios

	2014 scenario	2009 scenario	Difference (%)
Total population:			
– In 2025	8 912 825	8 640 445	3.2
– In 2056	9 972 853	9 212 825	8.2
Total fertility rate	1.70	1.65	0.05(1)
Life expectancy (men/women) in 2060-2061	87.8/90.1	85.5/89.0	2.3/1.1(1)
Annual total net migration(2)	36 500	30 000	21.7
Annual net international migration	44 000	40 000	10.0
▪ Annual international immigration	50 000	47 500	5.3
Annual net interprovincial migration	−7 500	−10 000	25.0

(1) Difference in percentage points.
(2) Excludes net migration of non-permanent residents.
Source: Institut de la statistique du Québec.

❑ Québec's population will pass the 10-million mark in 2057

In light of these assumptions, growth in Québec's population will slow in the long term but at a more moderate pace than anticipated in the previous demographic scenario (2009).

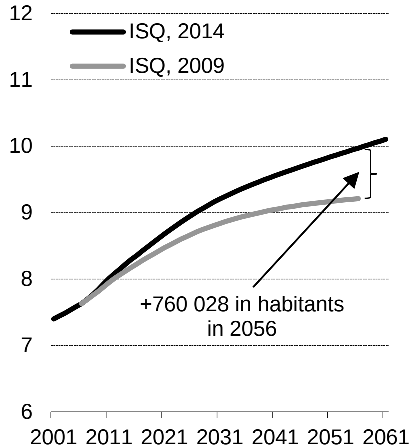
— Between 2000 and 2013, average annual population growth stood at 0.8%. It should reach 0.6% in 2025 and 0.3% in 2061.

— During the period 2013-2056, population growth would be roughly 0.2 percentage point (pp) higher than the previous scenario.

Consequently, according to the new demographic scenario, Québec's population would pass the 10-million mark in 2057.

CHART B.26

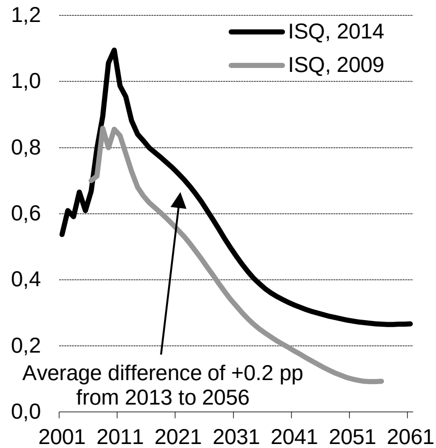
Total population projection
(in millions of persons)



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

CHART B.27

Growth in total population
(annual percentage change)



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

❑ A less marked reduction in the potential labour pool

According to the new ISQ demographic scenario, the potential labour pool, i.e. the population 15 to 64 years of age, should experience between 2015 and 2030 a less marked drop than forecast in the previous scenario (2009).

This population segment should then grow and finally reach a maximum starting in 2044.

— Between 2015 and 2030, i.e. the peak and the trough for this cohort, the number of individuals aged 15 to 64 should fall from 5 548 802 to 5 436 445, an average decrease of 7 490 people per year.

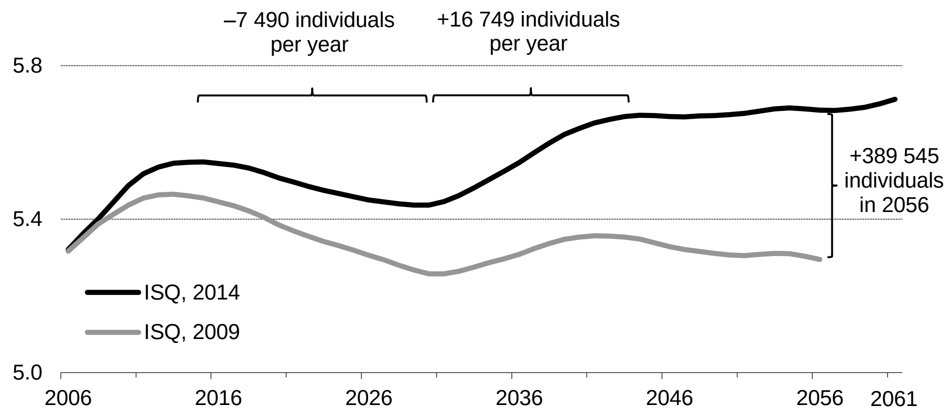
— After 2030, the population aged 15 to 64 should once again increase, until 2044, an average annual increase of 16 749 individuals. Such growth will, however, be lower than was the case between 2000 and 2013, which was 34 657 individuals per year.

— After 2044, the population aged 15 to 64 will level off.

— In 2056, the potential labour pool should thus reach 5 684 393 individuals, i.e. 389 545 more than the previous scenario anticipated.

CHART B.28

Potential labour projections
(population 15 to 64 years of age, in millions)



Source: Institut de la statistique du Québec.

❑ Immigration will become the main source of population growth

While the ISQ reference scenario projects a yearly increase in births, the increase in the number of deaths will gradually dampen natural growth in the Québec population by 2034.

— Since 2001, natural growth, i.e. the difference between births and deaths, has no longer been the main source of population growth in Québec.

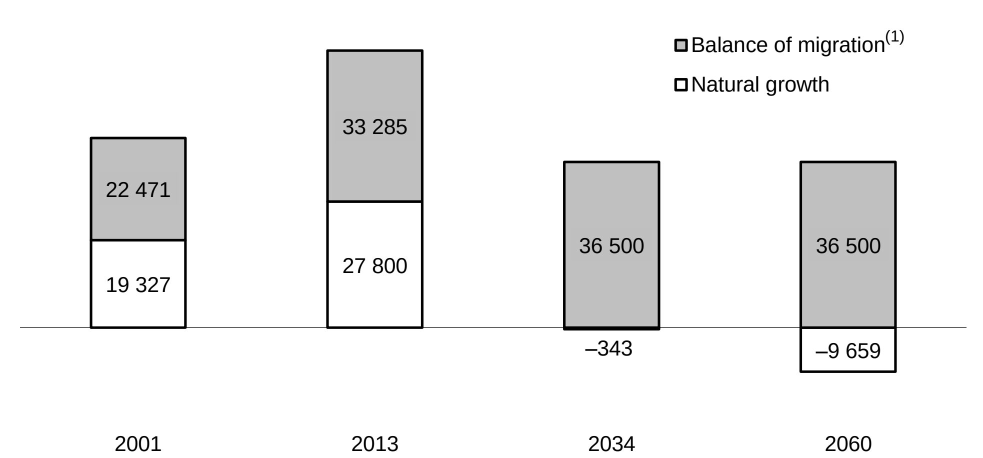
Immigration now assumes that role and its importance as a source of population growth will intensify.

— The new demographic scenario predicts net migration (international and interprovincial) of 36 500 individuals per year starting in 2016.

— The assumption of annual international immigration of 50 000 individuals, which ensures growth in Québec's population, is the key factor in maintaining the total balance of migration.

CHART B.29

Sources of growth in Québec's population
(number of individuals)



(1) The projections do not include net migration of non-permanent residents.
Source: Institut de la statistique du Québec.

The contribution of immigrants to the Québec labour market

Statistics Canada data enable an analysis of the makeup of workers aged 25 to 54 in the Québec labour market in terms of people born in Canada and landed immigrants.

The analysis reveals that between 2006 and 2013 immigrants accounted for the main source of growth in the segment, which is essential for the vitality of the labour market and wealth creation at a time when the Canadian-born population is declining.

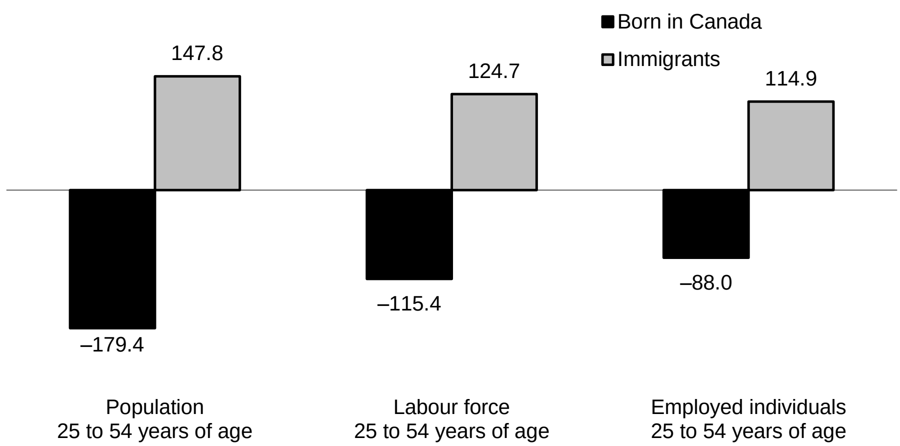
- More specifically, between 2006 and 2013, the 25 to 54 age group, which makes up nearly half of the Québec labour force, declined by 17 100.
- The downward trend is attributable to a reduction in the number of Canadian-born individuals as the numerous baby-boomer generation age and leave the cohort. Their number fell by 179 400 between 2006 and 2013.
- However, the decrease observed was largely offset by an increase of 147 800 in the number of landed immigrants during the same period.

Similar observations arise in the comparison of changes in the immigrant and Canadian-born population aged 25 to 54 in the labour force (people who are employed or actively seeking employment) and the employed population.

- The immigrant population has, accordingly, played a vital role to satisfy labour needs and occupied nearly 114 900 new jobs between 2006 and 2013.

What is more, despite an improvement, an effort is still required to integrate immigrants into the labour market. Statistics reveal that the employment rates of immigrants in Québec are lower than those of immigrants in the other provinces.

Population born in Canada and landed immigrants 25 to 54 years of age
(change in thousands between 2006 and 2013)



Source: Statistics Canada.

2.4 Population aging remains a challenge

Despite more favourable assumptions, the ISQ's new demographic scenario reveals that the pace of aging of Québec's population would remain just as rapid.

- Indeed, annual growth in the population 65 years of age or over will accelerate to reach, on average, 3.1% between 2013 and 2030, which is far higher growth than in other population segments.
- The population 65 years of age or over should thus reach nearly one-quarter of the Québec population by 2030. Beyond then, the ratio would continue to rise, but more slowly, and reach 28.5% in 2061.

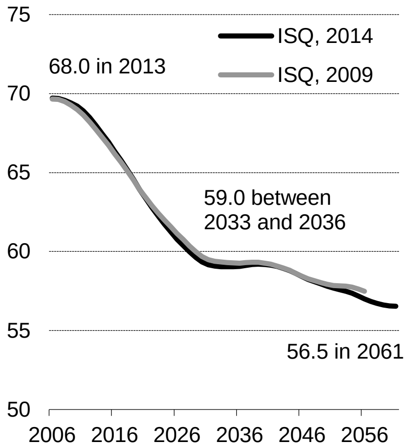
Not only will the population 65 years of age or over increase but the process will occur at the same time as the 15 to 64 age group declines by 2030, which will significantly increase the dependency ratio[5].

- The ratio should reach 85.4 dependants for 100 persons 20 to 64 years of age in 2030, compared with a ratio of 60.5 in 2013.
- The increase in the total ratio stems, in particular, from growth in the seniors dependency ratio, which will increase from 26.7 seniors per 100 individuals 20 to 64 years of age in 2013 to 46.2 seniors in 2030.

CHART B.30

Population in the 15 to 64 age group in the total population

(as a percentage)

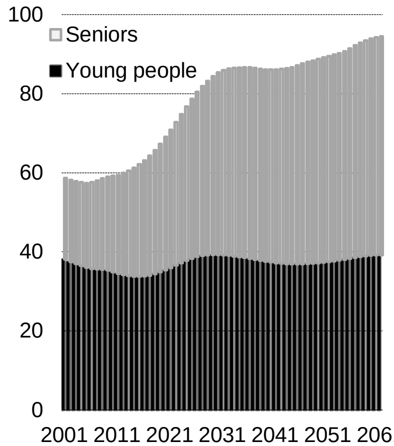


Source: Institut de la statistique du Québec.

CHART B.31

Demographic dependency ratio

(young people up to the age of 19 and seniors 65 years of age or over per 100 individuals 20 to 64 years of age)



Source: Institut de la statistique du Québec.

5 The dependency ratio represents dependants, i.e. young people up to the age of 19 and seniors 65 years of age or over, in relation to the population aged 20 to 64.

The population 75 years of age or over and its challenges

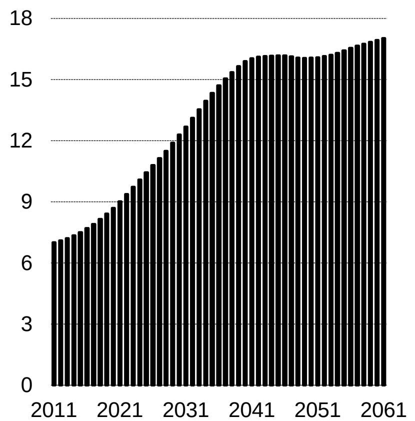
Longer life expectancy is giving rise to another demographic phenomenon: the increase in the number of older seniors. Indeed, projections for the 75 years of age or over group reveal a marked increase in their number and weight in the Québec population:

- according to the new ISQ reference scenario, the number of individuals 75 years of age or over will nearly double by 2030, to 1.1 million, compared to 587 921 in 2013;
- individuals 75 years of age or over will account for 12.3% of the total population in 2030, compared with only 7.2% of Québec's population in 2013.

Such growth is not without consequences in respect to the expenses that this category of the population generates and governments' ability to assume them. Public policies must be considered in order to meet this daunting challenge.

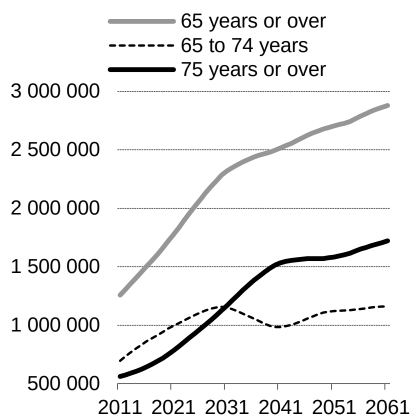
- The increase in life expectancy is exerting significant pressure on retirement plans. Thus, the labour market should take greater advantage of the potential of experienced workers.
- Labour force participation should be encouraged. At present, people in Québec aged 65 to 69 have the lowest labour force participation rate (18.8% in 2013) of all the Canadian provinces (the Canadian average was 25.5% in 2013).
- The delivery of services to these age groups is a challenge. Per capita public health spending accelerates starting at 75 years old[1].

Population aged 75 and over
(as a proportion of the total population)



Source: Institut de la statistique du Québec.

Older populations
(number of individuals)



Source: Institut de la statistique du Québec.

1 According to the Canadian Institute for Health Information, in 2012, the Québec government's per capita health spending stood, on average, at $10 650 for individuals 65 years of age or over, compared with $2 090 for individuals under 65 years of age. It stood at $5 484 for 65 to 69 year olds, $10 519 for 75 to 79 year olds, $14 987 for 80 to 84 year olds, and $25 600 for individuals 85 years of age or over. Data on health spending are adjusted according to the province. Consequently, they do not correspond to the information presented in the budget documents of the Canadian provinces.

3. THE SITUATION OF QUÉBEC'S MAIN ECONOMIC PARTNERS

The Québec economy is open to the world and strongly integrated into the North American economy. While Québec has diversified trade in recent years, Canada and the United States remain its main trading partners.

— In 2013, exports to these two destinations accounted for 37.6% of Québec's GDP.

❑ Reinforcement of economic growth in Canada and the United States

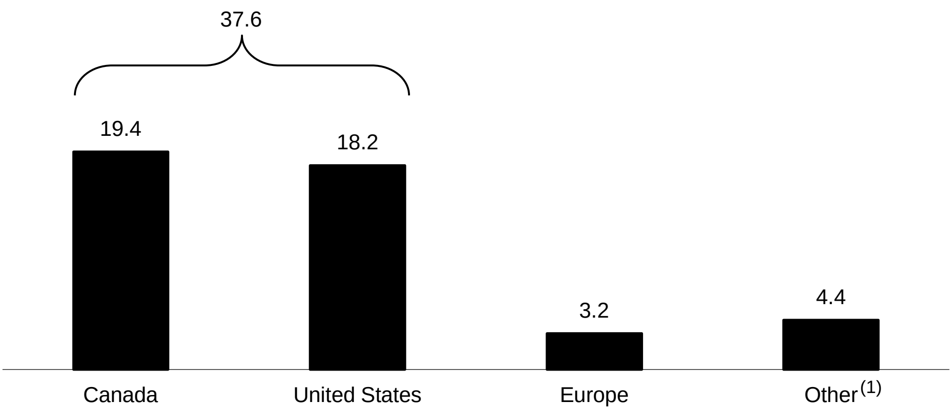
After a difficult first quarter because of an especially harsh winter, growth picked up again in the spring of 2014 in Canada and the United States.

— In the **United States**, economic growth should reach 2.2% in 2014, and 2.7% in 2015. Consumer spending and business investment, in particular, will sustain the American economy, as will the fact that an important part of fiscal tightening has already been carried out.

— In **Canada**, real GDP should increase by 2.2% in 2014 and 2.5% in 2015. Higher household spending and a stronger U.S. economy, which will stimulate Canadian exports, will sustain the acceleration of the economy. However, the recent drop in oil prices constitutes a risk for certain oil-producing Canadian provinces.

CHART B.32

Share of exports in GDP by Québec's trading partners
(as a percentage of nominal GDP in 2013)



(1) Includes, in particular, China, Mexico, Japan, Brazil, India and South Korea.
Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

3.1 The economic situation in Canada

In the wake of real GDP growth of 1.9% in 2012 and 2.0% in 2013, economic growth in Canada should accelerate and rise to 2.2% in 2014 and 2.5% in 2015. The forecasts are unchanged in relation to those published in June when Budget 2014-2015 was tabled.

— Economic bolstering in the U.S. and the depreciation of the Canadian dollar should sustain Canadian exports, which will continue to be a driving force in growth.

— The Canadian economy will also be sustained by robust consumer spending by households, which will benefit from continued low interest rates, and the measures announced by the federal government.

— On the other hand, non-residential business investment got off to a difficult start in early 2014. It should revive in the coming quarters, sustained by growing exports and improved net corporate operating surpluses.

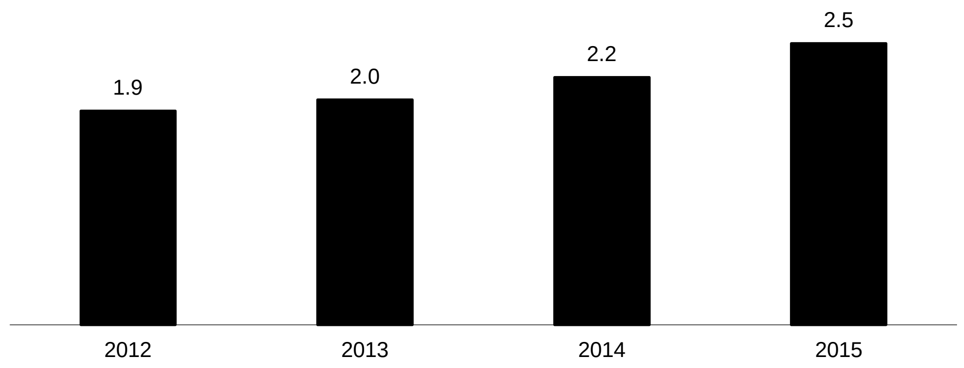
In nominal terms, growth in Canada's GDP should also accelerate, from 3.4% in 2013, to 4.3% in 2014, and 4.0% in 2015.

— Firmer growth in the real economy and the durable return of inflation closer to the Bank of Canada's target rate should foster growth in nominal GDP.

However, the recent drop in oil prices constitutes a risk for the country, which is a net exporter of oil. Should it persist, the decline would undermine investment in the energy sector. On the other hand Canadian households could benefit from lower gasoline prices.

CHART B.33

Economic growth in Canada
(real GDP, percentage change)



Sources: Statistics Canada and Ministère des Finances du Québec.

❑ Moderate domestic demand

In recent quarters, Canadian households have maintained sustained consumption. However, businesses have been reluctant to invest because of global economic uncertainty while public administrations have limited their expenditures because of budgetary constraints.

— Accordingly, the contribution of final real domestic demand to economic growth has remained modest in 2013 and 2014.

In 2015, a rebound is anticipated in domestic demand.

— Restored confidence in the durability of the global economic upswing should stimulate non-residential business investment. Household spending should remain steady.

❑ A labour market that slowed down in 2014

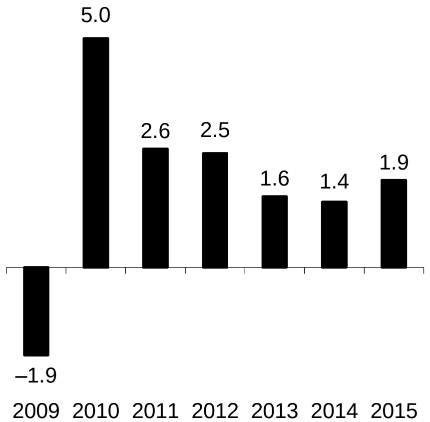
The sluggish domestic economy was primarily apparent through a slowdown in the job market during the year.

— In the wake of 1.3% growth in 2013, job creation should rise by 0.8% in 2014, equivalent to roughly 134 000 new jobs.

— In 2015, the acceleration of the Canadian economy should stimulate the labour market and generate 226 000 new jobs, up 1.3%.

CHART B.34

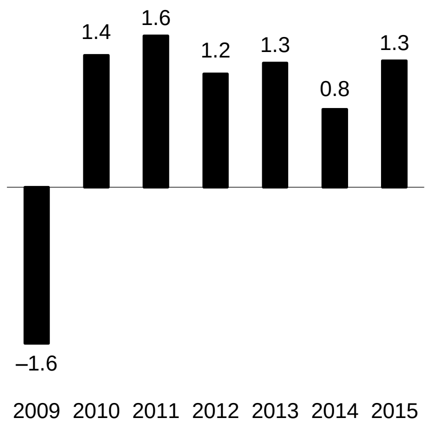
Contribution of final domestic demand to real GDP growth in Canada
(in percentage points)



Sources: Statistics Canada and Ministère des Finances du Québec.

CHART B.35

Job creation in Canada
(percentage change)



Sources: Statistics Canada and Ministère des Finances du Québec.

❑ Household consumption remains sustained

Growth in household spending continues. Indeed, following a 2.5% increase in 2013, consumer spending in real terms should increase by 2.6% in 2014. In 2015, growth in household spending should maintain itself at 2.4%.

— Renewed consumer confidence and low interest rates should continue to sustain household spending.

— Furthermore, in 2015, the acceleration in job creation, which should lead to more robust growth in wages, will sustain consumption.

The reinforcement of consumption will promote the return of inflation to the Bank of Canada’s target rate.

❑ A temporary revival in residential investments

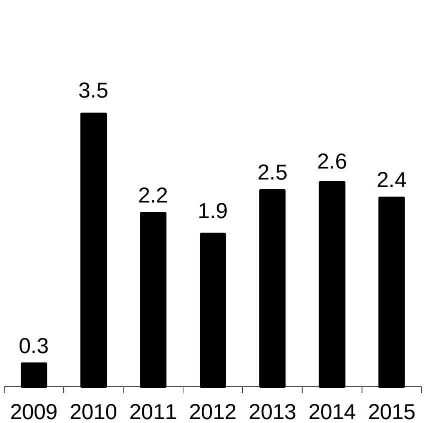
The housing market in Canada displayed surprising resilience in 2014. After declining by 0.4% in 2013, residential investments should increase by 1.2% in 2014, then drop by 2.4% in 2015.

— In 2014, low mortgage rates spurred the home resale market and home construction. However, the revival will be temporary.

— In 2015, the number of housing starts should be more closely aligned with the pace of household formation. Moreover, the gradual increase in interest rates should slow activity on the housing market.

CHART B.36

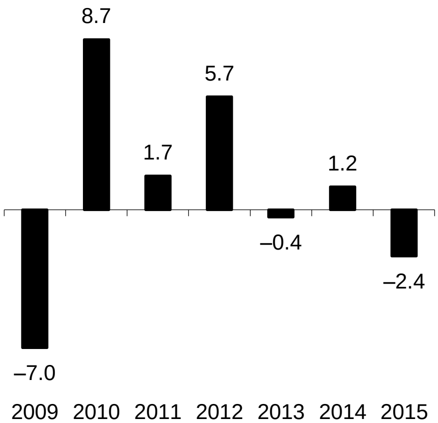
Consumer spending in Canada
(percentage change, in real terms)



Sources: Statistics Canada and Ministère des Finances du Québec.

CHART B.37

Residential investment in Canada
(percentage change, in real terms)



Sources: Statistics Canada and Ministère des Finances du Québec.

❑ A gradual upswing in non-residential business investment

After rebounding by 1.1% in real terms in 2013, non-residential business investment should decline by 1.1% in 2014.

— The weakness of business investment stems, in particular, from the presence of excess production capacity in the economy and business confidence, which remains unsteady.

This situation should change in 2015, when non-residential business investment should grow by 2.2%.

— Increased confidence in the persistence of the global economic recovery, advantageous credit conditions and an improvement in net operating surpluses should encourage Canadian firms to invest more extensively. On the other hand, the drop in oil prices, should it persist, will curb investment in the energy sector.

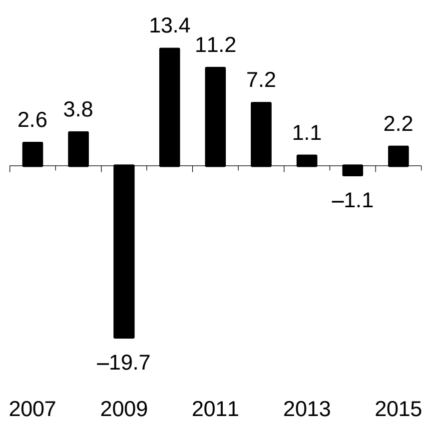
❑ Investments by governments remain high

Public investments in Canada will grow at a moderate rate but remain at high levels in the coming years, especially thanks to investments by the provincial governments.

— The value of government investment should increase by 0.2% in 2014 and by 3.2% in 2015, to reach $80.7 billion.

CHART B.38

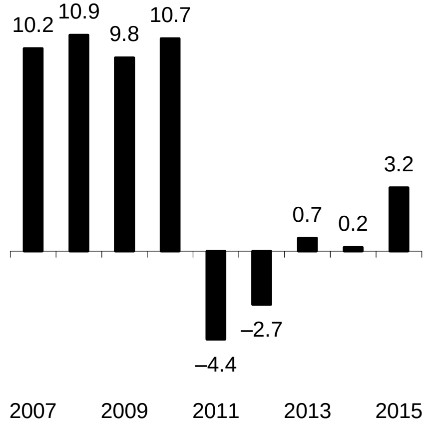
Non-residential business investment in Canada
(percentage change, in real terms)



Sources: Statistics Canada and Ministère des Finances du Québec.

CHART B.39

Government investments in Canada
(percentage change, in nominal terms)



Sources: Statistics Canada and Ministère des Finances du Québec.

❑ Exports are strengthening

Growth in Canadian exports should continue in 2014 and 2015, in particular because of a more robust economy in the United States, Canada's largest trading partner, and a weaker Canadian dollar.

— After rising 2.0% in real terms in 2013, growth in Canadian exports should stand at 5.0% in 2014 and at 4.6% in 2015.

Furthermore, the anticipated gradual recovery in final domestic demand should spur imports, which will increase by 1.5% in 2014 and by 1.9% in 2015.

Commercial activity should also pick up. Net exports will make a more significant positive contribution to economic growth in Canada in 2014 and 2015.

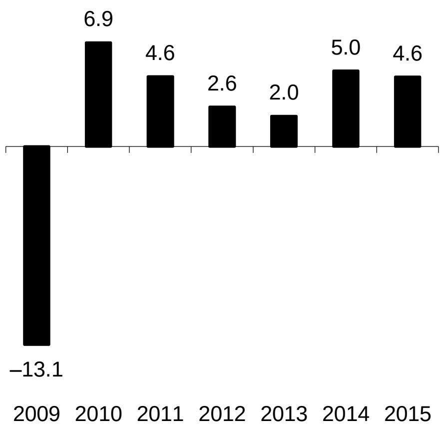
— This reversal of the situation since 2013 marks a striking improvement in relation to what has been observed since 2002.

— Between 2002 and 2012, imports grew more rapidly than exports. The external sector thus contributed negatively to economic growth in Canada.

CHART B.40

Canadian exports

(percentage change, in real terms)

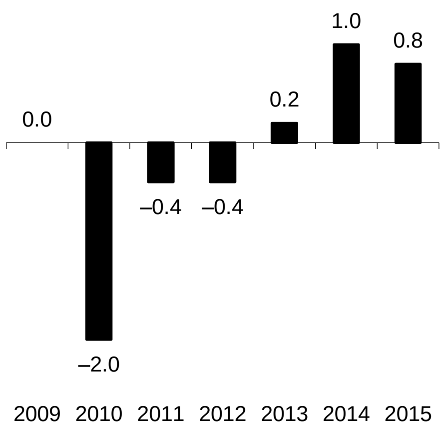


Sources: Statistics Canada and Ministère des Finances du Québec.

CHART B.41

Contribution of net exports to growth in Canada's real GDP

(in percentage points)



Sources: Statistics Canada and Ministère des Finances du Québec.

❑ Abundant supply is leading to a drop in oil prices

Persistent geopolitical tensions have not prevented oil prices from falling by roughly 20% in October compared to the peak reached last June.

— The price of Brent crude oil has declined by roughly US$24 since June, to nearly US$88 in October. The price of North American WTI crude oil fell by more than US$20 during the same period, to US$84 a barrel.

A combination of factors explains the drop. Excess supply in relation to global demand for oil, uncertainties that are putting a drag on growth in the global economy, especially in China and the euro area, and the appreciation of the U.S. dollar have contributed to the drop in oil prices.

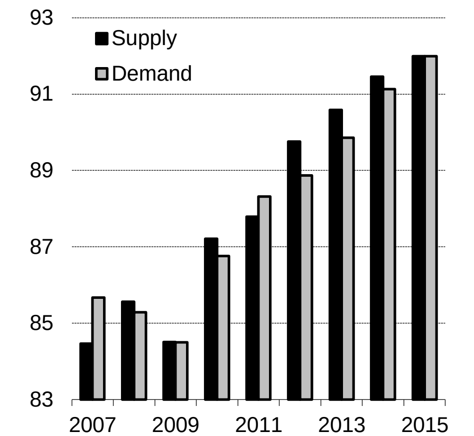
Recent changes in the international oil market might signal a new equilibrium characterized by more abundant supply stemming from strong growth in American production.

— According to the U.S. Energy Information Administration, American oil production should reach 8.5 million barrels per day (mbd) in 2014, and 9.5 mbd in 2015, its highest level since 1970.

The price of Brent crude oil should stand, on average, at US$102 in 2014 and decrease to US$90 in 2015. As for the price of WTI crude oil, it should reach, on average, US$96 in 2014 and US$86 in 2015.

CHART B.42

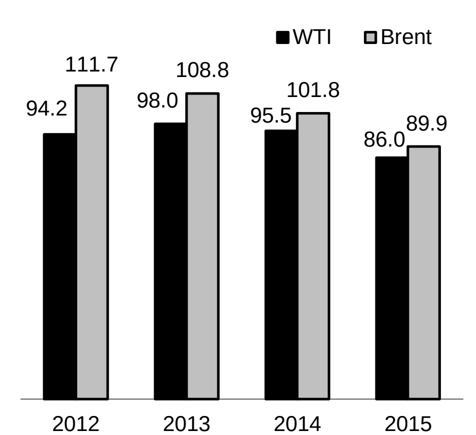
Global oil supply and demand
(millions of barrels per day)



Source: U.S. Energy Information Administration.

CHART B.43

Changes in oil prices
(U.S. dollars per barrel)



Sources: Bloomberg and Ministère des Finances du Québec.

❑ The Canadian dollar should continue to depreciate

The Canadian dollar should continue to depreciate in the coming quarters. Accordingly, it should stand at an average of 90.5 U.S. cents in 2014 and 86.2 U.S. cents in 2015.

The loonie has been sliding since early July and stood below 89 U.S. cents in late October, its lowest level in over five years. The fall in the Canadian dollar is attributable, in particular, to:

— the marked drop in the prices of commodities, including oil prices;

— the significant appreciation in the U.S. dollar against the major currencies in recent months. The value of the greenback has risen 10% against the euro since the beginning of May and 11% against the yen since mid-July.

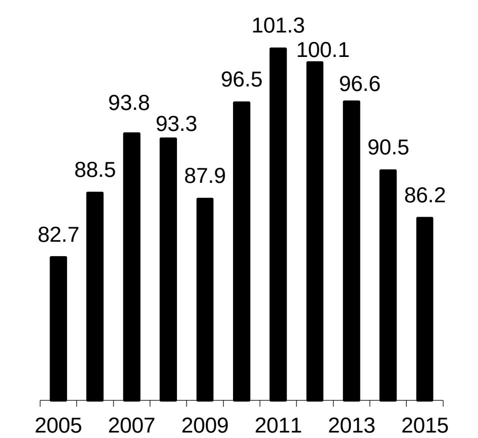
In the coming quarters, the Canadian dollar should continue to depreciate against the U.S. dollar.

— Canada's monetary tightening, which will occur later than in the U.S., should lead to smaller anticipated spreads in short-term interest rates between the two countries, which will weigh on the loonie.

— What is more, the reinforcement of the recovery in the United States at a time when the economic outlook remains rather modest elsewhere in the advanced economies should foster the continued appreciation of the U.S. dollar against major currencies.

CHART B.44

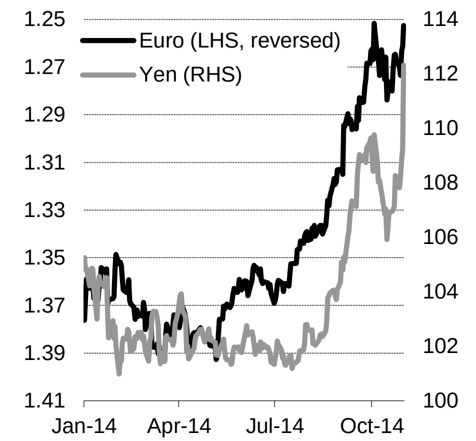
Canadian dollar exchange rate
(U.S. cents, annual average)



Sources: Bloomberg and Ministère des Finances du Québec.

CHART B.45

U.S. dollar exchange rate
(US$/euro[1] and yen/US$, daily data)



(1) The euro is shown in an inverted scale.
Source: Bloomberg.

❑ Financial conditions continue to be advantageous

Global uncertainty, the persistence of an output gap in Canada and the downward pressure that will be exerted on inflation by falling oil prices should encourage the Bank of Canada to maintain its accommodative monetary policy for an extended period.

— Consequently, the Bank of Canada should not raise its key interest rate before the end of 2015.

Furthermore, since Budget 2014-2015, bond yields have dropped in the major advanced economies, including Canada.

— Accordingly, while the yield on 10-year federal bonds stood at 2.3% in June, it fell to 2.1% in October.

Several factors explain the decline in long-term government bond yields, including:

— the accommodative tone of the major central banks, falling inflation expectations and neutral rates reassessed at lower levels;

— steady demand for safe financial assets, sustained by geopolitical tension in certain regions.

The anticipated firming up of economic growth in Canada and the eventual normalization of monetary policy should lead to a gradual increase in bond yields in the coming quarters.

— The yield on 10-year Canadian bonds should stand, on average, at 2.3% in 2014 and at 2.8% in 2015.

TABLE B.10

Canadian financial markets
(average annual percentage, unless otherwise indicated)

	2013	**2014**	**2015**
Target for the overnight rate	1.0	1.0	1.0
– *Budget 2014-2015*		*1.0*	*1.4*
3-month Treasury Bills	1.0	0.9	1.1
– *Budget 2014-2015*		*0.9*	*1.4*
10-year bonds	2.3	2.3	2.8
– *Budget 2014-2015*		*2.9*	*3.8*
Canadian dollar (in U.S. cents)	96.6	90.5	86.2
– *Budget 2014-2015*		*89.5*	*87.9*

Sources: Statistics Canada, Bloomberg and Ministère des Finances du Québec.

3.2 The economic situation in the United States

❑ The outlook for the U.S. economy is favourable

After reaching 2.2% in 2013, growth in American real GDP should remain at 2.2% in 2014 then gradually accelerate to 2.7% in 2015.

The outlook for the U.S. economy is favourable over the next two years. Growth in domestic demand will sustain economic growth, especially under the influence of:

— consumer spending, which will be spurred by, among other things, an improved labour market;

— business investment, as companies will have to increase their production capacity eventually;

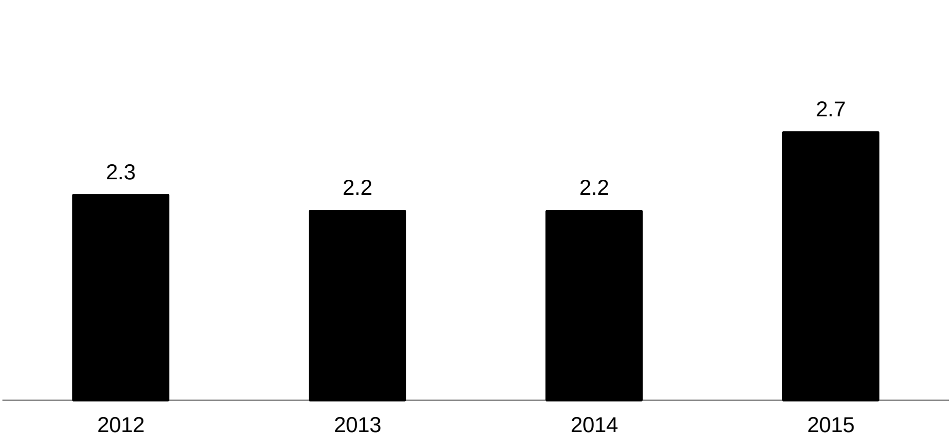
— the public sector, which will contribute positively to growth in 2015, at a time when fiscal restraint has largely been accomplished.

Economic growth in the U.S. was, however, adjusted downward by 0.3 percentage point (pp) for 2014 and 0.2 pp for 2015 compared to Budget 2014-2015 forecasts.

— The adjustments in 2014 stem from historic revisions in real GDP in the first quarter of 2014. Those in 2015 are attributable to weaker-than-anticipated economic growth among some of the United States' major trading partners, which will limit, in particular, growth in exports.

CHART B.46

Economic growth in the United States
(real GDP, percentage change)



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

Domestic demand is sustaining economic growth in the US

Real GDP growth revised in the first quarter

In early 2014, certain provisions in the reform of health insurance came into force in the United States.

When the initial estimate of real GDP growth in the first quarter of 2014 was published, the Bureau of Economic Analysis (BEA) formulated hypotheses on the impact of the reform on health expenditures. The hypotheses proved to be overly optimistic.

- In particular, the contribution of consumer spending on health services to economic growth in the first quarter fell from +1.1 percentage point (pp) to −0.2 pp between the first and last estimates.

These adjustments contributed to the downward revision of growth in real GDP in the first quarter of 2014, which fell from +0.1% in the initial estimate to −2.1% in the final estimate.

More robust domestic demand

The acceleration in U.S. economic growth in the coming years will hinge on more robust domestic demand.

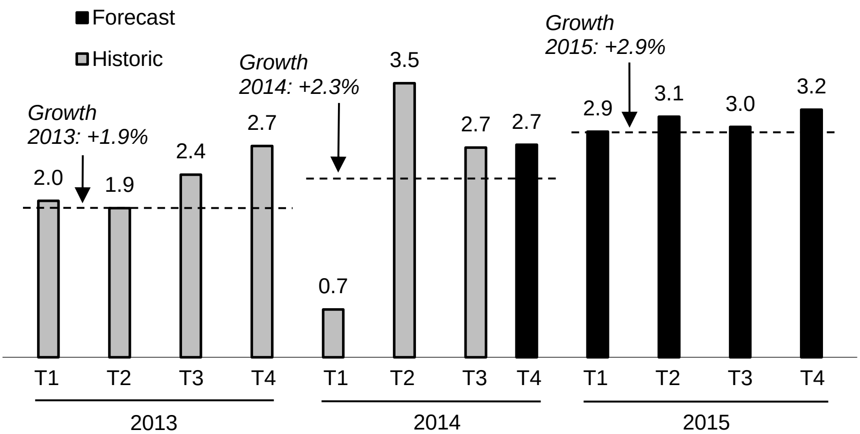
In 2013, domestic demand rose by 1.9%, limited by the implementation of fiscal consolidation measures, which affected consumption.

In 2014, despite weak first-quarter growth, under the impact of a particularly harsh winter, growth in domestic demand should accelerate to 2.3% on average for the year overall.

- Having reached an annualized rate of 0.7% in the first quarter of 2014, the rate of expansion of domestic demand rebounded by 3.5% in the second quarter. It should remain sustained in the coming quarters.

In 2015, more robust domestic demand should continue and its growth should stand, on average, at 2.9%.

Change in domestic demand in the United States
(as a percentage, quarterly data at an annualized rate)



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

❑ Sustained growth in consumption

After rising 2.4% in 2013, consumption should increase by 2.3% in 2014, and by 2.5% in 2015.

— Growth in personal disposable income as a result of an improvement in the labour market will spur consumer spending.

Continued improvement in the financial position and confidence of households should also have a positive impact on growth in consumer spending.

— The household confidence index reached 90.9 points, on average, in the third quarter of 2014, its highest level since 2007.

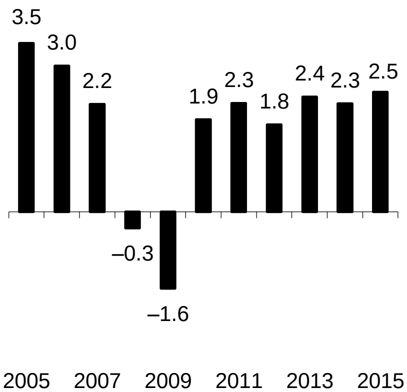
— Net household wealth continued to consolidate in 2014, at 6.3 times personal disposable income, and is approaching its 2006 peak.

Accordingly, growth in consumption should be close to 2.5% in the coming years.

— This pace of growth exceeds the average growth of 2.1% observed since the end of the recession.

CHART B.47

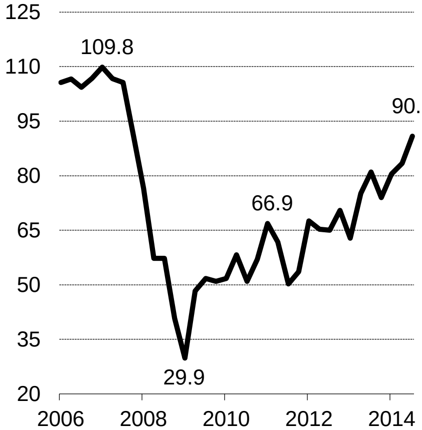
Real consumption in the United States
(percentage change, in real terms)



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

CHART B.48

Change in consumer confidence in the United States
(index, 1985 = 100, quarterly data)



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

❑ The gradual reinforcement of the labour market is continuing

Since 2011, the U.S. labour market has improved steadily, and continued to strengthen in 2014.

— After reaching an average pace of 194 000 jobs in 2013, monthly job creation stood, on average, at 229 000 from January to October 2014.

— In October, the unemployment rate fell to 5.8%, a first since 2008.

The anticipated acceleration in business investment and consumption will more extensively support hiring in the coming years.

— Employment should thus increase by 1.8% annually in 2014 and 2015. The unemployment rate will continue to fall, to an average of 6.3% in 2014 and 5.9% in 2015.

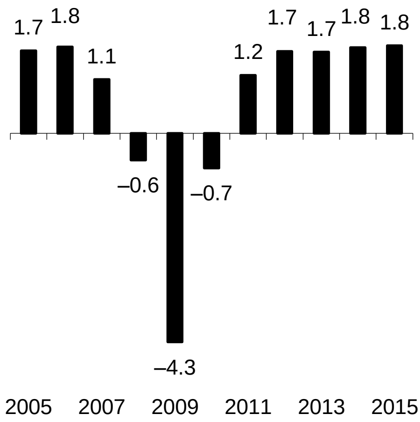
What is more, the consolidation of the labour market has led to structural improvements.

— The quality of jobs has improved. Between January and October 2014, the number of involuntary part-time workers fell by 8.3% compared to the same period the preceding year.

— The employment rate, i.e. the share of the working-age population that is employed, also started to grow. It has stood at 58.9% since the beginning of 2014 but still remains weak compared to its historic levels.

CHART B.49

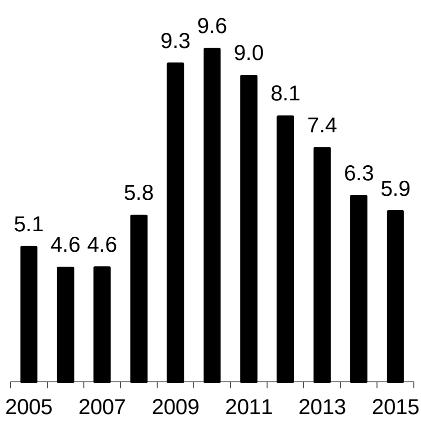
Change in employment in the United States
(annual percentage change)



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

CHART B.50

Unemployment rate in the United States
(as a percentage, annual data)



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

More encouraging prospects for the American middle class, hard hit by the recession

The financial situation of the middle class[1] is an important determinant of change in domestic demand in the United States. This socioeconomic category, which has been hard hit since the recession, recently began to benefit from the reinforcement of the labour market.

Between 2010 and 2013, the middle class did not benefit from the boom in employment

Following a contraction for all socioeconomic classes between 2007 and 2010, the real incomes of the middle class and other socioeconomic classes changed differently between 2010 and 2013.

- Indeed, the income of the middle quintiles declined by 3.2% during this period while the income of the other socioeconomic classes grew by 0.6%.

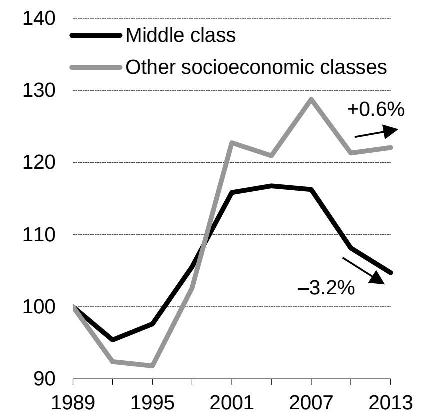
Accelerated job creation for the middle class in 2014

Since the beginning of 2014, growth in employment for jobs that the middle class has historically filled has accelerated.

- Indeed, growth in employment in the middle class rose by 2.1% in the first three quarters of 2014 after increasing, on average, by 0.5% annually between 2010 and 2013.

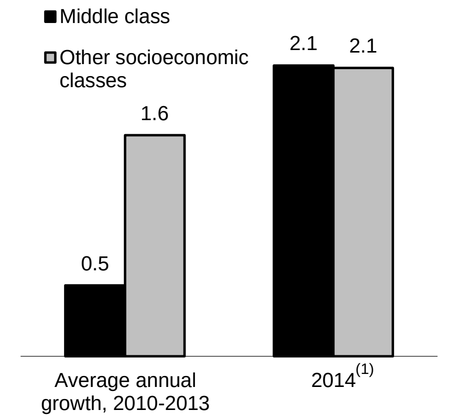
The constant reinforcement of the labour market in the United States appears to have led, recently, to the creation of more jobs for the middle class. The improvement in the financial situation of this category of households should thus more broadly support growth in consumption, business investment, and the residential sector in the coming quarters.

Change in income by socioeconomic category
(average real income, index, 1989 = 100)



Sources: Federal Reserve and Ministère des Finances du Québec.

Growth in employment by socioeconomic class
(as a percentage)



(1) First three quarters of 2014.
Sources: Bureau of Labor Statistics and Ministère des Finances du Québec.

1 There is no unanimously accepted definition of the middle class. For the purposes of employment in the United States, jobs in the maintenance, installation, construction, sales, administration, production of goods and transportation sectors were used. As for incomes, households with incomes that fall into the middle quintiles, i.e. the 2nd, 3rd and 4th quintiles, were selected, representing 60% of households.

❑ Conditions favourable to business investment

After reaching 3.0% in 2013, growth in real business investment should rise to 5.6% in 2014 and 6.0% in 2015.

Several factors will indeed support growth in investment.

— The relatively high production capacity utilization rate of businesses, which has stood, on average, at nearly 79% since the beginning of the year, should encourage firms to increase their production capacity.

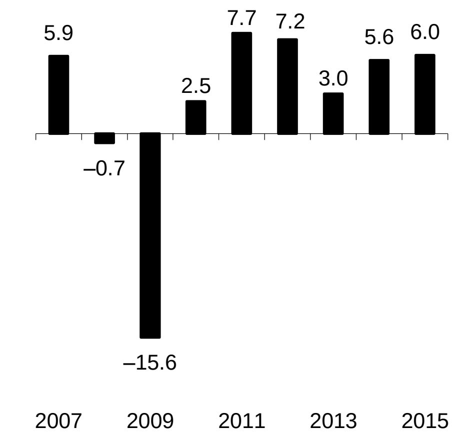
— The rising average age of equipment and facilities in recent years will compel companies to replace their outdated means of production.

— The gradual reinforcement of consumption in the United States will further sustain demand.

Lastly, the profit margins of businesses, which are still high in the wake of restructuring spurred by the recession and still advantageous production and financing costs, will also foster growth in investments.

CHART B.51

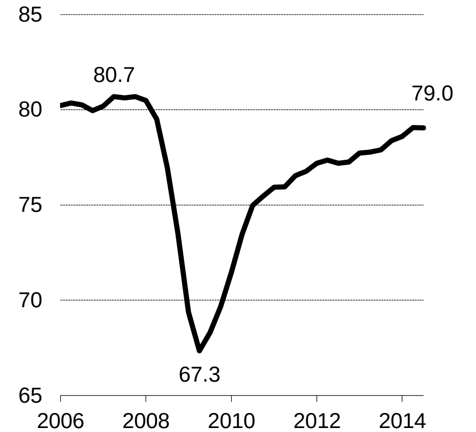
Business investment in the United States
(percentage change, in real terms)



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

CHART B.52

Production capacity utilization in the United States
(as a percentage, quarterly data)



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

❑ The recovery in the residential sector continues

After growing by 11.9% in 2013, residential investment should grow by 3.7% in 2014 and accelerate to 12.8% in 2015.

— In 2014, growth in real residential investment was tempered by the negative impact of harsh climatic conditions early in the year and by a slowdown in the pace of household formation.

— Moreover, higher residential property prices and the tightening of credit conditions also curtailed growth in the U.S. real estate sector and encouraged a number of new households to turn to the rental market.

Despite these factors, some of which are temporary, housing starts should pursue their acceleration and stand at 1.0 million units in 2014 and 1.3 million units in 2015. Such growth will be fostered by:

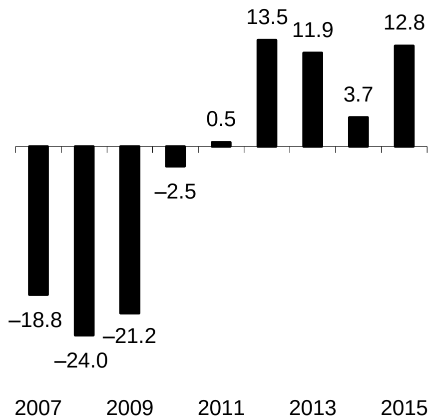
— ongoing improvement in the labour market for young households at a time when first buyers account for roughly 16% of new home purchases;

— demographic factors, at a time when the population between 25 and 34 years of age should increase on average by 1.3% in 2014 and 2015, a pace that exceeds the average of 0.9% observed since the early 2000s.

Anticipated housing starts in the coming years will, however, fall well below the peak of 2.1 million units observed in 2005.

CHART B.53

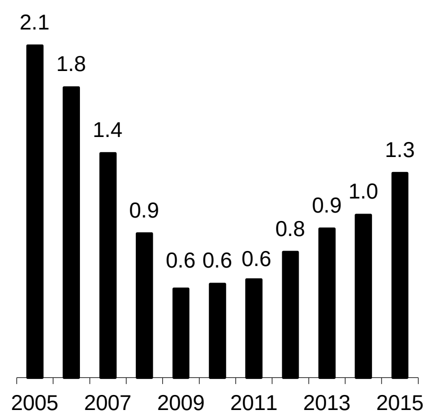
Residential investment in the United States
(percentage change, in real terms)



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

CHART B.54

Housing starts in the United States
(in millions of units)



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

A changing real estate market in the United States

Robust growth in the multi-family dwelling sector

Since the end of the recession, the rebound in the residential construction sector has been concentrated mainly in the multi-family dwelling sector, i.e. condos, duplexes and multiplexes.

- Indeed, housing starts for multi-family properties are approaching their previous peak reached in 2005. On the other hand, housing starts of single-family properties are below their previous peak.

This situation reflects the changes that have affected the U.S. real estate market, which have led to strong demand for rental housing and a drop in the home ownership rate closer to the levels observed in the late 1990s.

Construction of single-family homes should revive

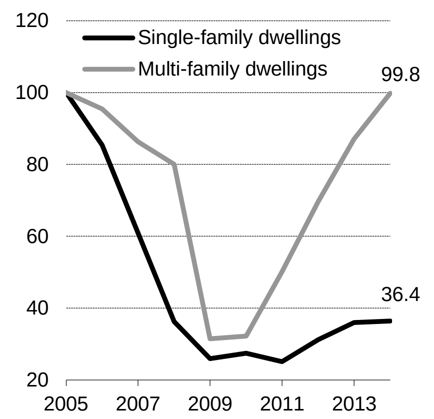
Young households, which experienced a drop in income during and after the 2008-2009 recession, turned more extensively to rental housing, to the detriment of single-family properties.

- This change of behaviour is affecting growth in residential investments, as the construction costs of a single-family unit are more than double the construction costs of a multi-family dwelling.

Improved labour market conditions should bolster demand for single-family residences. However, the preference of young people for multi-family housing units represents a trend that may persist.

Housing starts(1)

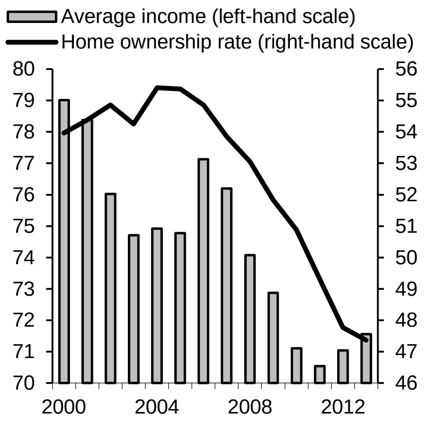
(index, 2005 = 100)



(1) The year 2014 corresponds to the average from January to September.
Sources: IHS Global Insight and Ministère des Finances du Québec.

Average income and home ownership rate of young households(1)

(in thousands of dollars and as a percentage)



(1) Households headed by a person aged 44 or under and average income in 2013 dollars.
Sources: US Census Bureau and Ministère des Finances du Québec.

❑ The government sector is no longer curbing growth

After falling, on average, by 2.2% per year between 2011 and 2013, spending by all governments in the U.S. should decrease by 0.4% in real terms in 2014. Such spending should grow by 0.4% in 2015.

Accordingly, the government sector should contribute positively to economic growth starting in 2015, mainly under the impact of:

— a gradual increase in state and local governments' tax revenues, which will enable them to increase expenditures, in particular spending on education;

— military spending stemming in particular from U.S. military intervention in Iraq and Syria.

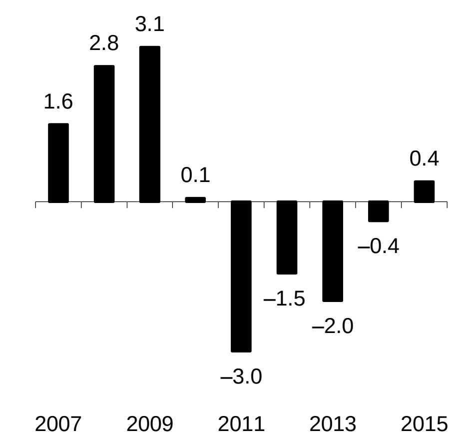
The U.S. federal government should, however, pursue its fiscal consolidation efforts during the next two years but at a slower pace than in previous years.

— Overall, the U.S. federal government's expenditures should decline in real terms by 2.4% in 2014 and by 0.4% in 2015.

— According to the Congressional Budget Office, a federal agency that provides non-partisan analysis to Congress, the U.S. federal government's deficit should fall from 4.1% of GDP in 2013, to 2.8% in 2014 and to 2.6% in 2015.

CHART B.55

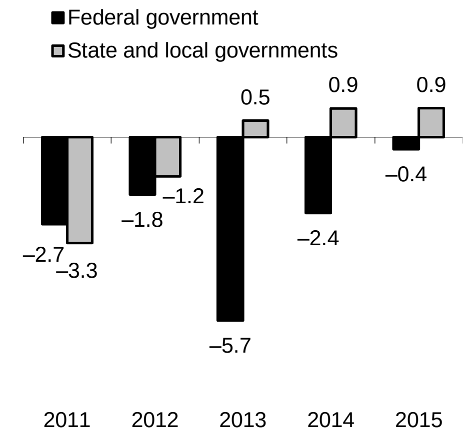
Government expenditures in the United States
(percentage change, in real terms)



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

CHART B.56

United States federal, state and local governments' expenditures
(percentage change, in real terms)



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

❑ The uncertain international context is slowing exports

After reaching 3.0% in 2013, the pace of growth in exports should stand at 2.9% in 2014 and 3.1% in 2015. Growth in U.S. exports will continue at a moderate pace, in particular because of:

— weaker economic growth among several key U.S. trading partners, especially in China and in the euro area, which will adversely affect demand for American products;

— ongoing geopolitical tension, notably in Ukraine and the Middle East, which will have a negative impact on world trade.

At the same time, following a 1.1% increase in 2013, imports should grow by 3.3% in 2014 and by 4.6% in 2015. They will be sustained mainly by:

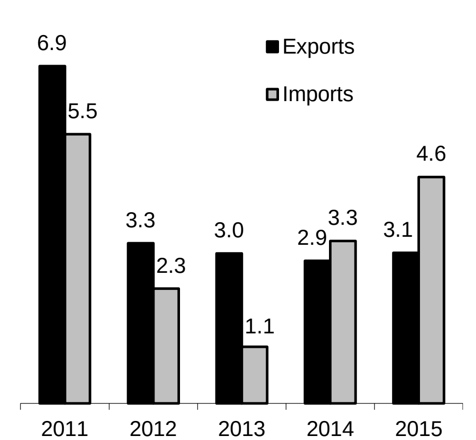
— more robust domestic demand in the U.S. stemming from an acceleration of growth in consumption and investments;

— the appreciation of the U.S. dollar, which will reduce the cost of imported products.

Furthermore, the U.S. trade deficit will be partially eased by rapid development in the energy sector, which will reduce reliance on foreign oil, and by enhanced competitiveness in the U.S. manufacturing sector.

CHART B.57

Change in exports and imports in the United States
(percentage change, in real terms)

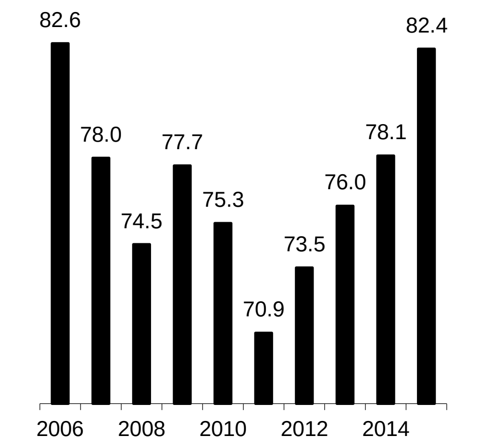


Sources: IHS Global Insight and Ministère des Finances du Québec.

CHART B.58

U.S. dollar exchange rate(1)

(index, March 1973 = 100)



(1) U.S. dollar exchange rate weighted by trade with the United States' top seven trading partners, annual averages.
Sources: Bloomberg and Ministère des Finances du Québec.

❑ The U.S. Federal Reserve ends its asset-purchase program

In late October 2014, the U.S. Federal Reserve (Fed) announced that the reduction in the pace of its asset purchases begun in early 2014 had ended.

— Despite the end of this program, the size of the Fed's balance sheet should remain constant at least until the first increase in the key interest rate.

— The Fed will thus continue to exert its influence on markets by pursuing the reinvestment of funds from matured securities in new securities of the same nature.

In the context of anticipated ongoing improvement in the labour market and the gradual rise in inflation, the Fed should begin to tighten its monetary policy at a restrained pace starting in the third quarter of 2015.

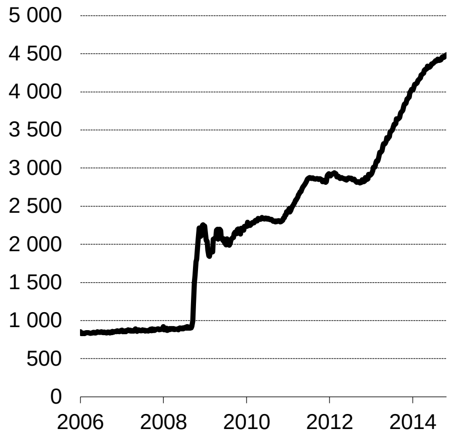
— Markets are attentively awaiting the first increase in the key interest rate. The Fed must ensure that it properly communicates its intentions in order to prevent volatility in financial markets.

Accordingly, when it establishes its monetary policy, the Fed will carefully assess the economy's progress toward its objectives of full employment and 2% inflation, in light of several economic indicators.

CHART B.59

Size of the U.S. Federal Reserve's balance sheet

(in billions of U.S. dollars)

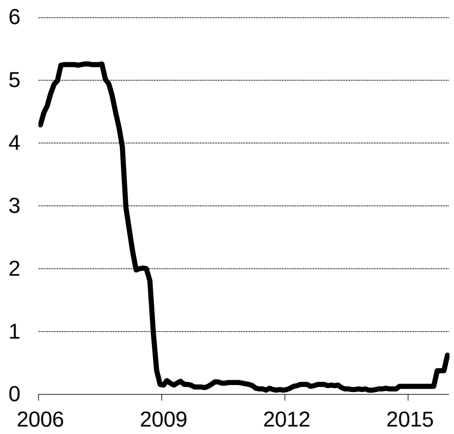


Source: U.S. Federal Reserve.

CHART B.60

Key interest rate in the United States

(target rate on federal funds, as a percentage)



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

4. THE GLOBAL ECONOMIC CONTEXT

After reaching 3.3% in 2013, growth in the global economy should moderate to 3.0% in 2014, then rise to 3.4% in 2015.

— The slowdown in 2014 is attributable, in particular, to the deceleration in growth in the emerging economies. The pace of growth of the advanced economies has increased in relation to 2013, but unevenly among countries.

Growth in the advanced economies should intensify in 2015, but economic performance among countries will continue to be uneven.

— The **United States** is resuming its role as a main driving force of global economic growth. Following a 2.2% rise in real GDP in 2014, economic growth should accelerate in 2015, sustained by more robust domestic demand.

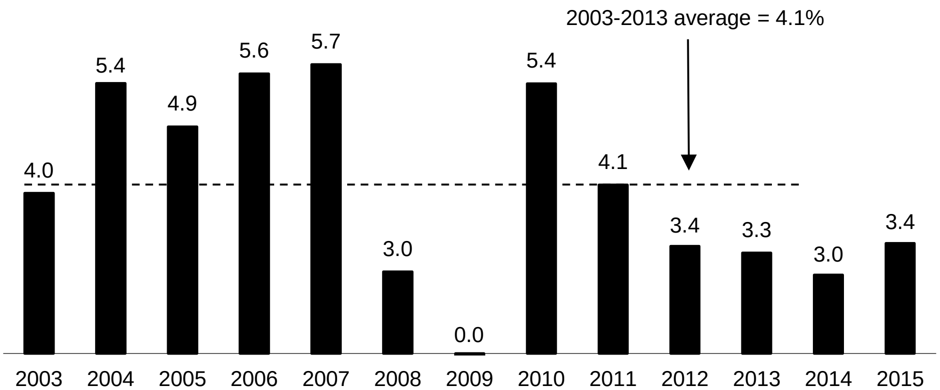
— The **euro area** will see sluggish growth in economic activity in 2014 and 2015, following the decline posted in 2013.

— In **Japan**, the increase in the consumption tax in April led to an economic recession in 2014. Growth in real GDP should remain modest in 2015.

Moreover, global growth in 2015 will continue to be sustained by the emerging economies, which will experience higher rates of growth than those in the advanced economies, despite an anticipated slowdown in China.

CHART B.61

Global economic growth
(real GDP in purchasing-power parity, percentage change)



Note: The growth rates of the global economy presented in Budget 2014-2015 have had to be recalculated following the International Monetary Fund's update of its purchasing-power parity weights. For more details, see the box on page B.70.
Sources: IHS Global Insight, International Monetary Fund and Ministère des Finances du Québec.

❑ World trade is growing slowly

According to the World Trade Organization (WTO), growth in global trade in goods should stand at 3.1% in 2014 and at 4.0% in 2015.

This gradual expansion of world trade will be driven mainly by more robust demand from advanced economies as a result of the gradual acceleration of their economic growth.

The WTO world trade growth forecast has, however, been lowered by 1.6 percentage point in 2014 and by 1.3 percentage point in 2015 compared to the April 2014 forecast.

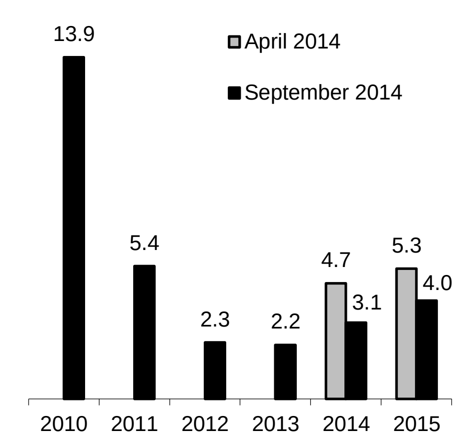
— The global trade outlook has indeed darkened because of the slowdown in the emerging economies, especially China, and difficulties in the euro area.

— Moreover, the presence of significant worldwide geopolitical tensions and concerns linked to the spread of the Ebola virus will keep growth in world trade below the expected level.

CHART B.62

Global trade in goods

(percentage change, in real terms)

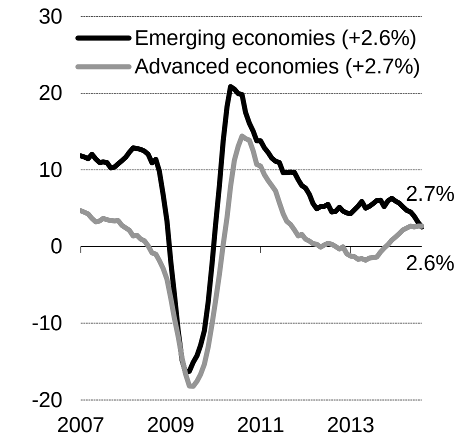


Source: World Trade Organization.

CHART B.63

Goods imports from the advanced and emerging economies

(monthly data, in real terms)



Note: Average of year-over-year changes in the previous six months.
Sources: CPB Netherlands Bureau for Economic Policy Analysis and Ministère des Finances du Québec.

Renewed uncertainty since June

Since the publication of the June 2014 budget, there has been growing uncertainty in several regions of the world that is hampering global economic growth. Such uncertainty should continue to limit global growth in 2015.

Numerous sources of uncertainty

There are several sources of uncertainty, especially the conflict in Ukraine, which has led to economic sanctions and reprisals between the countries concerned, the worsening conflict in the Middle East, especially in Syria and Iraq, the spread of the Ebola virus in West Africa, and the slowdown in the Chinese real estate sector.

Growth prospects in Europe and Asia are affected

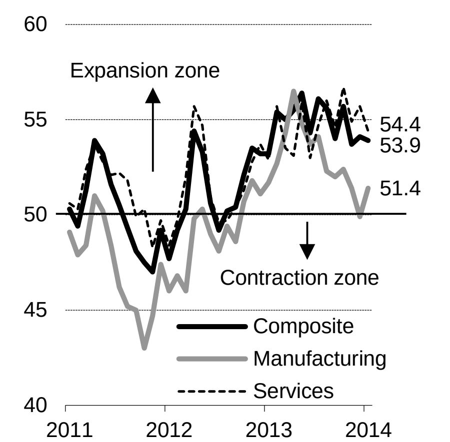
This uncertainty has weighed on the confidence of entrepreneurs and consumers, in particular in Germany and Russia.

- Surveys published in October revealed an erosion of German entrepreneurs' confidence in the country's current and future economic conditions. They mentioned geopolitical tensions as the main cause of their pessimism, because of the significant economic links of Germany with Russia and with several Eastern Europe countries.

Furthermore, the slowdown in the real estate sector is putting a damper on economic growth in China, despite the introduction by government authorities of measures to support growth.

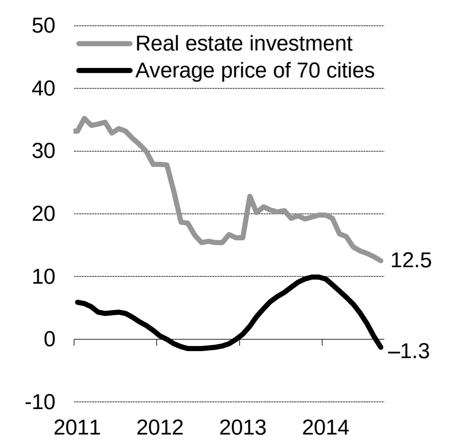
- Because of their economic ties with China, several other Asian and emerging economies are being affected.

German Purchasing Managers' Index(1)
(diffusion index)



(1) Markit Purchasing Managers Index (PMI).
Source: Bloomberg.

Real estate prices and investment(1) in China
(annual percentage change)



(1) Cumulative annual change since the beginning of the year.
Sources: Bloomberg and Datastream.

4.1 Growth in advanced economies is being supported mainly by the United States

Advanced economies should grow by 1.7% in 2014 and by 2.1% in 2015, following growth of 1.4% in 2013. Domestic demand should gradually strengthen because of the reduction in the impact of budgetary adjustment measures and the positive impact of lower oil prices.

— The monetary policies of the central banks, including the European Central Bank, the Bank of Japan and the U.S. Federal Reserve (Fed), will remain accommodative, despite the end of the Fed's asset-purchase program.

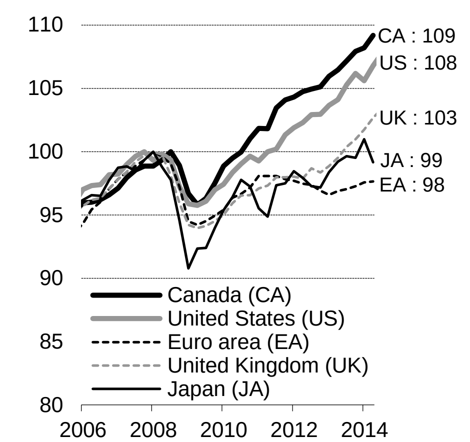
However, the performance of advanced economies will remain uneven while weakness of the major economies in the euro area will counterbalance the impetus given by the U.S. economy.

— In the **United States**, growth should intensify as domestic demand hinges on favourable economic fundamentals. The improvement in the labour market will benefit household consumption and the residential sector, which in turn will stimulate investments.

— In the **euro area**, economic prospects in Germany, the main economy in the region, have temporarily darkened. The gradual recovery will continue in the euro area, but the persistence of low inflation and high unemployment will continue to weigh on consumption and investments.

CHART B.64

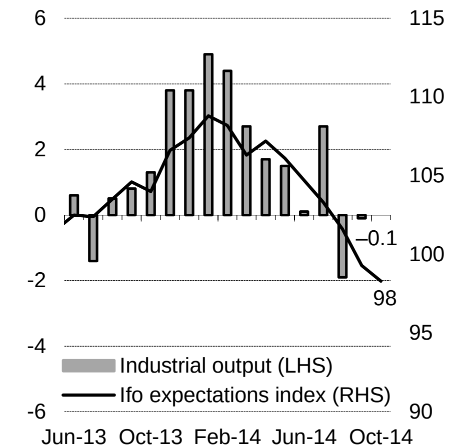
Real GDP of the advanced economies
(index, quarterly data, maximum pre-crisis level = 100)



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

CHART B.65

Industrial production and Ifo[(1)] Business Climate Index in Germany
(annual percentage change, unless otherwise indicated)



(1) Ifo Index, base 100 = 2005.
Source: Bloomberg.

Population aging is a worldwide challenge

Population aging is a phenomenon that is not unique to North America. Indeed, the aging of the population will, from now on, adversely affect the growth of several economies in the world, which has been sustained in recent decades by favourable demographic trends.

- This factor will simultaneously affect, at different paces, the emerging and the advanced economies.

According to Moody's credit rating agency as well as the Conference Board, it seems that population aging has begun to make itself felt on global economic growth.

- The Conference Board estimated that aggregate growth in a sample of 55 advanced and emerging economies will be reduced by 0.4 percentage point (pp) a year between 2014 and 2019 and by 0.9 pp between 2020 and 2025 in relation to the average annual growth of 2.9% observed from 1990 to 2005 in this group of countries.

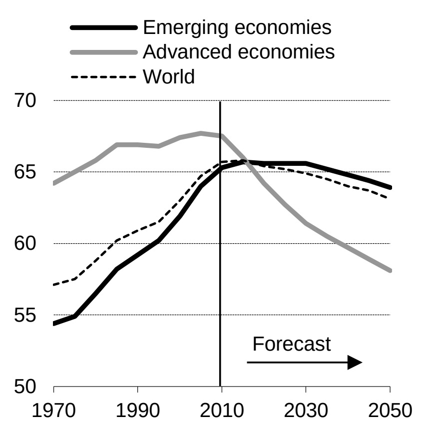
A reduction in the share of the working-age population

Population aging is leading to a decline in the share of working-age persons (15 to 64 years old) in the total population. According to Moody's, from 2015 to 2030, the global working-age population should grow by 13.6%, a pace nearly half the one observed from 2000 to 2015, which was 24.8%.

According to the United Nations' five-year forecast, at the international level, the share of working-age persons in the total population will peak at 65.8% in 2015 and then gradually shrink.

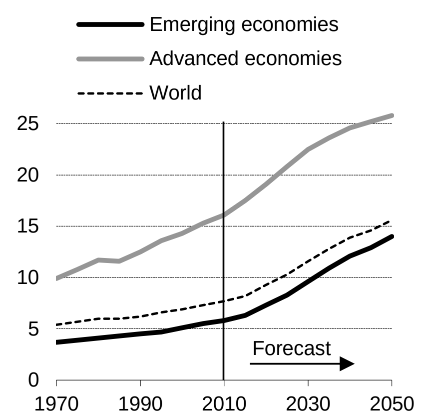
- In the advanced economies, the decline in the share of this segment of the population began in 2005 and will intensify starting in 2015. In the emerging economies, this share should also decrease starting in 2015 but the decline will be more gradual compared with that observed in the advanced economies.

Population 15 to 64 years of age
(as a percentage of the total population)



Note: Five-year data.
Sources: United Nations and Ministère des Finances du Québec.

Population 65 years of age or over
(as a percentage of the total population)



Note: Five-year data.
Sources: United Nations and Ministère des Finances du Québec.

Population aging is a worldwide challenge (continued)

An increase in the portion of individuals 65 years of age or over

Another facet of the aging of the global population is the sustained growth in the portion of individuals 65 years of age or over in the total population.

- This portion rose from 5.4% in 1970 to 7.7% in 2010 and should more than double by 2050, when it will stand at 15.6%.
- In 2050, individuals 65 years of age or over will account for 25.8% of the population in the advanced economies and 14.0% of the population in the emerging economies.

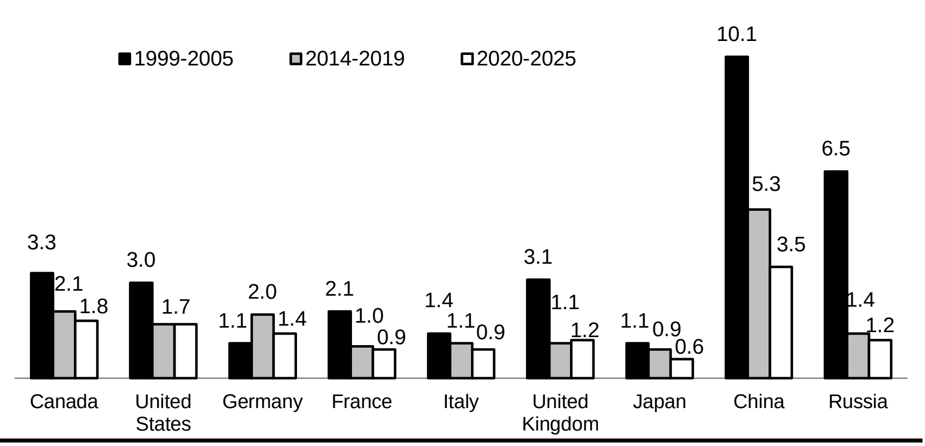
The aging of the population is affecting economic growth

The aging of the population affects economic growth through:

- shrinking of the working-age population growth, which contributes the most to wealth creation;
- the labour market, which leads to a shortage of workers in certain sectors and an increase in voluntary part-time employment;
- saving and consumption habits, which tends to shift demand more extensively toward the service sector, in particular health services;
- public finances, as aging limits growth in government revenues and increases government expenditures, especially because of pressure on public spending on healthcare and retirement plans.

The impact of these factors differs from one country to the next, in particular because of the characteristics of each country and the rapidity of the aging process. Nevertheless, according to the Conference Board, several major economies in the world will experience slower trend growth in the coming decades.

Conference Board projection of trend growth in real GDP(1)
(average annual growth, as a percentage)



(1) Average annual growth according to data published by the Conference Board (November 2013).
Source: Conference Board.

4.2 Moderate growth in the emerging economies

After standing at 4.7% in 2013, growth in the emerging economies slowed to 4.1% in 2014, thus pursuing a trend that began in 2010.

— The slowdown in 2014 was significant in several emerging economies, including China, Russia and Brazil, with Brazil having seen a recession in the first half of the year.

In 2015, growth in the emerging economies should gradually strengthen and stand at 4.4%. Their exports will benefit from stronger growth in the advanced economies and their domestic demand should benefit from government measures to support growth.

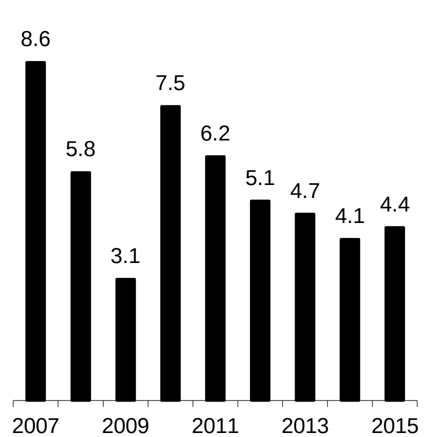
— To support the real estate sector, Chinese authorities have recently eased the restrictions imposed on the sector, which have been in force since 2010, and have injected liquidity into the banking sector.

— In India, the government has also introduced reforms aimed at reviving investments and supporting growth.

Geopolitical tensions and the drop in commodity prices are, however, a source of economic difficulties for a number of emerging economies. What is more, growth in the emerging economies could be limited by the impact of the normalization of U.S. monetary policy, which could lead to capital withdrawals in certain countries.

CHART B.66

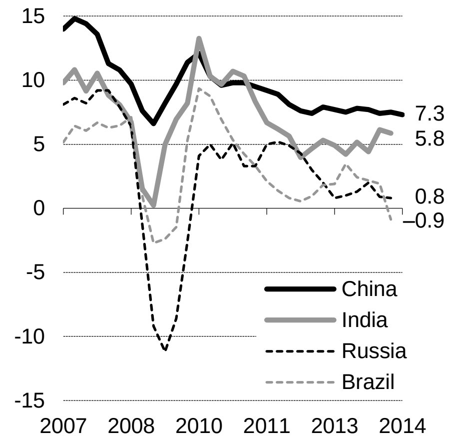
Growth in emerging economies
(real GDP, in purchasing power parity, annual percentage change)



Sources: IHS Global Insight, International Monetary Fund and Ministère des Finances du Québec.

CHART B.67

Growth in emerging economies
(real quarterly GDP, annual percentage change)



Sources: Bloomberg and Datastream.

❑ Outlook by country

In **Canada**, economic growth should increase from 2.0% in 2013 to 2.2% in 2014 and 2.5% in 2015. Household spending and the acceleration of the U.S. economy, which will stimulate Canadian exports, will sustain economic growth. The fall in oil prices nevertheless poses a risk for the Canadian energy sector.

In the **United States**, the outlook for economic growth is favourable. It should stand at 2.2% in 2014, then accelerate to 2.7% in 2015. Domestic demand, sustained by consumer spending and business investment, will foster the expansion of the U.S. economy.

TABLE B.11

Economic growth outlook in the world(1)
(real GDP, percentage change)

	Weight(2)	2013	2014	2015
World(2),(3)	**100.0**	**3.3**	**3.0**	**3.4**
– *Budget 2014-2015*		*3.1*	*3.4*	*3.8*
Advanced economies(2),(3)	**43.9**	**1.4**	**1.7**	**2.1**
– *Budget 2014-2015*		*1.3*	*2.0*	*2.4*
Canada	1.5	2.0	2.2	2.5
– *Budget 2014-2015*		*2.0*	*2.2*	*2.5*
United States	16.6	2.2	2.2	2.7
– *Budget 2014-2015*		*1.9*	*2.5*	*2.9*
Euro area(2)	12.7	−0.5	0.7	0.9
– *Budget 2014-2015*		*−0.4*	*0.9*	*1.4*
United Kingdom	2.3	1.7	2.8	2.4
– *Budget 2014-2015*		*1.7*	*2.6*	*2.5*
Japan	4.7	1.5	0.6	0.9
– *Budget 2014-2015*		*1.6*	*1.3*	*1.1*
Emerging economies(2),(3)	**50.4**	**4.7**	**4.1**	**4.4**
– *Budget 2014-2015*		*4.5*	*4.5*	*4.9*
China	15.2	7.7	7.3	7.0
– *Budget 2014-2015*		*7.7*	*7.3*	*7.2*
India	6.5	5.0	5.2	5.9
– *Budget 2014-2015*		*4.5*	*5.3*	*6.0*

(1) The growth rates of the world economy presented in the June budget have had to be recalculated following the International Monetary Fund's update of its purchasing power parity weights. For more details, see the box on page B.70.
(2) Growth is expressed in purchasing power parity. Weights are those in 2012.
(3) The total weight of advanced and emerging economies does not equal 100 because statistics for developing economies are not included in this table.
Sources: IHS Global Insight, International Monetary Fund, Datastream, Statistics Canada and Ministère des Finances du Québec.

In the **euro area,** after two years of decline, economic activity should remain modest, growing by 0.7% in 2014 and by 0.9% in 2015. This change is attributable to the aftermath of the financial and sovereign debt crises, which led to a high level of unemployment and indebtedness. However, the initiatives of the European Central Bank should enable the euro area to avoid deflation, in particular due to a weaker euro.

In the **United Kingdom**, economic growth should intensify from 1.7% in 2013 to 2.8% in 2014 and to 2.4% in 2015. The country should thus record the highest growth in real GDP among the G7 countries in 2014. Robust household consumption and private investments are underpinning growth. On the other hand, exports remain limited by weak growth in the euro area, the United Kingdom's main economic partner.

In **Japan,** there was strong growth in the first quarter, followed by a technical recession in 2014, primarily as a result of the increase in the sales tax, which was raised from 5% to 8% in April and considerably curbed household consumption. A gradual recovery is expected in the coming quarters, when lower energy prices should help boost the purchasing power of consumers. After rising by 1.5% in 2013, real GDP will grow by 0.6% in 2014 and by 0.9% in 2015.

In **China**, the economy is pursuing its gradual moderation. After reaching 7.7% in 2013, economic growth is expected to slow to 7.3% in 2014 and to 7.0% in 2015. The stimulus measures that government authorities adopted in 2014, which include increased infrastructure spending and the easing of the restrictions imposed on the real estate market, should help support domestic demand, which will, however, be weakened by a downturn in the real estate sector.

In **India**, real GDP growth should accelerate, from 5.0% in 2013 to 5.2% in 2014 and to 5.9% in 2015. It will benefit from a rally in business investment, which should in turn benefit from the reforms that the new government has adopted to alleviate administrative constraints. Moreover, sound economic performance in the United States and the United Kingdom, which are important trading partners for India, should promote growth in exports.

Revision of the weights of the world economies according to purchasing power parity

The calculation of global economic growth requires the attribution of weighting factors to growth in different countries.

- The weighting factors are elaborated based on the results of the International Comparison Program (ICP), a sweeping statistical operation headed by the United Nations that seeks to compare the purchasing power in the local currency of different countries.

In June 2014, the results of the ICP for 2011 were published and benefited from significant methodological enhancements. Previously, the economic weights of countries were extrapolated using the findings from the ICP for 2005.

- Following the update, the importance accorded to emerging economies and the developing economies increased significantly, rising from 50.2% to 56.1%, to the detriment of the advanced economies, whose weight declined from 49.8% to 43.9%.
- Since growth in the emerging economies and the developing economies exceeded that in the advanced economies, the adjustment led to an upward adjustment of roughly 0.1 percentage point in global growth in 2013.

Weight of the major advanced, emerging and developing economies in the global economy
(as a percentage, according to purchasing-power parity in 2012)

	Budget 2014-2015(1)	2014 Update(1)
Advanced economies	**49.8**	**43.9**
United States	19.5	16.6
Japan	5.5	4.7
Euro area	13.4	12.7
– Germany	3.8	3.5
– France	2.7	2.6
United Kingdom	2.8	2.3
Canada	1.8	1.5
Other	6.9	6.1
Emerging economies	**45.2**	**50.4**
China	14.7	15.2
India	5.7	6.5
Russia	3.0	3.5
Brazil	2.8	3.0
Mexico	2.2	2.1
Other	16.9	20.2
Developing economies	**5.0**	**5.7**
TOTAL	**100.0**	**100.0**

(1) Since figures are rounded off, they may not add up to the total shown.
Sources: International Monetary Fund and Ministère des Finances du Québec.

5. MAIN RISKS THAT MAY INFLUENCE THE FORECAST SCENARIO

The economic and financial forecasts in this economic update hinge on several hypotheses. Risks are associated with some of them that might influence forecast changes in the Québec economy, which is open to the world.

— A number of the risks are external. Geopolitical tensions in different regions of the world or changes in the economies of our main trading partners that are different from what was anticipated are two of the most common examples.

— Other risks are internal. They could lead to changes in certain economic variables in Québec that are different from what was anticipated.

❑ A lag in the revival of investment and employment in Québec

The economic scenario predicts accelerated growth in Québec in 2014 and 2015. Such growth should be sustained, in particular, by the vigour noted in exports, which should lead to a rally in business investment and employment.

— However, the upswing anticipated in business investment and employment may occur later than predicted.

Should it arise, this situation might lead to a slower acceleration in economic activity in Québec.

On the other hand, the recent drop in oil prices, above all if it persists, represents a positive risk. It could benefit Québec, which imports crude oil.

— The drop in gasoline prices at the pump would lead to an increase in households' purchasing power, which would in turn improve their financial situation.

❑ Global uncertainty persists

■ Geopolitical tensions and conflicts

The global context is characterized by uncertainty that is curtailing growth prospects in several regions of the world. The sources of uncertainty include:

— the conflict in Ukraine, which has led to economic sanctions and reprisal measures between the countries concerned, thereby lessening growth prospects in Russia and in several European countries;

— the situation in the Middle East, which is hampering economic activity in several countries in this region and generating instability worldwide;

— the spread of the Ebola virus in West Africa, which is having adverse effects on economic activity in the countries concerned, generating fear the world over.

The economic and financial scenario hinges on the premise that such uncertainty will gradually dissipate in the coming quarters, thereby allowing global economic growth to recover in 2015.

On the other hand, should such uncertainty prove to be more persistent than anticipated or were geopolitical tensions to worsen further, the world economy might be significantly affected.

■ Ongoing difficulties in the euro area

Since the summer of 2012, successive initiatives by government authorities in the euro area and the European Central Bank have, in particular, succeeded in stabilizing the euro area banking system and reducing the spreads between yields on sovereign bonds of the member countries.

However, the euro area remains fragile. Unemployment rates in several countries remain at near-record levels, inflation is very low and economic growth in the overall area remains atone.

— Moreover, the recent conflict in Ukraine has dampened growth prospects in Germany, the key economic driving force in the monetary union.

Should the euro area's economic difficulties worsen, there is a risk of deflation and a return of financial turbulence that could affect certain member countries, thereby posing a negative risk to global growth.

■ Greater slowdown of the Chinese economy

China is pursuing a transition that is enabling it to better balance its sources of growth. It is shifting from a model sustained by growth in exports and investments to a model that focuses more extensively on household consumption.

This gradual transition in the Chinese economy, which will be beneficial in the long term, nevertheless poses the threat of an economic slowdown that is more severe than anticipated. In this context, the presence of imbalances is an additional challenge.

— In particular, the heavy indebtedness of the public and private sectors, persistent excess production capacity in certain sectors and imbalances in the residential sector could lead to a bigger-than-anticipated slowdown in economic growth in China.

Such a development in the Chinese economy would adversely affect the world economy.

— China is a key hub in global economic growth, especially because of its demand for commodities, its central position in production chains, and its role in direct foreign investment flows.

❑ Stronger-than-anticipated growth in the U.S. economy

Economic growth in the U.S. has continued at a moderate pace for several years. Growth in domestic demand is still hampered by the presence of structural factors that are moderating consumption and investments.

Despite these factors, the U.S. economy is benefiting from solid economic fundamentals and its performance could prove to be surprising in the coming years. Certain components could develop more favourably than anticipated, in particular:

— consumption, favoured by an improved labour market and renewed confidence;

— investments and employment, spurred by oil and natural gas production, which is enabling the United States to reduce the cost of imports and enjoy a competitive advantage because of low energy costs,

Moreover, fuel prices have dropped significantly in the past few weeks, leading to a tangible increase in households' purchasing power.

— If the low petroleum product prices were to continue for longer than expected, it would have a very positive impact on economic growth in the United States as well as global growth in 2015.

6. CHANGES IN THE PRICES OF THE MAIN METALS IN QUÉBEC

The prices of metals mined or processed in Québec, in particular aluminum, iron ore, gold, nickel and copper, are determined on international markets. The mining industry and the primary processing industry are thus subject to global economic cycles.

For several years, metal prices have been influenced by the economic growth in China, an economy in which demand has constituted a significant share of global demand for natural resources.

— Having reached 12.1% in the first quarter of 2010, economic growth in China gradually decelerated to 7.3% in annual change in the third quarter of 2014.

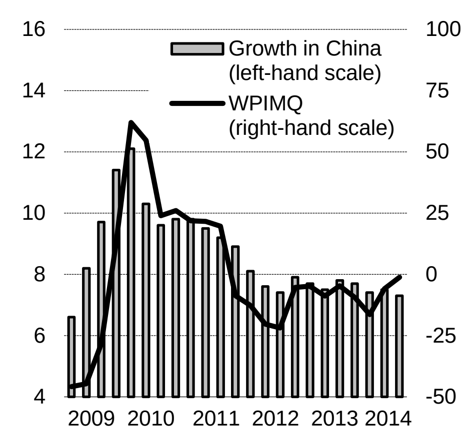
— The world price index for metals from Québec (WPIMQ) has changed in a similar manner, from annual growth of 62.0% to −1.2% during the same period.

Furthermore, the appreciation of the U.S. dollar, which began in 2011, has also caused metal prices to fall since they are usually traded in that currency.

CHART B.68

Change in economic growth in China[(1),(2)] and the WPIMQ[(2)]

(as a percentage, quarterly data)

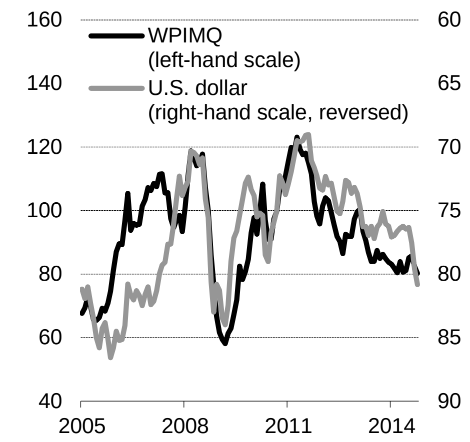


(1) Prior to 2011, data on growth in China were drawn from Datastream estimates.
(2) Annual change.
Sources: Datastream, Institut de la statistique du Québec, Bloomberg, World Bank and Ministère des Finances du Québec.

CHART B.69

World price index for metals from Québec and the U.S. dollar exchange rate[(1)]

(WPIMQ: 2010 = 100, U.S. dollar: March 1973 = 100)



(1) U.S. dollar exchange rate weighted by trade with the United States' top seven trading partners, monthly data.
Sources: Institut de la statistique du Québec, Bloomberg, World Bank and Ministère des Finances du Québec.

❑ A favourable outlook for metal prices in the coming years

The world price index for metals from Québec fell between its peak in April 2011 and October 2014, from 123 to 80 points.

Despite these fluctuations, metal prices continue to stand at levels that are markedly higher than those observed in the early 2000s. According to private sector forecasters, the medium-term outlook for the prices of several metals is favourable.

— Indeed, although it has been more moderate, growth in the emerging economies continues to support global demand for metals.

— What is more, the acceleration in economic growth in the United States should also support demand for certain metals used to manufacture a number of consumer goods.

Consequently, the WPIMQ should increase by 1.2% in 2015. Such growth should continue in the coming years to reach 4.5% in 2016 and 3.6% in 2017.

— Furthermore, the outlook for prices will differ from one metal to the next depending on the specific conditions of each market. Accordingly, the prices of aluminum, nickel and zinc should rise in the medium term, the price of iron ore should dwindle, and copper and gold prices should stabilize.

CHART B.70

World price index for metals from Québec[(1)]
(index, 2010 = 100, monthly data)

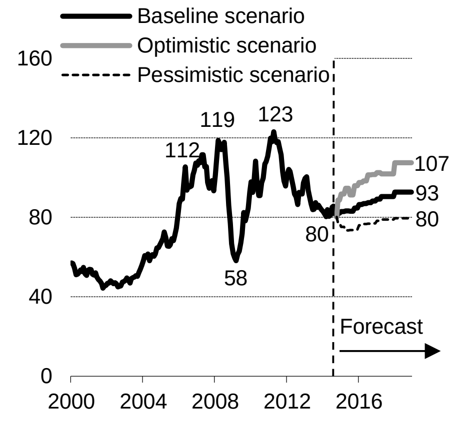
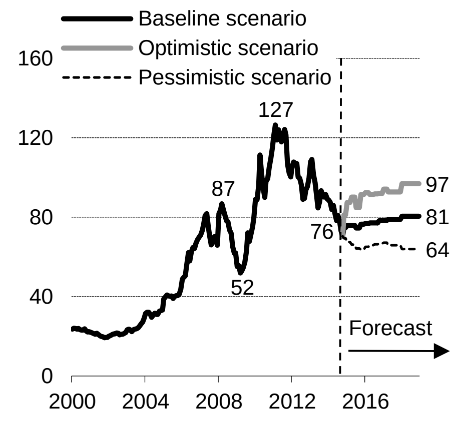


CHART B.71

World price index for metals from Québec (excluding aluminum)[(1),(2)]
(index, 2010 = 100, monthly data)



(1) World metal prices are expressed in U.S. dollars. Forecast data are quarterly for the first 10 quarters and annual thereafter.
(2) To take into account the aluminum processing industry in Québec, the WPIMQ now includes the price of this metal. The index excluding aluminum is comparable to the one presented in Budget 2014-2015.
Sources: Institut de la statistique du Québec, Bloomberg, World Bank and Ministère des Finances du Québec.

❑ A positive outlook for the price of aluminum

In recent years, a significant increase in production in certain regions of the world has led to a lower price of aluminum.

— In China and the Middle East, modern aluminum smelters, which have access to cheap electricity, are producing competitively-priced aluminum and have increased global supply since 2007.

  — Since April 2014, aluminum production from the Persian Gulf countries has surpassed that in North America.

However, since the beginning of 2014, the downward trend in the price of aluminum has reversed itself and the price of aluminum rose by 12.5% between January and October, to US$1 954 a tonne.

— On the one hand, the low price of aluminum since 2012 has tempered global supply and spurred several smelters to halt their operations, especially in Europe, Brazil and India.

— On the other hand, the price of bauxite has increased since January, as Indonesia has ceased its exports of the raw material to China.

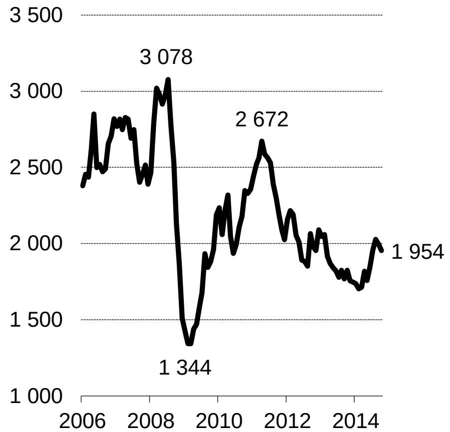
Growth in global demand for the metal remains robust, sustained in particular by more widespread use in several fields, including the automobile industry.

— The price of aluminum should thus increase in the coming quarters and stand, on average, at nearly US$2 000 a tonne in 2015.

CHART B.72

Price of aluminum

(U.S. dollars per tonne, monthly data)

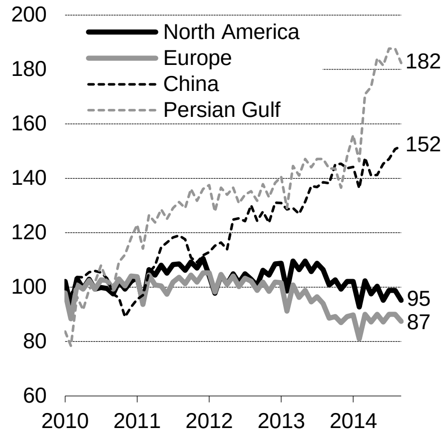


Source: Bloomberg.

CHART B.73

Aluminum production in certain regions of the world

(index, 2010 = 100, monthly data)



Sources: Bloomberg and Ministère des Finances du Québec.

❑ An anticipated drop in the price of iron ore and higher prices for other metals mined in Québec

The price of **iron ore** has fallen by nearly 40% since the beginning of 2014, mainly because of a significant influx of ore on the international market, especially from Australia.

— In October, the price of iron stood at US$81 a tonne, a trough since September 2009. The price of iron ore should climb slightly to stabilize, on average, at nearly US$85 in 2015.

Rapid growth in the global supply of iron ore should continue in the coming years, thereby exerting downward pressure on its price.

On the other hand, the outlook is favourable for nickel and zinc prices. Copper prices should remain close to current levels.

— Indeed, in May 2014, the price of **nickel** reached its highest point in over two years, at US$19 400 a tonne. Indonesia's decision to halt exports of the resource raised fears of a shortage for Chinese producers. It has dwindled since then but should continue to rise in 2015.

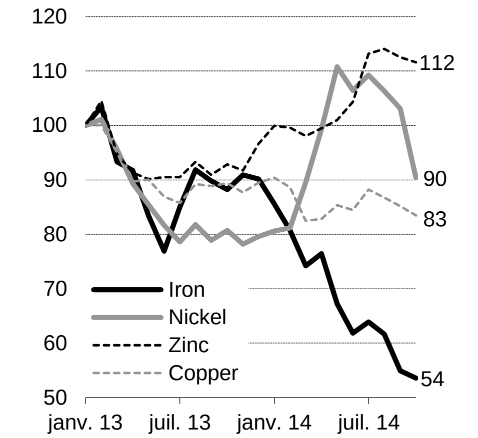
— The price of **zinc** also rose in 2014, sustained notably by a reduction in supply that should continue in 2015. Its price should therefore rise, to nearly US$2 300 a tonne, on average, in 2015.

— The price of **copper** has remained stable in recent months at close to US$6 900 a tonne. With supply and demand on the global market being relatively balanced, the price of copper will continue to fluctuate around current levels in the coming years.

CHART B.74

Prices of the main industrial metals

(index, January 2013 = 100)

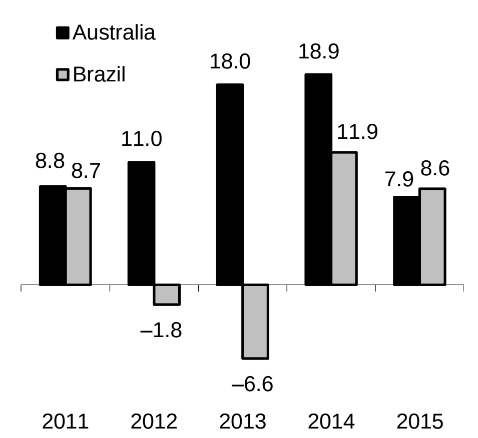


Sources: Bloomberg and Ministère des Finances du Québec.

CHART B.75

Growth in iron ore production in Australia and Brazil

(as a percentage)



Source: Morgan Stanley.

❑ Stabilization of the price of gold

The price of gold fell in the first half of 2013, mainly because of reduced demand for the yellow metal. The decrease reflects, in particular, reduced fears of inflation, which steered investors to this financial asset, perceived as a hedge against inflation.

In recent quarters, the price of gold has stabilized and has ranged from US$1 223 to US$1 353 an ounce. Two key factors have contributed to the stabilization.

On the one hand, in the first half of 2014 global demand for gold increased, up 10.7% in relation to the preceding six-month period.

— Demand for gold from Asia was robust with China having become the world's leading consumer in 2013.

— Chinese demand has more than doubled since 2009 and now accounts for roughly one-third of global demand.

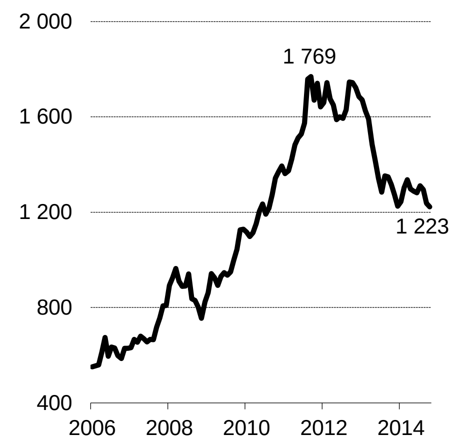
On the other hand, the appreciation of the U.S. dollar and lower inflation expectations, especially in the United States, have exerted downward pressure on the price of gold.

Relative balance between supply and demand should continue. The price of gold should thus remain fairly stable in the coming quarters and stand, on average, at nearly US$1 235 an ounce in 2015.

— However, the role as a safe haven that the yellow metal plays makes it sensitive to turbulence in financial markets.

CHART B.76

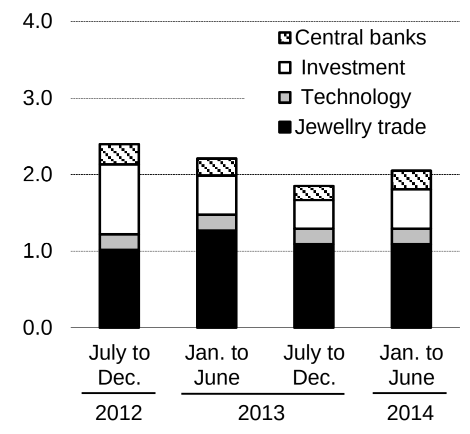
Price of gold
(U.S. dollars per ounce, monthly data)



Source: Bloomberg.

CHART B.77

Global demand for gold
(in thousands of tonnes)



Source: World Gold Council.

Section C

A PLAN FOR QUEBEC'S ECONOMIC RECOVERY

1. INITIATIVES TO SUPPORT ECONOMIC GROWTH

In Budget 2014-2015, tabled last June, the government took concrete measures to inject new momentum into Québec's economy. The measures represent over $270 million a year, on average, until 2016-2017 and a total of $816 million over three years.

Continuing along the lines of last June's budget, the government's December 2014 Update on Québec's Economic and Financial Situation announces initiatives to bolster Québec's economic recovery. The new initiatives represent nearly $140 million a year, on average, from now until 2016-2017 and will:

- increase private investment;
- foster Québec's transition to a green economy;
- encourage a new generation of farmers.

In addition, the Québec government has initiated an in-depth review of its intervention tools. The Québec Taxation Review Committee will be proposing changes to the tax system soon to boost Québec's economic growth through, in particular, private investment.

TABLE C.1

Cost of the new economic support initiatives
(millions of dollars)

	2014-2015	2015-2016	2016-2017	Total
Increasing support for private investment				
Reduction of the HSF(1) contribution rate for SMEs in the primary and manufacturing sectors	17.4	71.4	73.6	**162.4**
Increase in the additional deduction for transportation costs of manufacturing SMEs	0.1	4.7	6.9	**11.7**
$30 million to foster the emergence of corporate venture capital in Québec	—	—	—	**—**
Fostering Québec's transition to a green economy				
Support energy efficiency in SMEs (2)	25.0	52.0	49.0	**126.0**
Develop electrification and green technologies (2)	2.0	37.0	54.3	**93.3**
Raise awareness and strengthen partnerships to fight climate change(2)	—	2.5	2.5	**5.0**
Encouraging a new generation of farmers				
Increase from $800 000 to $1 million in the lifetime capital gains exemption on farm property and fishing property	—	10.0	10.0	**20.0**
New refundable tax credit for interest payable on financing obtained through La Financière agricole du Québec seller-lender formula	—	0.1	0.4	**0.5**
TOTAL	**44.5**	**177.7**	**196.7**	**418.9**

(1) Health Services Fund.
(2) These measures will be funded from the revenues of the Green Fund.

❑ Nearly $8 billion in private investment

Overall, the actions contained in the economic recovery plan of Budget 2014-2015 will spur the injection of nearly $7.2 billion in private investment into the Québec economy over the medium term.

The initiatives announced in this update on Québec's economic and financial situation will spur an additional injection of $735 million in private investment, for a total financial impact of nearly $8 billion in all regions of Québec.

TABLE C.2

Financial impact of the plan for Québec's economic recovery
(millions of dollars)

	Financial impact				
	2014-2015	2015-2016	2016-2017	Total	Sustained investments
Budget 2014-2015					
Accelerating private investments, including investments by SMEs	−235.4	−211.6	−97.8	**−544.8**	**5 245**
Easing the administrative burden on businesses	—	—	—	**—**	**—**
Implementing the maritime strategy	−0.8	−2.8	−3.8	**−7.4**	**82**
Relaunching the Plan Nord	—	—	—	**—**	**1 126**
Supporting the forest industry	—	—	—	**—**	**40**
Developing all natural resources	−5.4	−2.0	—	**−7.4**	**38**
Encouraging active living for seniors	−8.3	−22.6	−23.0	**−53.9**	**54**
Maintaining support for the municipalities and the regions	−13.8	−27.5	−33.7	**−75.0**	**193**
Strengthening the social fabric and developing Québec's cultural sector	−12.0	−14.0	−14.0	**−40.0**	**390**
Making government action more effective and fighting tax evasion	−17.5	−35.0	−35.0	**−87.5**	**—**
Subtotal	**−293.2**	**−315.5**	**−207.3**	**−816.0**	**7 169**
Update on Québec's Economic and Financial Situation					
Increasing support for private investment	−17.5	−76.1	−80.5	**−174.1**	**270**
Fostering the transition to a green economy(1)	—	—	—	—	**410**
Encouraging a new generation of farmers	—	−10.1	−10.4	**−20.5**	**55**
Subtotal	**−17.5**	**−86.2**	**−90.9**	**−194.6**	**735**
TOTAL	**−310.7**	**−401.7**	**−298.2**	**−1 010.6**	**7 904**

(1) These measures will be funded from the revenues of the Green Fund.

Main initiatives implemented under the plan for Québec's economic recovery

In Budget 2014-2015 of last June, the government announced several initiatives to bolster the economy and employment in a sustainable manner. A number of those initiatives have already been implemented and are spurring private investment.

Actions to accelerate public investment

- Introduction of the home renovation tax credit LogiRénov.
- Creation of Teralys Capital Innovation Fund, with $279 million in funding to invest in growing tech companies.
- Capitalization of the Anges Québec Capital fund to support Québec entrepreneurship.
- Reductions in the income tax rate of manufacturing SMEs from 8% to 6% since June 5, 2014 and to 4% effective April 1, 2015.
- Additional deduction for transportation costs of manufacturing SMEs.
- Introduction of the Créativité Québec program with a $150-million envelope to support business innovation projects.
- New holiday from the Health Services Fund contribution to encourage the hiring of specialized workers.

Relaunching of the Plan Nord

- Tabling of the bill establishing the Société du Plan Nord, a new government corporation responsible for coordinating the plan's implementation.
- Investment of nearly $29.5 million in Aboriginal education.
- Launching of the study to develop a new rail line to improve access to the Labrador Trough.

Maritime strategy

- Introduction of an additional deduction of 50% for construction or renovation work on vessels in Québec.
- Creation of a tax-free reserve for Québec shipowners to fund maintenance, renovation or construction of vessels carried out at a Québec shipyard.

Development of the gas sector

- Equity stake in Gaz Métro GNL to increase the capacity of its liquefaction plant in East-End Montréal to enable the supply of natural gas to businesses in Québec's northern regions at a competitive price.

1.1 Increasing support for private investment

To continue its actions to spur private investment and improve the innovation performance of businesses, which help drive economic growth, the government is announcing:

— a reduction of the Health Services Fund (HSF) contribution rate for SMEs in the primary and manufacturing sectors;

— an increase in the additional deduction for transportation costs of manufacturing SMEs;

— a new injection of $30 million to foster the emergence of corporate venture capital in Québec and support innovative and promising sectors.

1.1.1 Reduction of the HSF contribution rate for SMEs in the primary and manufacturing sectors

To foster job creation and stimulate investment by Québec SMEs, in particular to foster the adoption of greener, less carbon-intensive production methods, the government is announcing a reduction, effective January 1, 2015, of the HSF contribution rate for SMEs in the primary and manufacturing sectors whose payroll is less than $5 million.

— The contribution rate for SMEs with a total payroll equal to or less than $1 million will decrease from 2.7% to 1.6%.

— The contribution rate for SMEs with a total payroll between $1 million and $5 million will be subject to a linear increase from 1.6% to 4.26%.

This measure will relieve the tax burden of roughly 23 000 Québec businesses, that is, 10 000 businesses in the primary sector and 13 000 businesses in the manufacturing sector.

Illustration of the reduction of the HSF contribution rate for SMEs in the primary and manufacturing sectors

To illustrate, an eligible business with a payroll of $1 million will save $11 000 in HSF contributions, a decrease of over 40% in its total contributions.

- Depending on the size of the business' payroll, the lower contribution rate will reduce its HSF contributions by up to around $17 000.

Illustration of the impact of the reduction of the HSF contribution rate for SMEs in the primary and manufacturing sectors

	Contribution rate		HSF contribution		
Payroll	Before Jan. 1, 2015	As of Jan. 1, 2015	Before Jan. 1, 2015	As of Jan. 1, 2015	Gain
$1 000 000	2.70%	1.60%	$27 000	$16 000	$11 000
$2 000 000	3.09%	2.27%	$61 800	$45 300	$16 500
$3 000 000	3.48%	2.93%	$104 400	$87 900	$16 500
$4 000 000	3.87%	3.60%	$154 800	$143 800	$11 000
$5 000 000	4.26%	4.26%	$213 000	$213 000	$0

❑ A more competitive Québec tax system for manufacturing SMEs

Coupled with the 4% reduction in the income tax rate for manufacturing SMEs as of April 1, 2015, the reduction in the HSF contribution rate from 2.7% to 1.6% will make Québec's tax system more competitive for manufacturing SMEs, particularly in relation to Ontario's tax system.

This further easing of the tax burden will foster the growth of manufacturing SMEs by making them more competitive on external markets, which will enable them to seize business opportunities in new markets.

A more competitive Québec tax system

The general reduction of the tax rate from 8% to 4% combined with the reduction of the HSF contribution rate from 2.7% to 1.6% will make the Québec tax system more competitive for manufacturing SMEs.

To illustrate, as of April 1, 2015, a small manufacturing firm with taxable income of $500 000 and a payroll of $1 million will pay over $30 000 less tax than before Budget 2014-2015, a 45% decrease in its total tax burden.

- These two measures will lower the firm's total tax burden to a similar level to that in Ontario.

Illustration of the impact of the reduction in the tax and HSF contribution rates for manufacturing SMEs compared to Ontario's tax system

		Tax burden in Quebec	
	Tax burden in Ontario	Before Budget 2014-2015 measures	As of April 1,2015
Corporate income tax			
Taxable income	$500 000	$500 000	$500 000
Tax rate	4,5 %	8,0 %	4.0%
Income tax payable	**$22 500**	**$40 000**	**$20 000**
HSF contribution			
Payroll	$1 000 000	$1 000 000	$1 000 000
Contribution rate	1,95 %	2,7 %	1.6%
Exemption threshold	$450 000	—	—
HSF contribution(1)	**$10 725**	**$27 000**	**$16 000**
TOTAL TAX BURDEN	**$33 225**	**$67 000**	**$36 000**
Difference in relation to Ontario	—	+$33 775	+$2 775

(1) Excluding the effect of corporate income tax deductions.

❑ Over $300 million for SMEs

Lowering the HSF contribution rate to 1.6% for SMEs in the primary and manufacturing sectors represents $317 million in tax relief between now and 2018-2019.

TABLE C.3

Financial impact of the reduction in the HSF contribution rate for SMEs in the primary and manufacturing sectors
(millions of dollars)

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	Total
Reduction in the HSF contribution rate	−17.4	−71.4	−73.6	−76.0	−78.5	**−316.9**

1.1.2 Increase in the additional deduction for transportation costs of manufacturing SMEs

Application of the cap and trade system for greenhouse gas emission allowances (“SPEDE”) to fuel distributors as of January 1, 2015, will result in higher transportation costs for manufacturing SMEs in all regions of Québec.

To mitigate the impact of increased transportation costs on the competitiveness of Québec manufacturing SMEs as a result of SPEDE, the government is announcing an increase in the additional deduction for transportation costs of manufacturing SMEs, including:

— eligibility of manufacturing SMEs located in major urban centres;

— an increase of one percentage point in the measurement rate and raising of the cap per corporation for zones already eligible or concerned.

Accordingly, as of January 1, 2015, manufacturing SMEs in every region of Québec will benefit from the increase in the additional deduction for transportation costs. According to the targeted zone, the deduction rate is being raised to:

— 1% of gross income, with a $50 000 cap per corporation, for manufacturing SMEs located in major urban centres;

— 3% of gross income, with a $150 000 cap per corporation, for manufacturing SMEs located in the intermediate zone;

— 5% of gross income, with a $350 000 cap per corporation, for manufacturing SMEs located in the remote zone;

— 7% of gross income, with no cap per corporation, for manufacturing SMEs located in the special remote zone.

Budget 2014-2015: introduction of an additional deduction for transportation costs of remote manufacturing SMEs

As part of Budget 2014-2015, the government announced the introduction of an additional deduction for transportation costs of remote manufacturing SMEs.

The additional deduction is determined according to the distance of the SME from a major urban centre to reflect the higher transportation costs attributable to the remoteness.

- On average, the transportation costs of manufacturing firms located in the major urban centres of Montréal, Québec and Gatineau represent 7% of their income.
- The transportation costs of manufacturing firms located in territories outside the major urban centres are roughly 30% higher. They can be as much as 50% higher for firms located in more remote regions.

Rate of the additional deduction by zone – As of January 1, 2015

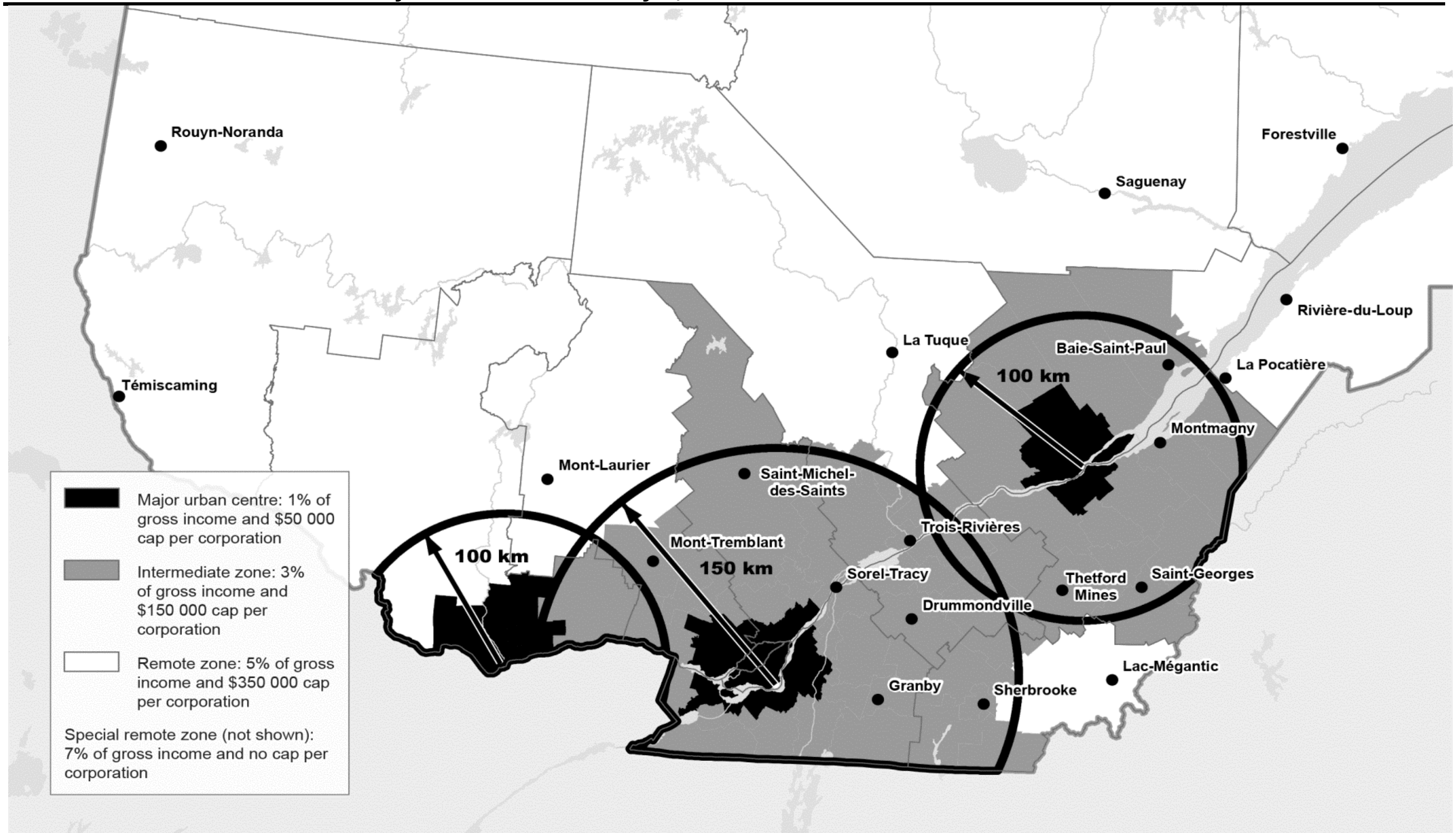


TABLE C.4

Main parameters of the additional deduction for transportation costs of manufacturing SMEs[(1)] – after the December 2014 update

Territories		Details of calculation by zone: Rate	Details of calculation by zone: Cap per corporation
Major urban centres			
– Montréal census metropolitan area – Québec census metropolitan area – Gatineau census metropolitan area[(2)]		1% of the company's gross income	Maximum $50 000
Intermediate zone			
– Capitale-Nationale[(3),(4)] – Lanaudière[(4)] – Montérégie[(4)] – Western part of Estrie[(5)] – Papineau RCM (Outaouais)	– Chaudière-Appalaches[(4)] – Laurentides[(4)] – Centre-du-Québec – Southern part of Mauricie[(6)]	3% of the company's gross income	Maximum $150 000
Remote zone			
– Bas-Saint-Laurent – Abitibi-Témiscamingue – Nord-du-Québec[(8)] – Eastern part of Estrie[(10)] – Agglomeration of La Tuque and Mékinac RCM (Mauricie) – Charlevoix-Est RCM (Capitale-Nationale)	– Saguenay–Lac-Saint-Jean – Côte-Nord[(7)] – Gaspésie[(9)] – Antoine-Labelle RCM (Laurentides) – Pontiac and Vallée-de-la-Gatineau RCM (Outaouais)	5% of the company's gross income	Maximum $350 000
Special remote zone			
– Municipality of L'Île-d'Anticosti – Golfe-du-Saint-Laurent RCM (Côte-Nord)	– Agglomeration of Îles-de-la-Madeleine – Kativik Regional Government (Nord-du-Québec)	7% of the company's gross income	No cap

(1) A manufacturing SME will benefit fully from the additional deduction where at least 50% of its activities consist of manufacturing or processing activities and its paid-up capital calculated on a consolidated basis is $10 million or less.
(2) Corresponding to the Québec portion of the Ottawa-Gatineau census metropolitan area.
(3) Excluding the Charlevoix-Est RCM, which is located in the remote zone.
(4) Excluding the municipalities that are part of the Montréal, Québec or Gatineau census metropolitan area.
(5) Including the city of Sherbrooke as well as the Memphrémagog, Le Val-Saint-François, Les Sources and Coaticook RCMs.
(6) Including the cities of Trois-Rivières and Shawinigan as well as the Les Chenaux and Maskinongé RCMs.
(7) Excluding the Le Golf-du-Saint-Laurent RCM and the municipality of L'Île-d'Anticosti.
(8) Excluding the Kativik Regional Government.
(9) Including the Avignon, Bonaventure, La Côte-de-Gaspé, La Haute-Gaspésie and Le Rocher-Percé RCMs.
(10) Including the Le Granit and Le Haut-Saint-François RCMs.

❑ More than 8 000 businesses will benefit from the additional deduction for transportation costs of manufacturing SMEs

The increase in the additional deduction for transportation costs represents tax savings for over 8 000 manufacturing SMEs. This will leave them with more cash assets to, among other things, help transition to a low-carbon economy.

TABLE C.5

Impact of the increase in the additional deduction for transportation costs of manufacturing SMEs, by territory
(dollars, unless otherwise indicated)

	Major urban centres	**Intermediate zone**	**Remote zone**	**Special remote zone**
Before December 2014 update				
Rate applicable according to gross income	—	2%	4%	6%
Cap per corporation	—	100 000	250 000	No cap
Maximum tax savings(1)	—	11 900	29 750	6% of gross income
After December 2014 update				
Rate applicable according to gross income	1%	3%	5%	7%
Cap per corporation	50 000	150 000	350 000	No cap
Maximum tax savings(1)	5 950	17 850	41 650	7% of gross income
ADDITIONAL TAX SAVINGS	**5 950**	**5 950**	**11 900**	1% of gross income

(1) Considering that the additional deduction applies to income in excess of $500 000, taxed at the general rate of 11.9%.

The additional deduction for transportation costs will represent roughly $19 million in tax relief in 2018-2019, including over $8 million attributable to the increase announced in the December 2014 Update on Québec's Economic and Financial Situation.

TABLE C.6

Financial impact of the additional deduction for transportation costs of manufacturing SMEs in all regions of Québec
(millions of dollars)

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	Total
Implementation of the measure in Budget 2014-2015	–2.3	−8.2	–9.0	−9.7	–10.2	**–39.4**
Increase announced in December 2014 update	–0.1	–4.7	–6.9	–7.7	–8.3	**–27.7**
TOTAL	**–2.4**	**–12.9**	**–15.9**	**–17.4**	**–18.5**	**–67.1**

1.1.3 $30 million to foster the emergence of corporate venture capital in Québec

Creating a high-performance innovation ecosystem is one of the key factors in enabling Québec businesses to set themselves apart from the global competition. It is therefore vital that Québec's large businesses participate in the development of the innovation ecosystem in which they wish to grow.

In this context, the government is announcing an injection of $30 million to invest in venture capital jointly with companies that want to invest in Québec. Selected projects will be aimed at funding technological innovations and creating jobs in Québec in sectors such as information and communication technologies, life sciences and green technologies.

The government will match private investments, particularly in:

— high-performance technology venture capital funds;

— initiatives that foster the development of technologies that meet companies' specific needs, such as technology accelerators;

— private consortiums of companies established in Québec whose purpose is to develop, in Québec, innovation projects with high return potential.

The conditions will vary according to the business models proposed and the sector of activity concerned. Investissement Québec will be the government's mandatary.

TABLE C.7

Impact of this initiative on venture capital investments in Québec
(millions of dollars)

	Investments
Private investment	30 to 60
Government matching of private investments	30
TOTAL	**60 to 90**

❑ The importance of large businesses’ participation in the venture capital ecosystem

For the last few years, the United States, Israel, Germany and the United Kingdom have been financing a greater share of their venture capital investments through corporate venture capital.

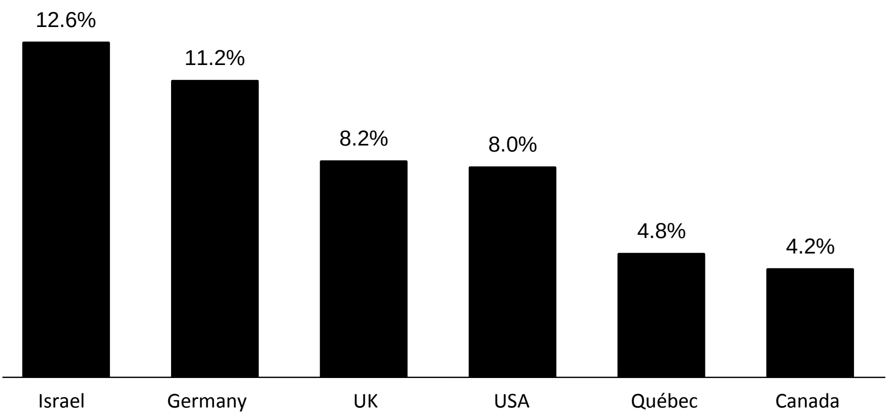
The share of corporate venture capital in total venture capital investments is higher in Québec than elsewhere in Canada, but lower than in other jurisdictions in the world. The average annual share has been 4.8% for the last four years.

This new initiative will ensure that businesses participate in the Québec venture capital ecosystem. It will make it easier for large businesses to integrate new technologies in particular. By adopting Québec technologies, they will also help make start-up businesses a success and encourage them to stay in Québec. From this perspective, this new initiative complements investments in venture capital funds, such as Teralys Capital Innovation Fund and the Anges Québec Capital fund, because it will increase market outlets for the technologies they fund.

The government will also work toward promoting concerted action between senior business executives and people involved in innovation funding, including the founding members of start-up businesses, venture capital fund managers and senior members of technology accelerators. The goal is to foster the development of partnerships between the different players in certain priority sectors of activity.

CHART C.1

Share of corporate venture capital in total venture capital investments – 2011 to 2014



Source: Thomson Reuters, November 10, 2014.

Global corporate venture capital

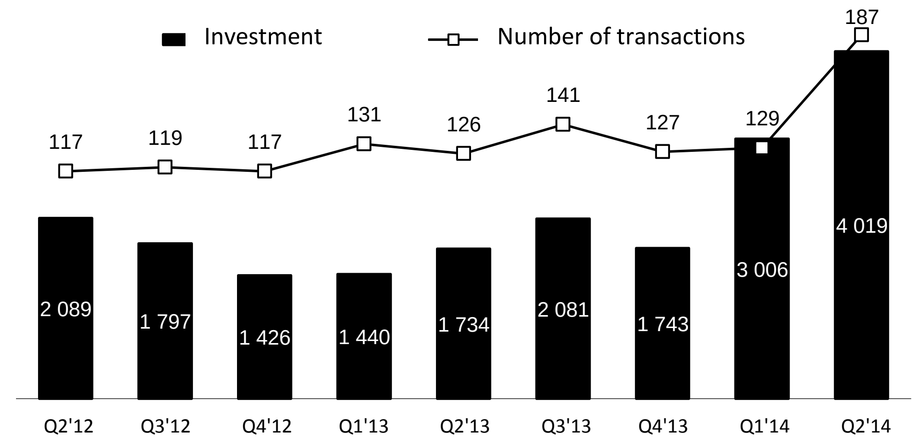
A number of major global companies, in various sectors of activity, are adopting venture capital investment tools for strategic and financial purposes. Among them: Google, Intel, Samsung, GlaxoSmithKline, General Electric and General Motors.

Growth in corporate venture capital

Corporate venture capital is on the rise the world over. Many big companies are investing in promising start-ups around the world In order to gain access to new technologies before their competitors.

- Growth in corporate venture capital has been particularly strong in the U.S. market. Venture capital investments in the second quarter of 2014 were up 132% over the same quarter the previous year, reaching $4 billion.

Change per quarter in corporate venture capital in the United States from the second quarter of 2012 to the second quarter in 2014
(millions of U.S. dollars and number of transactions)



Source: CB Insights.

1.2 Fostering Québec's transition to a green economy

Sustainable development objectives cannot be achieved without transitioning to a green economy.

We must support businesses in their efforts to cut greenhouse gas (GHG) emissions so that they become more competitive and benefit every region of Québec.

❑ Québec is a leader in fighting climate change

Fighting climate change is one the biggest challenges of the 21st century. Countries need to be more creative and less dependent on fossil fuels if sustainable development is to be achieved.

Québec has already taken several steps in this regard, including:

- implementing the first climate change action plan covering the period 2006 to 2012;
- setting, in 2009, an ambitious GHG emissions reduction target for 2020;
- passing a regulation respecting the carbon market in December 2011;
- releasing the 2013-2020 Climate Change Action Plan in June 2012.

The Québec government set itself apart from other North American jurisdictions by establishing a GHG emissions reduction target of 20% below the 1990 level by 2020.

Québec has taken a number of concrete steps toward its 2020 target, including the introduction, on January 1, 2013, of a cap and trade system for greenhouse gas emission allowances ("SPEDE") in cooperation with California.

A carbon market is already in operation

The cap and trade system for greenhouse gas emission allowances ("SPEDE") has been in operation since January 1, 2013.

To date, the government has held four auctions of Québec greenhouse gas (GHG) emission units.

The auctions were held in December 2013 and March, May and August 2014, with over 9.5 million emission units being sold.

The first joint Québec-California carbon market auction was held on November 25 and the results will be known on December 3, 2014.

An initial cap was set on GHG emissions by all emitters subject to SPEDE. The cap will be gradually lowered over the years to achieve absolute emissions reductions.

SPEDE is a flexible market mechanism used to induce a carbon cost while fostering the implementation of clean technologies. Under the system:

- high-performance companies that reduce their emissions below their allowances may sell their extra allowances on the carbon market, allowing them to recover all or part of the cost of their investments;

- companies that exceed their GHG emission allowances have the choice of either investing in clean technologies or buying allowances.

Thus far, only large industrial emitters and the electricity sector are subject to the cap and trade system. As of January 1, 2015, the system will also apply to fuel distributors and thereby cover GHG emissions in the transportation and building sectors.

Businesses will be called on to reduce their environmental footprint, the same as large emitters have since the implementation of the carbon market in 2013.

Revenues from the sale of emission units under SPEDE between 2013 and 2020 are expected to reach over $2.7 billion and will be deposited in the Green Fund.

Adding the revenues from the duty on fuel deposited in the Green Fund until December 2014 for the 2013-2020 Climate Change Action Plan means that nearly $3.3 billion will be fully reinvested to help Québec transition to a zero-carbon economy.

Furthermore, the 2013-2020 Climate Change Action Plan, which is funded by the Green Fund, contains incentives to encourage individuals and industry to reduce their GHG emissions.

- Note that over two thirds of the revenues from SPEDE deposited in the Green Fund are used to fund measures that will reduce GHG emissions in the transportation sector, in particular by investing over $1.6 billion in mass transit and alternative transportation.

- An increase in the public transportation supply raised ridership by 15.4% between 2006 and 2013.

❑ $350 million in financial support

The government is continuing its efforts to fight climate change by supporting SMEs in purchasing and developing green technologies.

As part of the 2013-2020 Climate Change Action Plan, the government announced $350 million in financial support for measures that will enable Québec SMEs in particular to cut their energy costs while contributing to the development of GHG reduction technologies and the promotion of the electrification sector.

These measures will be funded from the revenues generated by the cap and trade system and deposited in the Green Fund.

In addition, the reduction in the Health Services Fund (HSF) contribution rate and the increase in the additional deduction for transportation costs will give SMEs more room to invest in these technologies.

TABLE C.8

Additional financial support to foster Québec's transition to a green economy
(millions of dollars)

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
Support energy efficiency in SMEs	25.0	52.0	49.0	19.0	—	—	**145.0**
Develop electrification and green technologies	2.0	37.0	54.3	50.0	30.0	25.0	**198.3**
Raise awareness and strengthen partnerships to fight climate change	—	2.5	2.5	1.7	—	—	**6.7**
TOTAL	**27.0**	**91.5**	**105.8**	**70.7**	**30.0**	**25.0**	**350.0**

1.2.1 $145 million to support energy efficiency in SMEs

SMEs can significantly reduce their GHG emissions as well as their production costs by using more energy-efficient technologies and processes.

However, upgrading or converting equipment and processes can be very costly for SMEs.

Therefore, the sum of $145 million for SMEs, including $77 million by March 31, 2016, will be allocated to enhance the financial support offered to help SMEs adopt GHG reduction technologies and practices.

Of that amount, $120 million will be allocated to the Ministère de l’Énergie et des Ressources naturelles and $25 million to the Ministère des Transports. Five programs will receive additional financial support:

— $85 million for energy efficiency and conversion to low-emission energy sources (ÉcoPerformance program);

— $10 million for conversion to bioenergy heating systems (Programme de biomasse forestière résiduelle);

— $15 million for use of more energy-efficient equipment and technologies in goods transportation (Écocamionnage program);

— $10 million for energy-efficient marine, air and rail transportation (Programme d’aide à l’amélioration de l’efficacité du transport maritime, aérien et ferroviaire);

— $25 million for SMEs for the purchase of more fuel-efficient vehicles (Drive Electric Program).

TABLE C.9

Additional financial support to foster energy efficiency in SMEs

	2014-2015	2015-2016	2016-2017	2017-2018	Total
ÉcoPerformance	25.0	30.0	25.0	5.0	**85.0**
Residual forest biomass	—	3.0	4.0	3.0	**10.0**
Écocamionnage	—	5.0	5.0	5.0	**15.0**
Energy-efficient marine, air and rail transportation	—	4.0	5.0	1.0	**10.0**
Drive Electric	—	10.0	10.0	5.0	**25.0**
TOTAL	**25.0**	**52.0**	**49.0**	**19.0**	**145.0**

1.2.2 **$198.3 million to develop electrification and green technologies**

A leading producer of electricity, Québec has an abundance of cheap, renewable sources of energy, giving it a significant competitive edge over other jurisdictions.

Thanks to the presence of well-positioned firms in the green technology sector, Québec also boasts outstanding know-how in electrification research and innovation.

To capitalize on these assets and thereby reduce our reliance on imported fossil fuels, the government intends to allocate $198.3 million to support the development of green technologies that reduce GHG emissions as well as the development of electrification. Of that amount, $39 million will be made available by March 31, 2016:

— $50 million for the purchase, installation and commercialization of equipment and technologies that reduce SMEs' GHG emissions;

— $45 million in additional support for the development of new technologies or innovative processes in the area of energy efficiency, emerging energy sources and GHG emissions reduction;

— $20 million for industrial applied research projects conducted in collaboration with industry;

— $30 million for the development and implementation of transportation electrification technologies in promising niches;

— $40 million for mobilizing and transformational projects relating to GHG emissions reduction and electrification;

— $13.3 million for additional transportation electrification measures.

This financial assistance will be allocated as follows: $110 million to the Ministère de l'Économie, de l'Innovation et des Exportations, $45 million to the Ministère de l'Énergie et des Ressources naturelles and $43.3 million to the Ministère des Transports.

Details of these measures will be unveiled at a later date by the Minister of Sustainable Development, the Environment and the Fight Against Climate Change and his counterparts from the other departments concerned.

TABLE C.10

Additional financial support to develop electrification and green technologies
(millions of dollars)

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
Purchase, implementation and commercialization of equipment and technologies	—	10.0	13.0	10.0	9.0	8.0	**50.0**
Development of new technologies or innovative processes	—	9.0	13.0	13.0	6.0	4.0	**45.0**
Industrial applied research projects	—	4.0	5.0	5.0	3.0	3.0	**20.0**
Development and implementation of transportation electrification technologies	2.0	5.0	9.0	8.0	3.0	3.0	**30.0**
Mobilizing and transformational projects	—	7.0	10.0	10.0	7.0	6.0	**40.0**
Additional transportation electrification measures	—	2.0	4.3	4.0	2.0	1.0	**13.3**
TOTAL	**2.0**	**37.0**	**54.3**	**50.0**	**30.0**	**25.0**	**198.3**

1.2.3 $6.7 million to raise awareness and strengthen partnerships to fight climate change

Fighting climate change is a challenge that must be met by the entire population. That is why the measures in the 2013-2020 Climate Change Action Plan aimed at mobilizing all stakeholders in Québec society will receive additional financial support of $6.7 million:

— $3.3 million to raise awareness about climate change issues and promote government initiatives;

— $3.4 million to build and maintain dynamic partnerships in the fight against climate change.

The measures will be unveiled at a later date by the Minister of Sustainable Development, the Environment and the Fight Against Climate Change.

TABLE C.11

Additional financial support to raise awareness and strengthen partnerships to fight climate change
(millions of dollars)

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
Raise awareness about climate change issues and promote government initiatives	—	1.2	1.2	0.9	—	—	**3.3**
Build and maintain dynamic partnerships in the fight against climate change	—	1.3	1.3	0.8	—	—	**3.4**
TOTAL	**—**	**2.5**	**2.5**	**1.7**	**—**	**—**	**6.7**

1.3 Encouraging a new generation of farmers

The transfer of farm property is of crucial importance in Québec's rural regions as well as for ensuring food safety.

In the context of an aging population where 40% of farmers are 55 or over, many are thinking of selling or transferring their farm so that they can retire.

Furthermore, it may be difficult for future buyers, often the farmer's children, to get the capital needed to finance a transaction of this size.

Therefore, the government is announcing two measures to encourage the transfer of farming businesses:

— an increase from $800 000 to $1 million in the lifetime capital gains exemption on farm property and fishing property;

— introduction of a refundable tax credit for interest payable on financing obtained through La Financière agricole du Québec's seller-lender formula.

1.3.1 Increase from $800 000 to $1 million in the lifetime capital gains exemption on farm property and fishing property

The government is announcing an increase from $800 000 to $1 million in the lifetime capital gains exemption for owners who sell their farming or fishing business.

For many farmers and fishers, their business is their principal retirement asset. This measure will increase their financial security by giving them a higher after-tax income when they sell their business.

The measure will apply as of January 1, 2015.

❑ 400 farmers and fishers will benefit each year

Roughly 400 farmers and fishers a year will be able to claim the capital gains exemption. This initiative will reduce the amount of income tax payable on capital gains by up to $25 750.

The financial impact for the government will be $10 million a year.

TABLE C.12

Financial impact of the increase in the lifetime capital gains exemption
(millions of dollars)

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	Total
Increase in lifetime capital gains exemption	—	−10.0	−10.0	−10.0	−10.0	**−40.0**

Illustration of the reduction in the income tax payable for a farmer

For a farmer who realizes a capital gain of $1 million, the increase in the lifetime capital gains exemption will mean a reduction of $25 750 in the income tax payable on the transaction.

Previously, the farmer would have been taxed at a rate of 25.75% on a taxable capital gain of $100 000.

Impact of the increase in the lifetime capital gains exemption on personal income tax payable
(dollars)

	Before 2015	As of 2015	Difference
Capital gain	1 000 000	1 000 000	—
Lifetime exemption	800 000	1 000 000	200 000
Capital gain after application of the exemption	**200 000**	**—**	**−200 000**
Inclusion rate	50%	50%	—
Taxable capital gain	**100 000**	**—**	**−100 000**
Personal income tax rate	25.75%	25.75%	—
Income tax payable	**25 750**	**—**	**−25 750**

1.3.2 New refundable tax credit for interest payable on financing obtained through La Financière agricole du Québec seller-lender formula

La Financière agricole du Québec offers forms of financial support for the next generation of farmers, including the seller-lender formula, which allows for the gradual transfer of a farming business, in particular to a family member.

This flexible formula facilitates the transfer of a family farm by offering a loan and interest rate guaranteed by La Financière agricole du Québec.

With the twofold objective of helping young people who want to take up farming purchase a farm and building vibrant rural regions in Québec, the government is announcing additional assistance under La Financière agricole du Québec's seller-lender formula.

A refundable tax credit equal to 40% of the interest payable by a buyer on all new transactions carried out under the seller-lender formula before January 1, 2020, will be introduced. The tax credit will apply to eligible interest paid by a buyer beginning January 1, 2015 and ending up to ten years from the date of the transaction.

The new tax credit will support the transfer of more farming businesses and encourage farmers to use a formula that is advantageous for both the seller and the buyer.

The government is hoping to raise the number of farming businesses transferred under this formula to over 30 a year with average loans of $700 000, representing more than $20 million worth of transactions per year.

TABLE C.13

Financial impact of the tax credit for interest payable on financing obtained through La Financière agricole du Québec seller-lender formula
(millions of dollars)

	2014-2015	**2015-2016**	**2016-2017**	**2017-2018**	**2018-2019**	**Total**
Introduction of the new tax credit	—	−0.1	−0.4	−0.6	−0.9	**−2.0**

2. CONTINUATION OF THE ECONOMIC RECOVERY PLAN UNDER BUDGET 2014-2015

As part of Budget 2014-2015, the government implemented measures representing $270 million per year, on average, over three years to support Québec's economic recovery.

The new initiatives provided for in the Update on Québec's Economic and Financial Situation continue along the same line as those in last June's budget and represent additional support of nearly $140 million a year until 2016-2017.

The goal of government action is to make Québec's tax system more competitive and mobilize private investment, two sources of economic growth for Québec. These measures rely in particular on partnerships with the private sector to ensure a multiplier effect on investment and employment. Several initiatives have already been implemented in the last few months.

The economic recovery plan has three main pillars that will benefit all Quebecers:

— the maritime strategy;

— relaunching of the Plan Nord;

— development of the oil and gas industry.

The Update on Québec's Economic and Financial Situation is an opportunity for the government to report on the results of the initial months of implementation of the economic recovery plan of Budget 2014-2015.

2.1 Pillars of the plan for Québec's economic recovery

Through the maritime strategy, the revival of the Plan Nord and gradual, safe development of the oil and gas industry, the government's is aiming to grow Québec's economy by building on its strengths:

- an advantageous geographical position for the development of trade;
- a navigable waterway with enormous potential;
- abundant natural resources;
- a skilled workforce.

First, the maritime strategy will mobilize every player involved, directly or indirectly, in Québec's marine sector. The government is moving to responsibly develop Québec's maritime potential while acquiring a unique environmental expertise within the government, educational institutions and research centres in Québec.

Second, relaunching the Plan Nord will drive the development of an area with huge potential for wealth creation as well as considerable opportunities for growth. The first steps have been taken, particularly to ensure better oversight of the Plan Nord's implementation and facilitate the establishment of priority infrastructure. These steps will improve access to the area for investors and local and Aboriginal populations.

Third, the government has taken steps to reduce Québec's reliance on imported oil and natural gas and facilitate access to natural gas for regions not yet served.

These actions will be implemented:

- in collaboration with local communities;
- where possible, in partnership with businesses to ensure government action achieves a maximum leverage effect.

2.1.1 **Developing Québec's marine potential**

The maritime territory of Québec is a tremendous asset. Through the maritime strategy, the government will lay the foundation for tapping the enormous economic potential offered by this territory in a way that benefits coastal regions and Québec as a whole.

The government wants to ensure that the strategy speaks to all stakeholders in the Québec maritime community. To that end, over the last few months it consulted the different stakeholders and representatives from the main ports, shipyards, institutions and coastal municipalities.

— To ensure this innovative strategy is a success, a consultation was held with 180 partners from the marine industry. More than 80 briefs were received and examined.

Stakeholders' principal concerns are already apparent. A number of priorities were identified in examining the briefs:

— upgrade and maintain port infrastructure, especially to be able to benefit fully from trade agreements with Europe;

— ensure that intermodal transport functions properly to facilitate the use of marine transportation;

— ensure a skilled labour supply.

The 2015-2030 maritime strategy will be unveiled in the coming months. However, concrete measures were already taken in Budget 2014-2015.

— The announced investments to support two leading Québec institutions in the marine science and biotechnology sector will enable continued development of the blue economy.

— In addition, tax incentives were introduced to support modernization and renewal of the vessel fleet at a Québec shipyard.

❑ Incentives to modernize and renew vessels in Québec

A modern fleet of vessels is crucial to ensuring effective implementation of the maritime strategy and giving new impetus to marine transportation.

To encourage shipowners to modernize and renew their fleet of vessels at a Québec shipyard, and thereby support job creation, the government introduced two measures in particular:

- an additional capital cost allowance of 50% for the construction or renovation of vessels carried out at a Québec shipyard on behalf of Québec shipowners;

- a tax-free reserve for Québec shipowners to fund maintenance, renovation or construction of vessels carried out by a Québec shipyard.

These measures took effect on June 5, 2014.

Québec maritime strategy

Taking into account the concerns raised by the different stakeholders, the maritime strategy will aim, in particular, to:

- ensure that marine transportation is developed in an environmentally responsible and safe manner for the public as well as coastal and marine ecosystems;
- ensure the long-term viability of the fishery and aquaculture industry, particularly through the development of new products;
- foster research and development of marine and environmental technologies;
- revitalize Québec's shipyards and build a skilled workforce;
- stimulate marine tourism;
- foster intermodal transport, among other ways by creating a logistical hub in Montérégie.

As well, the government wants to position Québec as the hub of transatlantic shipping traffic to tap new opportunities for Québec, including those created by the Canada and European Comprehensive Economic and Trade Agreement announced in September 2014.

- This agreement will open new markets for Québec exports and offer significant growth opportunities for marine transportation and the logistics chain.

2.1.2 Relaunching of the Plan Nord

The plan for Québec's economic recovery hinges in part on reviving the Plan Nord. This plan will generate substantial public and private investment, which will help drive Québec's economic growth and thereby benefit all Quebecers.

Relaunching of the Plan Nord – Concrete actions

A new state-owned enterprise to coordinate implementation of the Plan Nord

On September 30, 2014, the Minister of Energy and Natural Resources and Minister responsible for the Northern Plan tabled Bill 11, *An Act respecting the Société du Plan Nord*, in the National Assembly.

The mission of this new state-owned enterprise is to, among other things, coordinate and contribute to the implementation of the government's policy directions relating to the Plan Nord.

It will also be responsible for setting up a marketing office whose purpose is to communicate to Québec companies the supply and equipment needs of ordering parties operating in the area covered by the Plan Nord.

Aboriginal education

On October 15, 2014, the Minister of Education, Recreation and Sport announced the investment of nearly $29.5 million for the construction of:

- a second elementary school in the northern village of Wemindji, which will increase the space available for secondary and adult education;
- 20 housing units in Wemindji, Chisasibi, Waswanipi, Waskaganish and Mistissini to be reserved for teaching, professional and administrative staff members.

A new rail line to improve access to the Labrador Trough

On October 21, 2014, the government formed a partnership with Champion Iron Limited and Lac Otelnuk Mining Ltd. to conduct a feasibility study to determine the optimum rail option for improving access to the Labrador Trough.

The contributions from each partner will be pooled and managed by the partnership "Société ferroviaire du Nord québécois (SFNQ)."

- Other privately owned companies will be invited to participate in the SFNQ.

The SFNQ partnership was formed in response to a call put out by the Secrétariat au Plan Nord on June 21, 2014, to identify private partners interested in contributing to the study.

Québec Tourism Strategy North of the 49th Parallel

As part of Budget 2014-2015, the government announced $3.2 million in funding to support implementation of the Québec Tourism Strategy North of the 49th Parallel. Since then, a total of $2 million has been allocated to 14 new projects, for a total investment of $13 million.

2.1.3 **Development of the oil and gas industry**

Oil and gas are essential to economic development in today's world. With the focus on clean and renewable energy sources, it is crucial that we find ways to reduce our dependence on foreign markets and ensure competitively priced supplies, in particular by providing all regions of Québec with access to natural gas.

❑ Strategic environmental assessment of oil and gas developments

Québec's oil and gas potential represents a major source of collective wealth.

To ensure the oil and gas sector is developed according to best practices, the government conducted two strategic environmental assessments: one of the oil and gas sector as a whole and one specific to Île d'Anticosti.

Moreover, oil and gas exploration is already under way on Île d'Anticosti with a view to determining the recoverable potential of this area. Future development of this potential would be subject to the highest environmental and technical standards and would have to benefit all Quebecers.

These exploration activities will inform the strategic environmental assessment specific to Île d'Anticosti.

Concrete steps to protect the environment

Five stratigraphic surveys have been conducted on Île d'Anticosti since the start of exploration activities in summer 2014.

- Representatives of the Ministère du Développement durable, de l'Environnement et de la Lutte contre les changements climatiques and the Ministère de l'Énergie et des Ressources naturelles are on site permanently to oversee and monitor the work, inform the population and address the islanders' concerns.
- Government representatives have conducted roughly 350 inspections and visits.

Furthermore, the government took steps to strengthen existing environmental protection rules by passing the *Regulation respecting water protection and removal*.

In addition, the Minister of Energy and Natural Resources stipulated, by order, conditions and obligations to ensure that the stratigraphic surveys were conducted safely.

❑ Liquefied natural gas projects are currently being assessed

Supplying the Côte-Nord and Nord-du-Québec regions with liquefied natural gas is an integral part of the Plan Nord and will also help fight climate change.

— Distribution of a more affordable resource that could replace higher-polluting fossil fuels, such as fuel oil, will facilitate sustainable development of Québec's northern regions.

An interdepartmental committee was struck to weigh distribution options that match customers' needs.

Reporting to the Secrétariat au Plan Nord, the interdepartmental committee is composed of representatives of the Ministère des Finances, the Ministère de l'Énergie et des Ressources naturelles, the Ministère de l'Économie, de l'Innovation et des Exportations and the Ministère du Développement durable, de l'Environnement et de la Lutte contre les changements climatiques.

The committee met with industry representatives and developers interested in supplying liquefied natural gas to the Côte-Nord and Nord-du-Québec regions.

— Projects to serve these regions with liquefied natural gas are currently being assessed with a view to optimizing the necessary infrastructure.

— The new infrastructure will give companies that decide to convert to natural gas a significant competitive edge by lowering their production costs.

Making liquefied natural gas available to Québec's northern regions will be a great asset and could become a major incentive for other companies to set up offices in the area covered by the Plan Nord.

A promising partnership with Gaz Métro

On September 30, 2014, the government announced that it would be investing $50 million in equity in Gaz Métro GNL, a subsidiary of Gaz Métro that specializes in the liquefied natural gas market.

This investment with enable Gaz Métro GNL to increase the liquefaction capacity of its plant in East-End Montréal and supply businesses in Northern Québec.

This project will provide potential customers in the transportation and mining sectors with a competitively priced source of energy and generate substantial energy savings for businesses so they can become more competitive and profitable.

- Stornoway Diamonds will become the first mining company in Québec to use liquefied natural gas, enabling it to cut its operating costs by up to $10 million a year and its greenhouse gas emissions by around 43% compared to the option initially considered.

2.2 A plan to drive private investment and job creation

In addition to placing emphasis on large-scale projects, the government intends to support businesses in their efforts to innovate, export and create high-value-added jobs.

❑ Tax relief since June 5, 2014

Budget 2014-2015 was an opportunity to announce general fiscal measures for SMEs. The measures have been in force since June 5, 2014.

The holiday from the Health Services Fund (HSF) contribution for the hiring of new specialized workers enables SMEs to improve their productivity and become more competitive while fostering the creation of well-paid jobs.

Budget 2014-2015 was also an opportunity to announce measures to make SMEs more competitive on external markets by cutting their production costs.

— The income tax rate for SMEs in the manufacturing sector was cut from 8% to 6% on June 5, 2014.

— An additional deduction in calculating income for tax purposes was introduced to compensate for the higher transportation costs for manufacturing SMEs located far from major urban centres.

❑ Additional income tax reduction for manufacturing SMEs as of April 1, 2015

As of April 1, 2015, the tax rate on the income of SMEs in the manufacturing sector will be reduced again, from 6% to 4%.

With a 4% income tax rate, Québec’s manufacturing SMEs will enjoy a tax rate that is competitive with the rest of Canada.

In addition, Québec’s manufacturing SMEs will enjoy a tax rate lower than that levied on Ontario businesses, their principal competitors.

All of these measures will help businesses grow and expand into export markets.

In addition to helping Québec SMEs become more innovative and competitive on external markets, these measures will also support investment by giving businesses more room for investing.

TABLE C.14

Income tax rate for manufacturing SMEs in Québec and the other Canadian provinces(1)

(dollars, unless otherwise indicated)

	Tax rate	Cap on eligible income(2)
Québec — Since June 5, 2014	**6.0%**	**500 000**
New Brunswick	4.5%	500 000
Prince Edward Island	4.5%	500 000
Ontario	4.5%	500 000
Newfoundland and Labrador	4.0%	500 000
Québec — As of April 1, 2015	**4.0%**	**500 000**
Alberta	3.0%	500 000
Nova Scotia	3.0%	350 000
British Columbia	2.5%	500 000
Saskatchewan	2.0%	500 000
Manitoba	0.0%	425 000

(1) The information presented for the Canadian provinces represents the tax system applicable at the time of the 2014-2015 budget speech.
(2) Taxable income in excess of the cap on income eligible for the reduced tax rate for SMEs is taxed at the general tax rate.

❑ Major initiatives to spur investment and innovation

Three major initiatives announced in Budget 2014-2015 have been implemented to facilitate access to financing for promising ventures:

— the creation of Teralys Capital Innovation Fund, with initial commitments of $279 million, to invest in technology venture capital funds;

— recapitalization of the Anges Québec Capital fund, now at $85 million dollars thanks to new contributions from Québec financial partners to co-invest with angel investors in high-potential Québec companies;

— creation of the Créativité Québec program, with a budget envelope of $150 million over three years, to offer financing to businesses to support them in carrying out their innovation projects.

To further support economic recovery, the government introduced the LogiRénov tax credit for home renovations.

— Individuals who have home renovations done by a qualified contractor may claim a tax credit, up to a maximum of $2 500.

Major initiatives to spur investment and innovation

LogiRénov

To encourage individuals to do renovation work and to propel economic recovery in Québec, the government announced a new home renovation tax credit, LogiRénov, that applies to most types of home renovation.

Main parameters

The LogiRénov refundable tax credit grants individuals tax assistance corresponding to 20% of the portion of eligible expenses that exceeds $3 000, up to a maximum tax credit of $2 500.

- The maximum tax assistance is thus reached when eligible expenses total $15 500, which corresponds to a maximum subsidy rate of 16.1%.
- The renovation work must be carried out by a qualified contractor under a contract entered into between April 25, 2014 and June 30, 2015.

The renovation work must be carried out and paid for by December 31, 2015.

Main parameters of the LogiRénov refundable tax credit

Recognized renovation work	Home renovations
Amount of eligible expenses giving entitlement to the tax credit	$3 000
Tax credit rate	20%
Maximum tax credit	$2 500
Expenses giving entitlement to the maximum tax credit	$15 500
Maximum subsidy rate(1)	16.1%
Work carried out by	A qualified contractor
Period contract must be entered into with a qualified contractor	Between April 25, 2014 and June 30, 2015
Deadline for paying for the renovation work	December 31, 2015
Eligible dwellings	Single-family home, pre-fabricated house or mobile home, condominium, duplex, triplex

(1) The maximum subsidy rate corresponds to the maximum tax credit divided by the amount of the expenses giving entitlement to this maximum amount.

Anticipated impact

The LogiRénov refundable tax credit is expected to benefit more than 220 000 households, representing total tax relief of slightly more than $333 million and an average tax assistance of $1 500 per household.

This measure will generate nearly $3 billion in home renovation spending and support more than 20 000 jobs in the home renovation sector.

Major initiatives to spur investment and innovation (continued)

Teralys Capital Innovation Fund

On November 10, 2014, the Québec government announced the initial closing of Teralys Capital Innovation Fund, created to finance technology venture capital funds. The initial commitments by sponsors of the fund, which is financed through the federal Venture Capital Action Plan, amounted to $279 million, including $186 million from institutional investors and private companies, and $93 million funded equally by the Québec and Canadian governments.

As announced in Budget 2014-2015, the target size of the fund is $375 million. The search will continue for other potential investors to join the initiative in order to meet that target. The Québec and Canadian governments contribute to the fund by matching one dollar of public funding for two dollars of private funding, up to a maximum of $62.5 million each.

In addition to the Québec government's longtime partners, the Caisse de dépôt et placement du Québec, the Fonds de solidarité FTQ and Fondaction CSN, the fund is also being financed in partnership with Knight Therapeutics Inc., OpenText Corporation, the National Bank and Desjardins Group.

Teralys Capital Innovation Fund will fund venture capital funds specialized in promising sectors in Québec, such as information and communication technologies, green technologies and life sciences.

Anges Québec Capital

In Budget 2014-2015, the government pledged to recapitalize the Anges Québec Capital fund, in collaboration with Investissement Québec, with an additional $25-million contribution. The recapitalization follows on an initial government commitment of $20 million, announced in the March 2011 budget speech.

The budget announcement confirmed that two new partners, the Caisse de dépôt et placement du Québec and the Fonds de solidarité FTQ pledged to contribute $25 million and $15 million, respectively, to the Anges Québec Capital fund. Their contributions raise the size of the fund to $85 million, including the $20 million invested by the government in 2012. The goal of the Anges Québec Capital fund for the coming year will be to increase the size of the fund to $100 million by identifying other potential partners.

Recapitalization of the Anges Québec Capital fund will help support Québec entrepreneurship while benefiting from the expertise of angel investors. An initiative of this kind stimulates diversified job creation in Québec's regions as well as the start-up of businesses with high growth potential. In all, the fund will financially support nearly 50 Québec business projects. The leverage effect generated by the fund, taking into account its total capitalization, will make it possible to inject a minimum of $150 million in Québec businesses.

Major initiatives to spur investment and innovation (continued)

Créativité Québec program

With a budget envelope of $150 million over three years, Créativité Québec will make it possible to offer financing to businesses to support them in carrying out their innovation projects. At $50 million per year on average, the assistance provided will generally take the form of:

- loans;
- loan guarantees.

In certain circumstances, the program may provide non-repayable contributions or take the form of an equity participation.

The activities to be targeted by this program are, in particular, acquisition of new technologies, improvement of production processes and development of new products.

The needs being different for each type of project, the Créativité Québec program will include two components for projects valued at $500 000 or more:

- a component for the acquisition of new technologies;
- a component for the development of new processes or products.

Section D

REVENUE AND EXENDITURE MEASURES

INTRODUCTION

In Budget 2014-2015, the government presented a plan to restore sound public finances. The plan was underpinned in particular by a review of the current tax system and of existing programs.

— At that time, the government identified the bulk of the savings measures necessary to achieve the budgetary objectives for 2014-2015.

— It also identified one-half of the savings measures for 2015-2016.

Following the 2014-2015 budget speech, the government continued to review spending. To that end, two committees were set up:

— the Ongoing Program Review Committee, tasked with examining and proposing possible solutions regarding the relevance, effectiveness, efficiency and financing of programs and the review of existing structures;

— the Québec Taxation Review Committee, tasked with providing a clear picture of the Québec tax system and proposing ways to ensure that it finances public services adequately while fostering economic growth.

The December 2014 update is the opportunity for the government to report on the measures not identified in the June budget that will reduce the budget deficit to $2 350 million in 2014-2015 and to zero in 2015-2016.

In this regard, the Update on Québec's Economic and Financial Situation presents budgetary expenditure savings measures and announces the tax expenditure reduction measures adopted by the government to achieve the targets set in Budget 2014-2015.

— Budgetary expenditure savings measures totalling $1 861 million were identified for 2015-2016.

— The government is announcing most of the tax expenditure reduction measures to be implemented in order to meet the objective of returning to fiscal balance in 2015-2016, representing savings of $600 million in 2015-2016.

— The balance of the measures to be implemented in the next fiscal year, representing $1 187 million, will be made known between now and Budget 2015-2016.

TABLE D.1

Actions to return to fiscal balance
(millions of dollars)

	2015-2016
BUDGETARY BALANCE BEFORE MEASURES – BUDGET 2014-2015[1]	**–7 274**
MEASURES – BUDGET 2014-2015	
Control of government spending	3 078
Reduction of tax expenditures	348
Use of the contingency reserve	200
Subtotal	**3 626**
MEASURES IDENTIFIED – DECEMBER 2014	
Control of government spending	
Reduction of the cost of public services	1 125
Program review measures	736
Subtotal	**1 861**
Reduction of tax expenditures	600
Total of measures identified – December 2014	**2 461**
BALANCE OF MEASURES TO BE IDENTIFIED BY BUDGET 2015-2016	**1 187**
BUDGETARY BALANCE – DECEMBER 2014	**—**

(1) Excluding the $49-million impact of revenue measures and the economic recovery plan announced in the June 2014 budget, as well as the $285-million downward adjustment of renewal costs, the budgetary balance before measures totals –$7 608 million for 2015 2016, i.e. the same balance as that presented in Budget 2014-2015 (Budget Plan – Budget 2014-2015, p. A.21).

1. BUDGETARY PROGRAM MEASURES

To attain fiscal balance and meet the spending objective in 2015-2016, savings measures of $1 861 million relating to budgetary programs are presented in this economic and financial update, representing a $1 125-million reduction in the cost of public services and $736 million in program review measures.

TABLE D.2

Budgetary impact of the measures announced in the December 2014 update
(millions of dollars)

	2015-2016
Reduction in the cost of public services	
Limit the factors related to compensation expenditures in 2015-2016	689
Compensation spreading for physicians	194
Suspension of bonuses paid to senior executives and management personnel of government departments and agencies	42
Reduction in the contingency reserve for additional requirements, from $300 million to $100 million	200
Subtotal – Reduction in the cost of public services	**1 125**
Program review measures	
Changes to the organization and governance of the health and social services network	55
Adoption of best practices to improve the appropriateness of health care and social services	150
Transitional fiscal pact concerning financial transfers to municipalities for 2015	300
Adjustment of childcare funding	193
Adjustment of fee exemptions for international university students	12
Adjustment of the fine-related penal contribution	21
Funding of operations relative to the administration of unclaimed property	5
Review of tax assistance for assisted procreation(1)	—
Subtotal – Program review measures	**736**
TOTAL OF BUDGETARY MEASURES ANNOUNCED IN THE UPDATE	**1 861**

(1) The budgetary impact was already taken into account in Budget 2014-2015.

1.1 Measures to reduce the cost of public services

1.1.1 Payroll containment

As part of the implementation of savings measures, everyone who is remunerated by the government is being asked to make an effort to restore sound public finances. In this regard, the government is announcing $925 million in payroll containment measures.

TABLE D.3

Payroll containment measures
(millions of dollars)

	2015-2016
Limit the factors related to compensation expenditures in 2015-2016	689
Compensation spreading for physicians[(1)]	194
Suspension of bonuses paid to senior executives and management personnel of government departments and agencies	42
TOTAL	**925**

(1) Taking into account the savings of $305 million already achieved in 2014-2015 and forecast in Budget 2014-2015, total savings for 2015-2016 amount to $499 million.

❑ Limit the factors related to compensation expenditures in 2015-2016

Under the 2010-2015 collective agreements, the government is required to grant its employees a 1% pay raise on March 31, 2015. To follow through on that commitment, the government will curtail other factors that could increase compensation expenditures, in order to generate savings of $689 million.

Moreover, to that end, the government tabled in the National Assembly the bill on workforce management and control within government departments, public sector bodies and networks and government enterprises, which provides for a general freeze on staffing levels in the public and parapublic sectors from January 1, 2015 to March 31, 2016.

A middle ground will have to be found in the talks to renew collective agreements, in order to reconcile the demands of government employees and taxpayers' ability to pay.

❑ Compensation spreading for physicians

On September 24, 2014, an agreement in principle was reached with the Fédération des médecins spécialistes du Québec and the Fédération des médecins omnipraticiens du Québec concerning the compensation of their members.

Under the agreement, the balance of the fee increases granted to physicians as part of the current pay agreement, in effect until March 31, 2015, will be spread over eight years, resulting in savings of $194 million in 2015-2016 compared to the budget forecasts in 2014-2015 budget speech.

❑ Suspension of bonuses paid to senior executives and management personnel of government departments and agencies

The government will suspend again, in 2015-2016, the payment of premiums, allowances, bonuses, compensation or any other form of additional compensation based on personal performance or the performance of a body in 2014-2015.

This measure, which accounts for savings of $42 million, will apply to the management personnel of government departments and agencies, including those in the health and social services and education networks, and of ministers' offices. Government enterprises will be asked to make at least a comparable effort.

1.1.2 Reduction in the contingency reserve for additional requirements, from $300 million to $100 million

The government's spending projections in Budget 2014-2015 included $300 million to finance additional requirements or in accordance with government priorities. On the basis of the current fiscal year, the government has decided to cut the envelope for this purpose by two thirds for 2015-2016.

This measure will reduce the envelope to $100 million, which will be reserved for economic development. This will generate savings of approximately $200 million in 2015-2016.

TABLE D.4

Budgetary impact of the measure
(millions of dollars)

	2015-2016
Reduction in the reserve for additional requirements, from $300 million to $100 million	200

1.2 Program review measures

1.2.1 Changes to the organization and governance of the health and social services network

The government undertook to review the organization and governance of the health and social services network, in particular by abolishing the regional agencies.

The objective of the draft bill is particularly to:

— modify the organization and governance of the health and social services network by implementing a two-tier management structure, that is, by abolishing the agencies;

— provide for the creation, for the regions, of integrated health and social services centres (CISSS);

— provide for the method of appointment to, and the composition of, the boards of directors of the institutions;

— determine the functions of the new institutions, in particular by distributing the functions formerly entrusted to an agency.

This structural streamlining will improve the governance and organizational methods of the health and social services network and will generate savings of $55 million in 2015-2016.

TABLE D.5

Budgetary impact of the measure
(millions of dollars)

	2015-2016
Changes to the organization and governance of the health and social services network	55

1.2.2 Adoption of best practices to improve the appropriateness of health care and social services

The Ministère de la Santé et des Services sociaux, in collaboration with the Institut national d'excellence en santé et services sociaux, is starting a working group on the appropriateness of interventions in the health and social services sector, with a view to evaluating recourse to certain services and technologies.

A number of programs will be evaluated, on the basis of recognized best practices, to ensure the quality of care and foster better use of resources.

This work will focus in particular on the:

— design and application of practice tools and evidence-based guidelines, to help health professionals and patients make choices;

— elaboration of indicators and monitoring tools on the use of targeted technologies or practices.

The potential for gains is directly in line with judicious recourse to high-volume interventions in clinical fields where practices vary greatly. Savings are possible through a reduction in the use of equipment, optimization of technical platforms, and human resources management.

— The objective is to make the most appropriate use of resources without affecting access to services or quality of care.

The appropriateness initiative will generate savings of $150 million as of 2015-2016, which represents 2% of institutions' spending on physical health.

Improving care appropriateness is also one of the objectives of patient-based funding. Directing funding to best practices will help improve budget management and quality of care for the benefit of patients.

TABLE D.6

Budgetary impact of the measure
(millions of dollars)

	2015-2016
Adoption of best practices to improve the appropriateness of health care and social services	150

1.2.3 **Transitional fiscal pact concerning financial transfers to municipalities for 2015**

As part of its approach to putting public finances in order, which calls on everyone in Québec to do their part, the Québec government examined the financial transfer programs for municipal bodies.

Further to this examination, the government entered into the transitional fiscal pact concerning financial transfers to municipalities for 2015 and new regional governance, which identifies the reductions to be made to certain government assistance measures as of municipal fiscal year 2015.

❑ Adjustment of financial transfers to municipal bodies

With this agreement, the government has undertaken to continue the review of the municipal legislative framework, in order to redefine its relationship with municipalities. In so doing, it recognizes the importance of its partnership with municipalities in delivering services essential to the quality of life of citizens.

Until the completion of this review, the government's fiscal position and taxpayers' burden are to be taken into account in determining financial transfers to municipal bodies. Municipalities are therefore required to participate in the collective effort to restore fiscal balance.

In this context, the mayors agreed to a $300-million reduction, representing 1.2% of their revenue, in the financial transfers to be paid to them in 2015. The scope of this reduction is moderate compared to the revenue of municipalities and the $3.2 billion in transfer payments that will continue to be paid to them.

Certain principles guided the choice of measures to reduce financial transfers, namely:

— fair distribution of the effort among municipalities, taking into account the fiscal position of small municipalities;

— reduction or elimination of assistance programs intended as transitional measures;

— maximum independence and flexibility for municipalities in deciding how to absorb the reduction in financial assistance.

TABLE D.7

Reduction of financial transfers to municipal bodies
(millions of dollars)

	2015(1)
QST rebate	98
Compensation for the loss of duties on amusements	32
Enhancement of compensations in lieu of taxes – parapublic immovables	72
Compensations in lieu of taxes – foreign government immovables	2
Compensation for antipollution equipment	4
Financial assistance for Communauté métropolitaine de Montréal metropolitan equipment	13
Financial assistance for regional development	67
Other reduction measures	12
TOTAL	**300**

(1) Municipal fiscal period from January 1 to December 31, 2015.
Source: Transitional fiscal pact concerning financial transfers to municipalities for 2015 and new regional governance.

❑ New regional governance and other government commitments

The government will propose, together with municipal representatives, a new governance model for regional development, so as to streamline structures and bring the decision-making process closer to the people.

Under the new governance model, regional conferences of elected officers (CRÉs) will be abolished and jurisdiction over local economic development and support for entrepreneurship will be exercised by regional county municipalities (RCMs). This new regional governance will give local players greater leeway and flexibility, and optimize government support for regional economic development.

In addition to the review of the legislative framework and the recognition of the special status of the cities of Québec and Montréal, as announced in Budget 2014-2015, a process to simplify the government reporting procedures followed by municipal bodies will be undertaken, for the purpose of cutting their administrative costs.

In addition, given the major work required on local roads, the government will grant another $50 million to the assistance program for the maintenance of local roads.

1.2.4 Adjustment of childcare funding

The educational childcare network has been gradually implemented over the years, as a result of considerable financial effort.

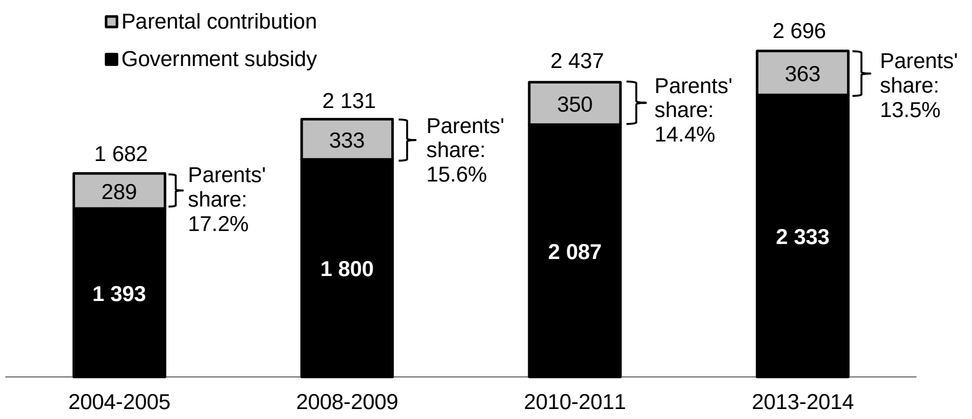
- While costs stood at $1.7 billion in 2004-2005, they have now reached $2.7 billion.
- Over 92% of this increase of more than $1 billion in nine years has been funded by the government.
- Accordingly, the subsidy for educational childcare services, which accounted for 2.9% of government program spending in 2004-2005, reached 3.6% of spending in 2013-2014.

However, since the increase in childcare rates announced in 2004, the share of funding attributable to the parental contribution has steadily declined.

- According to the most recent available data, the share of the parental contribution gradually decreased from 17.2% in 2004-2005 to 13.5% in 2013-2014.

GRAPHIQUE D.1

Change in the funding of reduced-contribution childcare services
(millions of dollars)



Source : Ministère de la Famille.

To ensure that educational childcare services receive adequate funding and are sustainable, a larger share of the costs must be covered by the parental contribution.

Since some families have more limited financial capabilities, it is all the more appropriate to consider households' ability to pay when requesting an additional effort of them.

Québec's family policy
Three key measures constitute the main components of the family policy: – child assistance: $2.2 billion for over 860 000 families; – reduced-contribution childcare services: $2.4 billion for 225 000 spaces; – Québec Parental Insurance Plan: $1.4 billion[1] for 130 000 recipients. Taking these three key measures into account, nearly $6 billion is injected annually for the benefit of Québec families.

1 Benefits amounted to $1.9 billion in 2013. However, after accounting for taxation, the net benefits paid to parents totalled $1.4 billion.

❑ A new rate that takes into account parents' ability to pay

In this context, the December 2014 update follows up on the announcement made on November 20 that an additional rate based on parent's income will be introduced. This rate, which is payable when parents file their income tax returns, is in addition to the rate of $7.30 a day paid for childcare services.

Consequently, as of April 1, 2015, the new daily rate will be:

— $7.30, up to an income of $50 000;

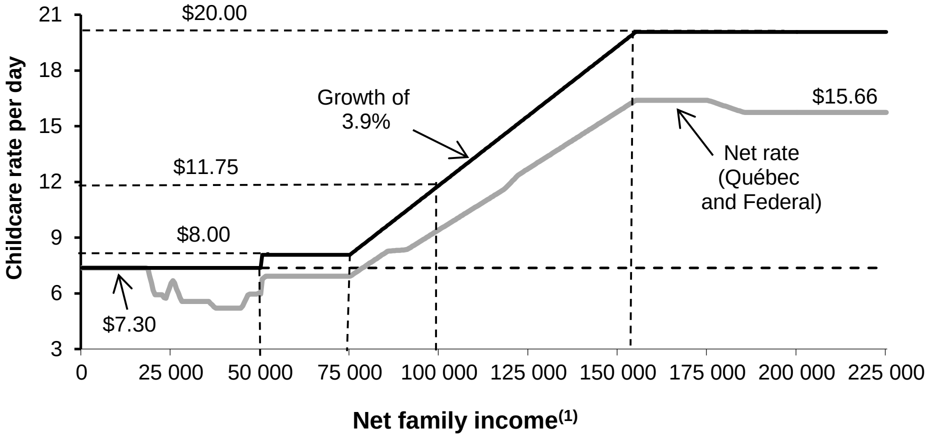
— $8, up to an income of $75 000;

— $20, reached on an income of $155 000.

A lower rate for large families
Large families have to cope with higher childcare expenses. To accommodate families with three or more children in subsidized childcare services, no additional rate will be charged for the third child and any additional children.

CHART D.2

Illustration of the childcare rate for a couple with one child and two equal incomes – 2015
(dollars)



(1) Net family income corresponds to a household's total income minus certain deductions, such as contributions to a registered retirement savings plan or a registered pension plan.

Overall, the increase of the rate according to income will mean that:

— 30% of families will not be affected by the increase, because their income is under $50 000;

— families with an income of $50 000 to $75 000 will pay a rate limited to $8 a day;

— nearly 60% of families will pay a rate of less than $9;

— the contribution of parents as a whole in 2015-2016 will increase to 19.7% of the total cost of childcare services, a level comparable to that which prevailed when the subsidized childcare network was implemented in 1997.

TABLE D.8

Gross daily childcare rate(1) for two types of household – 2015
(dollars per day)

	Single-parent family with one child 3 years of age			Couple with one child 3 years of age and two equal incomes		
Work income	Basic rate	Sliding additional rate	Gross rate	Basic rate	Sliding additional rate	Basic rate
25 000	7.30	—	7.30	7.30	—	7.30
50 000	7.30	—	7.30	7.30	—	7.30
75 000	7.30	0.70	8.00	7.30	0.70	8.00
85 000	7.30	2.03	9.33	7.30	1.86	9.16
100 000	7.30	4.28	11.58	7.30	4.11	11.41
120 000	7.30	7.28	14.58	7.30	7.11	14.41
140 000	7.30	10.28	17.58	7.30	10.11	17.41
200 000	7.30	12.70	20.00	7.30	12.70	20.00

(1) The rate for parents will be $7.30 a day for the first three months of 2015. For the following nine months, the increase will be applicable according to income. For illustration purposes, daily childcare rates are estimated over a full year.

In addition, after accounting for federal taxation, the childcare rate actually assumed by parents will be lower.

— For example, the net daily rate for a couple with two equal incomes totalling $75 000 will rise from $6.31 to $6.84, which represents an increase of 53 cents per day.

— The net daily rate for a couple with two equal incomes totalling $100 000 will rise from $5.88 to $9.09, which represents an increase of $3.21 a day.

TABLEAU D.9

Net daily childcare rate[1] for two types of household – 2015
(dollars per day)

	Single-parent family with one child 3 years of age			Couple with one child 3 years of age and two equal incomes		
Work income	**Current rate**	**New rate**	**Difference**	**Current rate**	**New rate**	**Difference**
25 000	6.67	6.59	–0.08	6.54	6.48	–0.06
50 000	5.66	5.60	–0.06	6.09	6.02	–0.07
75 000	5.88	6.37	0.49	6.31	6.84	0.53
85 000	5.88	7.43	1.55	6.31	7.83	1.52
100 000	5.63	8.84	3.21	5.88	9.09	3.21
120 000	5.77	11.26	5.49	6.02	11.62	5.60
140 000	5.64	13.63	7.99	6.02	14.22	8.20
200 000	5.59	15.16	9.57	5.78	15.66	9.88

Note: Including the impact of the federal childcare expenses deduction.
(1) The rate for parents will be $7.30 a day for the first three months of 2015. For the following nine months, the increase will be applicable according to income. For illustration purposes, daily childcare rates are estimated over a full year.

A childcare cost calculator already online

Following the changes announced to the rates for childcare services that will come into effect on April 1, 2015, the Ministère des Finances made a calculator available to help parents estimate the net daily cost of childcare depending on their situation.

The calculator takes into account, in particular, the fact that the rate varies according to family income, and makes it possible to consider the most recent changes announced in regard to families by the federal government.

The calculator can be used to estimate the assistance to which parents may be entitled on the basis of certain assumptions intended to reflect the most common situations. The calculator also helps parents compare the financial benefits of subsidized and non-subsidized childcare spaces.

The daily childcare cost calculator is available on the Ministère des Finances website at www.finances.gouv.qc.ca.

Mechanism for claiming the additional contribution for subsidized childcare services in the federal childcare expenses deduction

Claiming childcare expenses

During the year, a taxpayer will pay $7.30 a day to a childcare provider. At the end of the year, the taxpayer will receive from the childcare provider a slip specifying the number of eligible childcare days and the total fees paid to the childcare provider in 2015.

In completing his or her Québec income tax return for 2015, the taxpayer will fill out a new schedule to calculate the additional contribution (sliding) for childcare services according to:

- the number of days indicated on the slip;
- the net family income indicated on the 2014 income tax return (line 14 of Schedule B).

The taxpayer will claim the amount of contributions paid to the childcare provider in his or her federal income tax return, as well as in his or her Québec income tax return.

- The taxpayer will not have to provide supporting documents for childcare expenses in filing the federal income tax return.

The additional amount will be paid to Revenu Québec to ensure that the financial situation of households remains confidential. Revenu Québec will send parents a receipt indicating the amount of their additional contribution.

The sums collected by Revenu Québec will be paid into a fund dedicated exclusively to the funding of subsidized educational childcare services.

Illustration of the calculation

A couple with a net income of $100 000 in 2014 receives childcare services from a childcare centre (CPE) for 150 days during 2015, when an additional fee is payable.

The CPE will provide the couple with a slip indicating 150 childcare days at $7.30 a day, as well an amount of $1 095 (i.e. 150 X $7.30) in fees paid.

In their Québec income tax return, the couple will calculate the additional contribution (sliding) for childcare services according to their net family income and the number of attendance days, i.e. the lesser of:

- ($20 - $7.30) X 150 days = $1 905;
- ($0.70[1] + 3.75 $[2]) X 150 days = $667.50.

In general, the spouse with the lowest income will be able to claim in his or her federal income tax return a deduction of $1 762.50 ($1 095 + $667.50) for the total childcare fees paid.

1 The difference between the basic rate of $7.30 and the first additional rate of $8 reached at an income of $50 000:
($8 - $7.30 = $0.70).

2 The additional daily rate corresponding to 3.9% of net family income in excess of $75 000:
($100 000 - $75 000) X 3.9% / 260 days = $3.75.

❑ A rate for subsidized spaces that is comparable to that for non-subsidized spaces

Québec's refundable tax credit for childcare expenses was enhanced in 2009 at the time of the 2008-2009 and 2009-2010 budgets so that the cost of non-subsidized spaces would be comparable to that of subsidized spaces. The goal was to ensure greater neutrality when it came time for parents to choose between a subsidized space and a non-subsidized one, up to an income of $100 000.

However, since 2009, the rates for non-subsidized services have increased, affecting this neutrality. The increase in the rate for subsidized spaces will reduce the rate difference that currently works in favour of subsidized childcare services.

— For example, in the case of a couple with two equal incomes and a net family income of $100 000, the net rate for a non-subsidized space[1] at $35 a day amounts to $9.03 a day after accounting for taxation. A non-subsidized space is thus $3.15 a day more costly than the current rate for a subsidized childcare space.

— With the new childcare rate, the difference is reduced to $0.06 a day.

In fact, the increase restores neutrality to the choice between the two types of childcare spaces that was established when the tax credit was updated in 2009.

1 The rate that takes into account federal childcare expenses deduction and Québec's refundable tax credit for childcare expenses.

TABLE D.10

Comparison of the net rate of a subsidized space[(1)] with that of a non-subsidized space for a couple with one child and two equal incomes – 2015
(dollars per day)

Family income	Net rate for a non-subsidized space at $35/day[(2)]	Current net rate for a subsidized space		New rate for a subsidized space	
		Value	Difference	Value	Difference
50 000	5.93	6.09	0.16	6.02	0.09
75 000	9.76	6.31	–3.45	6.84	–2.92
85 000	9.76	6.31	–3.45	7.83	–1.93
100 000	**9.03**	**5.88**	**–3.15**	**9.09**	**0.06**
125 000	9.52	6.02	–3.50	12.38	2.86
140 000	11.35	6.02	–5.33	14.22	2.87
150 000	16.89	6.02	–10.87	15.44	–1.45

Note: Including the impact of the federal childcare expenses deduction.
(1) The rate for parents will be $7.30 a day for the first three months of 2015. For the following nine months, the increase will be applicable according to income. For illustration purposes, daily childcare rates are estimated over a full year.
(2) Including the impact of Québec’s refundable tax credit for childcare expenses.

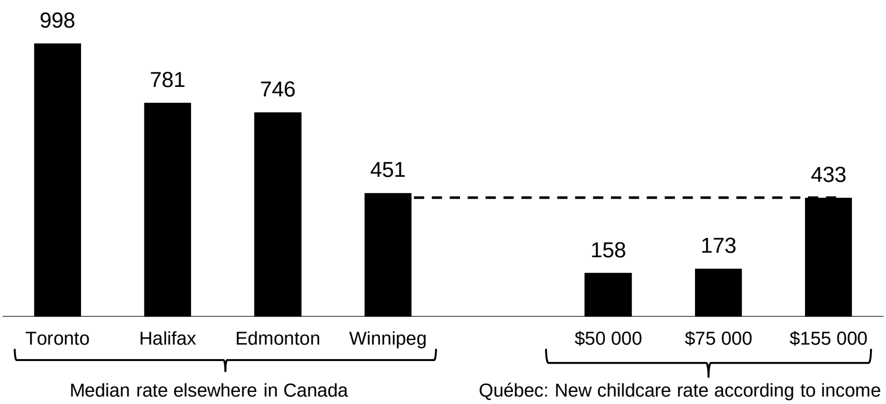
A new rate that is still lower than elsewhere in Canada

The Canadian Centre for Policy Alternatives published a study in which it compares the median childcare fees paid by parents in large Canadian cities.[1]

The results show that the childcare rate of $7 paid in Québec is very advantageous compared to the rates paid in the rest of Canada. According to this study, Toronto has the highest median rate. The lowest median rate, after that of Québec, is observed in Winnipeg.

However, even if the maximum increase according to income is taken into account, the rate in Québec is still lower than the rates in effect elsewhere in Canada.

Median rate paid for childcare in certain Canadian cities compared with the new childcare rate in Québec(1)
(dollars per month, for one child)



(1) Taking into account an average of 21.7 childcare days per month, i.e. 260 business days divided by 12 months.
Sources: Canadian Centre for Policy Alternatives*, The Parent Trap, Child Care Fees in Canada's Big Cities*, November 2014 and Ministère des Finances.

1 Excluding provincial and federal taxation.

Change in the participation rate of women

Since 1997, the participation rate of women in Québec has risen substantially, even catching up to that in the other Canadian provinces.

One of the reasons why the gap has narrowed is the implementation of the family policy, including, in particular, reduced-contribution childcare services.

- Other factors, such as rising educational levels among women have also helped to increase the participation rate of women in Québec.

Participation rate of women in Québec and elsewhere in Canada
(per cent)

	1997	**2004**	**2008**	**2012**	**2013**
Québec	54.2	60.1	61.3	60.9	61.0
Newfoundland and Labrador	46.7	54.2	54.9	57.5	57.2
Prince Edward Island	60.0	64.1	65.1	64.8	65.7
Nova Scotia	53.2	58.8	59.9	61.0	60.8
New Brunswick	53.1	59.5	60.3	59.4	59.3
Ontario	59.0	62.8	63.3	62.1	62.2
Manitoba	59.5	63.4	63.4	63.3	63.3
Saskatchewan	58.4	62.0	63.7	63.4	64.1
Alberta	64.9	67.1	67.6	67.0	66.8
British Columbia	59.2	60.4	61.1	61.3	60.6
Canada as a whole	**57.8**	**61.9**	**62.7**	**62.2**	**62.1**

Source: Statistics Canada. *Table 282-0002 - Labour force survey estimates (LFS), by sex and detailed age group, annual (persons unless otherwise noted),* CANSIM, 2014.

❑ Indexation of the new rate

As of 2016, the parental contribution will be indexed to ensure the funding of childcare services by continuing to derive a fair share of the financing from the parental contribution.

TABLEAU D.11

Indexation of the childcare rate as of January 1, 2016
(en dollars par jour)

	Maximum income	Growth rate	Childcare rate		
			2015	2016(1)	2017(1)
Current(2)	—	—	7.30	7.55	7.85
Rate 1	50 000(3)	—	7.30	7.55	7.85
Rate 2	75 000(3)	—	8.00	8.30	8.60
Rate 3	155 000	3.9%	20.00	20.75	21.45

(1) Rate estimated on the basis of the most recent forecasts.
(2) Rate for a subsidized space charged to parents in January under the existing rules.
(3) This income threshold will be indexed annually like the other indexed parameters of Québec's tax system.

Determination of indexing rates for the rates applicable to subsidized spaces

The indexing rate that will be used to increase the childcare rate on January 1 of each year, as of 2016, will be determined using the higher of the following rates.

- The average annual growth rate of the cost of subsidized educational childcare spaces, established for four fiscal years, the most recent of which ends on March 31 of the second to last fiscal year.
  - For 2016, for example, the indexing rate will be equal to the annual average growth of the cost of subsidized childcare spaces from April 2010 to March 2014.
- The rate corresponding to the annual change in the overall average consumer price index for Québec, without alcoholic beverages and tobacco products for the 12-month period ending March 31.

The rate will be rounded to the nearest $0.05.

Overall, the increase in the parental contribution will enable the government to free up additional revenue of $162 million in 2015-2016 for the funding of the educational childcare network.

However, since the increase provided for is eligible for the federal childcare expenses deduction, the net impact for parents who use these childcare services is reduced to $141 million.

TABLEAU D.12

Financial impact for the government of the increase in the parental contribution for educational childcare services and the net impact on user parents
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Québec	—	162	168
Federal(1)	—	–21	–22
User-parents	—	–141	–146

(1) Including the announcements made by the federal government on October 30, 2014, namely, an additional tax reduction attributable to the federal childcare expenses deduction on the income splitting portion.

Creation of a special fund for the funding of childcare services

The increase in childcare rates will be used solely to ensure adequate funding for childcare services. Therefore, the additional parental contribution will be allocated to a special fund and dedicated exclusively to the funding of childcare services.

This fund will ensure transparency in the use of the additional funds derived from the increase in the parental contribution. These funds will be paid directly to childcare providers.

❑ Childcare at school

Since the introduction of reduced-contribution childcare services, the rate payable by parents for childcare at school has always kept pace with that charged for childcare services.

— Since October 1, 2014, the reduced contribution at school has been set at $7.30 a day, as in the case of childcare services.

— For subsequent years, the budget of last June stipulated that the parental contribution will be determined so as to keep parents' share in the total funding of childcare services at a minimum level.

Accordingly, the December 2014 update provides for the following two changes:

— as of April 1, 2015, the reduced contribution charged for childcare at school will be raised to $8 a day;

— as of January 1, 2016 and January 1 of each subsequent year, the parental contribution will be determined so as to keep parents' share in the total funding of childcare services at a minimum level.

TABLE D.13

Illustration of the increase in and indexing of the parental contribution for childcare at school
(dollars per childcare day)

		Rate	
	Current rate	**As at April 1, 2015(1)**	**As at January 1, 2016(2)**
Parental contribution	7.30	8.00	8.15

(1) Rate set.
(2) Estimated rate.

The additional contribution for childcare at school will generate $31 million as of 2015-2016 to ensure the funding of such services.

TABLE D.14

Financial impact of the increase in and indexing of the parental contribution for childcare at school
(millions of dollars)

	2014-2015	**2015-2016**	**2016-2017**
Financial impact	—	31	32

Determination of indexing rates
The Ministère de l'Éducation, du Loisir et du Sport will be required to announce the indexing rates at least two months before the application date of the rate increase. The indexing rate will be determined so as to keep parents' share in the total funding of childcare services at a minimum level. Indexing rates will be calculated according to real observed costs.

❑ Financial impact

The increase in the parental contribution for educational childcare services and childcare at school will enable the government to free up $193 million in 2015-2016.

TABLEAU D.15

Financial impact for the government of the increase in the parental contribution for childcare services and childcare at school
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Childcare services	—	162	168
Childcare at school	—	31	32
FINANCIAL IMPACT	**—**	**193**	**200**

The next steps
The government will make the legislative amendments required to implement the changes announced regarding the rate for childcare services. An information campaign will be deployed to make parents aware that they will have to modify their source deductions in order to avoid having to pay a balance when they file their income tax return. In addition, childcare providers will be asked to distribute to parents a document explaining the rate changes made. Revenu Québec will prepare an information guide for employers to enable them to assist employees who request changes to their source deductions.

1.2.5 Adjustment of fee exemptions for international university students

Québec universities welcome numerous students from outside Québec. In fact, the number of foreign students enrolled in Québec universities has grown considerably in recent years.

- Between 2001 and 2012, the number of international students rose from 17 376 to 30 677, an increase of 5% per year.

Recognizing the important contribution these students make to Québec's development, the government helps fund their education in order to foster international and interprovincial exchanges, promote research and support immigration.

A substantial proportion of foreign students are granted fee exemptions and thus pay the same tuition fees as students from Québec.

- The cost of these exemptions for the government was $133 million in 2012-2013.

Nearly three quarters of the exemptions stem from supplemental tuition fee exemption agreements entered into between Québec and other jurisdictions.

The government wants to review the policy on tuition fees charged to foreign students currently exempted from paying the lump sum under international agreements. Once the existing agreements expire, they will be reviewed so that the total fees payable by foreign students will correspond to those charged to Canadian students who are not Québec residents.

- However, a certain number of students will be entitled to exemptions and continue to pay the same tuition fees as students from Québec.

The savings achieved by this measure will amount to roughly $12 million in 2015-2016.

TABLE D.16

Budgetary impact of the measure
(millions of dollars)

	2015-2016
Adjustment of the fee exemptions for international university students	12

1.2.6 Adjustment of the fine-related penal contribution

In Budget 2014-2015, the government announced that the *Code of Penal Procedure* will be amended to increase the contribution added to the total amount of the fine and costs imposed on the issue of a statement of offence for an offence under the laws of Québec, except in the case of a statement of offence issued for the contravention of a municipal by-law.

Currently, a penal contribution of $14 is collected under section 8.1 of the *Code of Penal Procedure*. The sums collected are used to fund assistance to victims of crime and access to justice measures.

To bring the level of this contribution more into line with that of the contributions observed in the other provinces and thereby consolidate assistance to victims of crime and help to provide Quebecers with better access to legal services, the penal contribution will be adjusted using the following formula:

— $20, when the amount of the fine does not exceed $100;

— $40, when the amount exceeds $100 but does not exceed $500;

— 25% of the amount, when the latter exceeds $500.

The increase in the contribution will generate additional revenue of $21 million for 2015-2016. This sum will be used to fund the various services offered to Quebecers in matters of justice, in particular, access to justice measures.

TABLE D.17

Budgetary impact of the measure
(millions of dollars)

	2015-2016
Adjustment of the fine-related penal contribution	21

1.2.7 **Funding of operations relative to the administration of unclaimed property**

Revenu Québec is the body responsible for recovering and administering unclaimed property on behalf of the government.

Insofar as possible, Revenu Québec must try to inform the owner of the existence of the property. While waiting for the owner to come forward, the unclaimed property is sold and the proceeds are deposited in the Generations Fund.

Revenu Québec charges fees to cover the cost of managing unclaimed property. The current fee structure has a large number of rates and does not enable Revenu Québec to recover all of the expenses incurred. Therefore, the cost of managing and administering unclaimed property is assumed by taxpayers as a whole, while the proceeds from the sale of the property are claimed by the right-holders.

To better reflect Revenu Québec's costs and facilitate the administration of unclaimed property, the government is announcing an adjustment of the fee structure for administering such property. The adjustment will increase Revenu Québec's own-source revenue by $5 million in 2015-2016.

TABLE D.18

Budgetary impact of the measure
(millions of dollars)

	2015-2016
Funding of operations relative to the administration of unclaimed property	5

1.2.8 Change to the tax assistance to support assisted procreation

❑ Ensuring sustainable government funding for assisted procreation

On June 6, 2014, the Health and Welfare Commissioner published an opinion on assisted procreation activities in Québec, in which he made 12 recommendations to ensure better supervision of the Québec Assisted Reproduction Program, improve the benefits of the program and better administer public funds in that respect.

To improve the public services offered to Quebecers, the government wants to draw on the Commissioner's recommendations and intends to bring into the tax system government assistance for assisted procreation, which supports Quebecers in their desire to become parents.

Government funding to support assisted procreation
Québec Assisted Reproduction Program Since 2010, the Québec Assisted Reproduction Program has aimed to help households with infertility problems to conceive. The program, offered under the Québec Health Insurance Plan and available to all women of child-bearing age, pays expenses related to medically assisted reproductive treatments, thereby ensuring that all medical activities related to artificial insemination and three cycles of in vitro fertilization (IVF) are free. **Refundable tax credit for the treatment of infertility** Québec couples having difficulty conceiving may claim a refundable tax credit for the treatment of infertility. The purpose of the tax credit is to recognize the costs borne by a person undergoing IVF treatments that are not covered by a public plan. The tax credit corresponds to 50% of expenses paid by a household for assisted IVF activities. Eligible expenses for the tax credit are capped at $20 000. Accordingly, an individual who opts for assisted procreation to become a parent may claim a tax credit of up to $10 000 a year. The tax credit does not apply to expenses paid as part of the Québec Assisted Reproduction Program. The federal personal income tax system does not provide for tax assistance specifically for the treatment of infertility. However, it allows taxpayers to include in a medical expense tax credit expenses incurred with respect to assisted procreation, in particular for IVF procedures.

Adjustments to the Québec Assisted Reproduction Program

To act on the recommendations of the Health and Welfare Commissioner concerning the Québec Assisted Reproduction Program, the Minister of Health and Social Services recently announced a series of adjustments to the program. Among other things, it is proposed that the Québec Assisted Reproduction Program no longer cover expenses incurred for medical treatments relative to in vitro fertilization (IVF). Assistance for future parents will be offered through the tax system.

Restructuring of the refundable tax credit for the treatment of infertility

To take into account the changes to be made to the Québec Assisted Reproduction Program, the December 2014 update reiterates that the refundable tax credit for the treatment of infertility will be adjusted, as of January 1, 2015, to provide tax assistance respecting expenses incurred for medical IVF treatments that will no longer be covered by the Québec Health Insurance Plan.[2]

This restructuring is aimed primarily at ensuring that Québec households continue to have access to medical IVF treatments, on the basis of their income.

To that end, and to ensure the continuity of government funding for the treatment of infertility, changes will be made to the refundable tax credit for the treatment of infertility. The tax credit will henceforth correspond to a maximum of 80% of eligible IVF expenses.

Moreover, to better reflect the progressiveness of Québec's personal income tax system, the refundable tax credit for the treatment of infertility will be reduced on the basis of income.

Thus, the maximum 80% rate of the tax credit will be maintained up to a net family income of $50 000, after which it will be gradually decreased, to a minimum of 20% for a net family income of $120 000 or more.[3]

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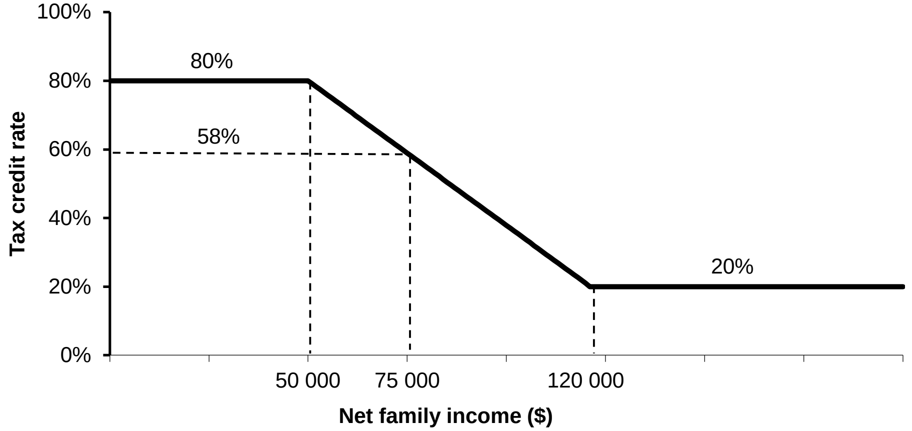
2 For more information, refer to Information Bulletin 2014-10 of November 28, 2014.

3 For persons living alone, the 80% will apply up to a net income of $25 000, while the minimum rate will apply as of a net income of $60 000.

CHART D.3

Rate of the refundable tax credit for the treatment of infertility – 2015
(couple without children)



The income thresholds used to determine the tax credit will be automatically indexed each year as of January 1, 2016.

- **Advance payment of the tax credit**

To maintain access for low- and middle-income individuals, eligible individuals will be able to apply for advance payments of the refundable tax credit for the treatment of infertility.

- **New eligibility conditions for the tax credit**

New application details and eligibility conditions have been established for the refundable tax credit for the treatment of infertility to better direct the tax assistance to households experiencing infertility.

For example, it is provided that:

— only households without children will be eligible for the tax credit;

— the number of eligible treatments will be one for women under 37 years of age and two for women 37 years of age or over.

New provisions for the tax credits for medical expenses

To take into account the changes to be made to the refundable tax credit for the treatment of infertility, new provisions will also be introduced respecting eligible expenses for the tax credits for medical expenses.

Eligible expenses will no longer include expenses:

- for which the refundable tax credit for the treatment of infertility was granted;
- attributable to an in vitro fertilization (IVF) activity carried out respecting a woman under the age of 18 or over the age of 42;
- attributable to an IVF activity during which more than one embryo was transferred, in the case of a woman 36 years of age or under, or more than two embryos, in the case of a woman 37 year of age or over;
- attributable to an IVF activity, carried out at a centre for assisted procreation, that does not meet the requirements of the *Act respecting clinical and research activities relating to assisted procreation*.

The $21 million in costs relating to the introduction of the tax credit is fully offset by savings of $60 million at the Ministère de la Santé et des Services sociaux stemming from the termination of coverage for these services under the public insurance plan.

TABLE D.19

Budgetary impact of the measure
(millions of dollars)

	2015-2016
Tax credit	−21
Change to the budgetary program	60
BUDGETARY IMPACT(1)	**39**

(1) The savings were taken into account in Budget 2014-2015.

2. TAX SYSTEM MEASURES

In Budget 2014-2015 of last June, the government presented a plan to return to fiscal balance as of 2015-2016.

The plan is based, in particular, on a review of tax expenditures as a whole, and it provides for specific targets, namely, to achieve savings of:

— $150 million in 2014-2015;

— $650 million per year as of 2015-2016.

The government created the Québec Taxation Review Committee, chaired by Luc Godbout and tasked, in particular, to examine all fiscal measures from the standpoint of their relevance and effectiveness in order to pinpoint measures to reduce tax expenditures and thus meet the targets set in Budget 2014-2015.

❑ Recommendations of the committee

As specified in its mandate, the committee submitted recommendations, applicable over the short term, to the government regarding the changes to be made to tax expenditures. The actions provided for in the Update on Québec's Financial and Economic Situation are based in part on the committee's proposals to tighten tax expenditures.

To prepare these proposals, the committee held public and private consultations in October that enabled it to hear nearly 90 stakeholders who had come to submit a brief on the review of the tax system. These hearings, held by the committee, and the briefs submitted to it contributed to the members' reflection.

The report of the Québec Taxation Review Committee will be filed with the Minister of Finance at the end of the year. The government will use this report to propose an optimization of the tax system in order to:

— offer businesses a competitive fiscal environment and conditions fostering investment and innovation to increase wealth creation;

— further encourage work and saving and optimize user fees while ensuring fair redistribution of collective wealth through the maintenance of adequate support for the poorest members of society;

— examine the Québec tax system to enhance its effectiveness, fairness and competitiveness while ensuring funding for public services;

— examine the possibility of rethinking the balance between different modes of taxation.

❑ Immediate actions to return to fiscal balance

To respond to the directions announced in the previous budget, the government is announcing in the Update on Québec's Financial and Economic Situation immediate actions pertaining to tax expenditures that will achieve savings of:

— $122 million in 2014-2015;

— $600 million in 2015-2016;

— $701 million in 2016-2017.

The measures announced will enable the government to meet the bulk of the targets set in Budget 2014-2015. At term, these new actions will have a financial impact of:

— $424 million for corporations;

— $277 million for individuals.

TABLE D.20

Financial impact of the tax system measures
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Measures concerning corporations	93	338	424
Measures concerning individuals[(1)]	29	262	277
TOTAL	**122**	**600**	**701**

(1) The measures regarding individuals have no impact on the tax tables of the personal income tax system and the QST.

2.1 Corporate tax system measures

To establish a level of corporate tax assistance that is more in line with the government's ability to pay, the December 2014 update provides for the following actions:

— measures to reduce tax expenditures under the corporate tax system, which draw inspiration from the proposals of the Québec Taxation Review Committee;

— a temporary surtax on financial institutions.

Overall, these initiatives will enable the government to achieve savings of:

— $88 million in 2014-2015;

— $316 million in 2015-2016;

— $394 million in 2016-2017.

TABLE D.21

Financial impact of the corporate tax system measures
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Measures to reduce tax expenditures			
Introduction of minimum eligible expenditure thresholds for R&D tax credits and the investment tax credit	4	58	120
Standardization of R&D tax credit rates	—	5	15
Elimination of the reduced rate of the tax on capital of insurance corporations applicable to personal insurance premiums	42	128	130
Subtotal	**46**	**191**	**265**
Temporary surtax on financial institutions	42	125	129
TOTAL	**88**	**316**	**394**

❑ Reduction of tax assistance for businesses by one third in 2016-2017

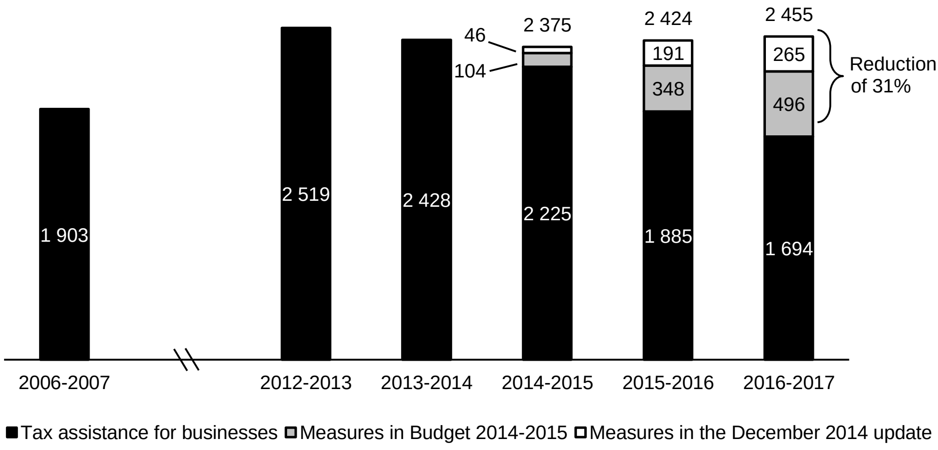
The initiatives announced as part of the December 2014 update are in addition to the measures to reduce corporate tax expenditures announced in Budget 2014-2015.

— Savings totalling roughly $760 million will be achieved in 2016-2017, that is, once the measures will have had their full impact

Through the combination of these actions, tax assistance for businesses should stand at $1.7 billion in 2016-2017, which represents a decrease of 31% compared with the level of $2.5 billion that would have been achieved without these measures.

CHART D.4

Illustration of the impact of the measures to reduce tax assistance for businesses announced in Budget 2014-2015 and the December 2014 update
(millions of dollars)



❑ Maximizing economic activity, supporting strategic sectors and ensuring the predictability of tax assistance

The Québec Taxation Review Committee will continue its work to identify avenues for increasing the effectiveness of tax assistance and the tax system as a whole.

— Following the measures announced in this update, the government is committing to continue its work to not further reduce the overall support granted to businesses through tax assistance and the tax system as a whole.

— In this context, the government will continue to act to maximize the economic benefits of tax assistance and support sectors of excellence, particularly the emerging, cultural and innovative sectors of Québec's economy.

2.1.1 Introduction of minimum eligible expenditure thresholds for R&D tax credits and the tax credit for investments relating to manufacturing and processing equipment

Currently, many business claim tax credits for small amounts of expenditures. For example, in 2011:

— 40% of businesses that claimed R&D tax credits had eligible expenditures of less than $50 000, for an average expenditure of about $25 000 per business;

— 40% of businesses that claimed the tax credit for investments relating to manufacturing and processing equipment had eligible expenditures of less than $12 500, for an average expenditure of about $4 500 per business.

The tax credit does not seem to be an essential deciding factor for carrying out the activities or investments concerned. Moreover, the administration of all of these claims entails considerable administrative costs for the government and businesses. In some cases, the administrative costs related to claiming the tax credit can be higher than the tax assistance granted.

To refocus tax assistance and minimize the administrative burden tied to the granting of tax credits, the government is announcing the introduction of minimum eligible expenditure thresholds for R&D tax credits and the tax credit for investments relating to manufacturing and processing equipment.

— Accordingly, as of December 3, 2014, businesses will be able to claim from these tax credits for their eligible expenditures exceeding a certain threshold.

❑ Thresholds applicable to R&D tax credits

The minimum eligible expenditure thresholds for R&D tax credits as a whole will be:

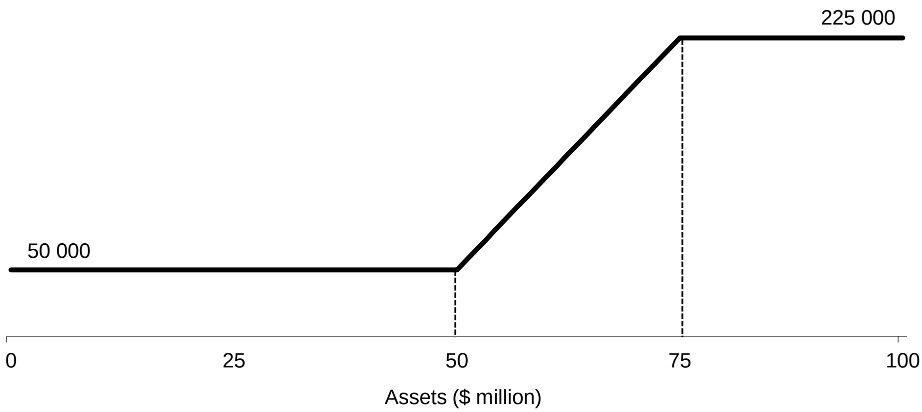
— $50 000 for corporations with assets of less than or equal to $50 million;

— $225 000 for corporations with assets of $75 million or more;

— an amount that increases linearly between $50 000 and $225 000 for corporations with assets between $50 million and $75 million.

CHART D.5

Minimum eligible expenditure thresholds for R&D tax credits
(dollars, unless otherwise indicated)



❑ Threshold applicable to the tax credit for investments relating to manufacturing and processing equipment

Businesses that claim the tax credit for investments relating to manufacturing and processing equipment will be subject to a threshold of $12 500 for eligible manufacturing and processing equipment expenditures.

❑ Financial impact

The introduction of these thresholds will represent savings of $58 million in 2015-2016 and $120 million in 2016-2017.

TABLE D.22

Financial impact of the introduction of minimum expenditure thresholds
(millions of dollars)

	2014-2015	2015-2016	2016-2017
R&D tax credits	3	47	105
Tax credit for investments relating to manufacturing and processing equipment	1	11	15
TOTAL	**4**	**58**	**120**

2.1.2 Standardization of R&D tax credit rates

Québec offers corporations that carry out R&D activities an assistance regime consisting of four refundable tax credits:

- one tax credit for researchers' salaries;
- three enhanced tax credits for specific activities:
  - the tax credit for a research contract entered into with a university, an eligible public research centre or a research consortium;
  - the tax credit for private partnership research;
  - the tax credit for fees and dues paid to a research consortium.

With these enhanced tax credits, a business may benefit from:

- a tax credit rate of 28% compared to 14% for the regime applicable to researchers' salaries for large businesses;
- eligible expenditures including not only salary expenditures but also equipment expenditures.

Québec is one of the only provinces that offers enhanced R&D tax assistance for university research,[4] and the only one to offer enhanced tax assistance for private partnership research and the funding of private research centres or research consortiums.

4 Only two other Canadian provinces offer enhanced tax assistance for university research. Ontario offers a rate of 20% applicable exclusively to SMEs, and Manitoba allows full, rather than partial refundability of its R&D tax credit.

Since the regime applicable to researchers' salaries in effect in Québec is competitive, the rates of the three enhanced tax credits will be standardized with those of the R&D tax credit paid on researchers' salaries.

Accordingly, as of December 3, 2014, the applicable rates will go from:

- 28% to 30% for SMEs, which represents a two-percentage-point increase in tax assistance;
- 28% to14% for large businesses.

Despite this change, these tax credits will continue to apply to a larger set of expenditures, including equipment expenditures.

TABLE D.23

Summary of the changes to R&D tax credits

		Rate		Tax base
Tax credits	**Size**	**Before update**	**After(1) update**	
Researchers' salaries	SME	30%	30%	Salary or 50% of the amount of the subcontract entered into with a third party at arm's length
	Large business	14%	14%	
University research contracts	SME	28%	30%	80% of the amount of the subcontract entered into with a university, a public research centre or a research consortium
	Large business	28%	14%	
Private partnership	SME	28%	30%	100% of current expenditures related to R&D work in partnership or 80% of the amount of the subcontract
	Large business	28%	14%	
Funding of research consortiums	SME	28%	30%	100% of the amount of eligible fees and dues
	Large business	28%	14%	

(1) Each of the R&D tax credits has an increased rate of 30% applicable to the first $3 million of annual eligible expenditures in the case of Canadian-controlled corporations with assets of $50 million or less. A linear reduction in the rate of the tax credit from 30% to 14% applies in the case of Canadian-controlled corporations with assets between $50 million and $75 million. The rate is 14% when assets are $75 million or more.

These changes will enable the government to save $5 million in 2015-2016 and $15 million in 2016-2017.

TABLE D.24

Financial impact of the standardization of R&D tax credit rates
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Standardization of R&D tax credit rates	—	5	15

Measures to support innovation and research and development

As part of Budget 2014-2015, the government implemented two new measures targeting SMEs to support innovative businesses:

- the Créativité Québec program;
- a holiday from the contribution to the Health Services Fund (HSF) to encourage the hiring of specialized workers.

Créativité Québec program

The Créativité Québec program, which has a budget envelope of $150 million, is intended to foster the acquisition of new technologies, the improvement of production processes and the development of new products for projects worth $500 000 or more.

Holiday from the HSF contribution to encourage the hiring of specialized workers in SMEs for innovation projects

The government has introduced a holiday from the HSF contribution, until the end of 2020, on the salaries of new specialized employees.

This measure is intended to facilitate the hiring of qualified workers to carry out the innovation projects of Québec SMEs.

Over five years, this holiday from the HSF contribution will represent nearly $155 million in tax relief for Québec SMEs.

❑ Competitiveness of Québec's R&D tax regime

Despite the changes to R&D tax credits, Québec's tax system remains competitive within Canada for SMEs and large businesses. The portion of tax assistance for a typical R&D expenditure incurred in Québec will correspond to:

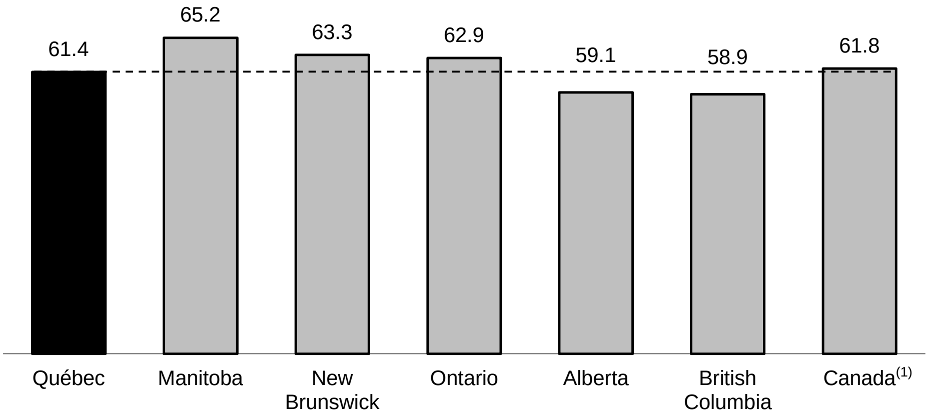
- 61.4% for an SME, i.e. a level similar to the Canadian average (61.8%);
- 44.4% for a large business, i.e. a level slightly above that of Ontario (42.1%) and equivalent to the Canadian average (44.0%).

In addition, tax assistance for R&D in Québec still offers certain major advantages for large businesses, in particular:

- it is refundable in full, whereas it is refundable in part in Manitoba and British Columbia and non-refundable in Ontario;
- it is not capped, contrary to that of Alberta.

CHART D.6

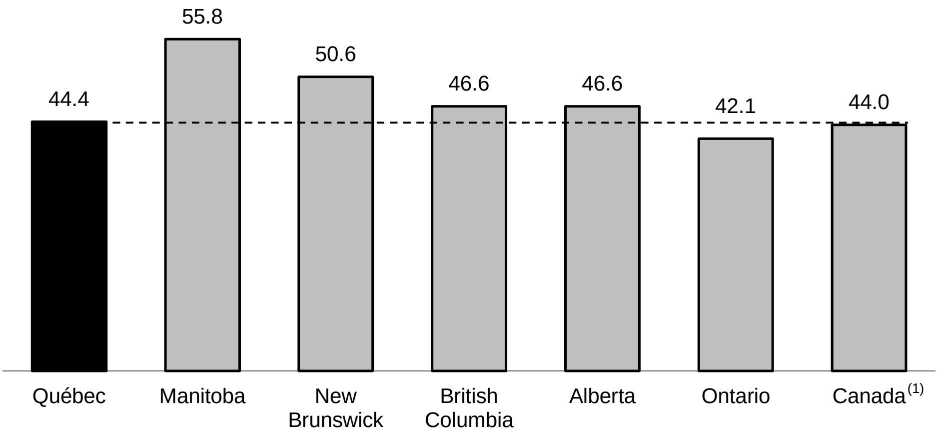
Illustration of the portion of provincial and federal tax assistance applicable to an R&D expenditure of $300 000 incurred by an SME
(per cent)



Assumptions: The R&D is carried out in-house. The business is profitable. The tax assistance includes R&D tax credits and the deduction allowed in calculating taxable income, including the capital cost allowance (assumption: depreciation rate of 20%). The R&D investment consists of 60% salaries, 35% equipment and 5% capital assets. The proxy method was used to calculate the federal tax credit and the tax credit of certain provinces.
(1) The Canadian average, excluding Québec, is weighted based on R&D expenditures in each Canadian province.

CHART D.7

Illustration of the portion of provincial and federal tax assistance applicable to an R&D expenditure of $3 million incurred by a large business
(per cent)



Assumptions: The R&D is carried out in-house. The business is profitable. The tax assistance includes R&D tax credits and the deduction allowed in calculating taxable income, including the capital cost allowance (assumption: depreciation rate of 20%). The R&D investment consists of 60% salaries, 35% equipment and 5% capital assets. The proxy method was used to calculate the federal tax credit and the tax credit of certain provinces.
(1) The Canadian average, excluding Québec, is weighted based on R&D expenditures in each Canadian province.

2.1.3 Temporary surtax on financial institutions

To achieve the targets set in Budget 2014-2015, the government is announcing the introduction of a temporary surtax on financial institutions.

Like other sectors of the economy whose tax assistance is declining, financial institutions will be asked to make an effort until March 31, 2017.

The temporary surtax will take the form of an increase in the rates of the temporary contribution by financial institutions and will apply starting on December 3, 2014.

The rates of the surtax will be:

— 1.68% on amounts paid as wages by banks, loan corporations, trust corporations and corporations trading in securities;

— 1.32% on amounts paid as wages by savings and credit unions;

— 0.54% on amounts paid as wages by other financial institutions;

— 0.18% on insurance premiums and amounts established regarding insurance funds.

TABLE D.25

Rates of the temporary surtax on financial institutions
(per cent)

Types of financial institutions	Bases	Rate
Banks, loan corporations, trust corporations and corporations trading in securities	Wages paid	1.68
Savings and credit unions	Wages paid	1.32
Other financial institutions	Wages paid	0.54
Insurance corporations and professional orders	Insurance premiums(1)	0.18

(1) Includes amounts established regarding insurance funds.

This measure will represent additional revenue for the government of $42 million in 2014-2015, $125 million in 2015-2016 and $129 million in 2016-2017.

TABLEAU D.26

Financial impact of the temporary surtax on financial institutions
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Temporary surtax on financial institutions	42	125	129

2.1.4 Elimination of the reduced rate of the tax on capital of insurance corporations applicable to personal insurance premiums

Personal insurance and damage insurance corporations are subject to a tax on capital that is applicable to the insurance premiums they collect.

— The rate of the tax is 2% when premiums are for insurance relating to the life, health or physical well-being of the insured.

— The rate of the tax is 3% in the case of premiums for damage insurance.

The government is announcing the elimination of the reduced rate of 2% for the tax on capital of insurance corporations applicable to personal insurance premiums or uninsured employee benefit plans.

— As of December 3, 2014, the rate of the tax will increase from 2% to 3%, a rate equal to that applicable to damage insurance premiums.

❑ A rate that is still lower than or equal to that of several Canadian provinces

At 3%, the rate of the tax on capital of insurance corporations applicable to personal insurance premiums in Québec is similar to the Canadian average, which is 2.7%, but less than or equal to that in effect in four other Canadian provinces.

TABLE D.27

Rates applicable to the insurance premiums of insurance corporations, by province — 2014
(per cent)

Province	Personal insurance	Damage insurance
Alberta	2.0	3.0
Manitoba	2.0	3.0
New Brunswick	2.0	3.0
Ontario	2.0	3.5
British Columbia	2.0	4.4
Québec(1)	**3.0**	**3.0**
Nova Scotia	3.0	4.0
Saskatchewan	3.0	4.0
Prince Edward Island	3.5	3.5
Newfoundland and Labrador	4.0	4.0
AVERAGE	**2.7**	**3.5**

(1) As of December 3, 2014.

The elimination of the reduced rate of the tax on capital of insurance corporations applicable to personal insurance premiums will reduce tax expenditures by $42 million in 2014-2015, $128 million in 2015-2016 and $130 million in 2016-2017.

TABLE D.28

Financial impact of the elimination of the reduced rate of the tax on capital of insurance corporations applicable to personal insurance premiums
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Elimination of the reduced rate of the tax on capital of insurance corporations applicable to personal insurance premiums	42	128	130

2.2 Personal income tax measures

As part of the fiscal measures to be identified to achieve the public spending reduction objectives, the government is making changes to the personal income tax system.

The December 2014 update provides for:

— reduction of the conversion rate for tax credits for union and professional dues from 20% to 10%;

— harmonization of the eligibility criteria for the work premium with those for the federal working income tax benefit.

These various actions will generate savings totalling $141 million for fiscal year 2015-2016.

TABLE D.29

Personal income tax measures
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Reduction of the conversion rate for tax credits for union and professional dues from 20% to 10%	—	112	112
Harmonization of the eligibility criteria for the work premium with those for the federal working income tax benefit	—	29	29
TOTAL	**—**	**141**	**141**

2.2.1 Reduction of the conversion rate for tax credits for union and professional dues

Individuals who pay dues to a union or a recognized professional association may currently claim non-refundable tax credits corresponding to 20% of the amounts paid as dues.

As part of the efforts to reduce tax expenditures, the December 2014 update provides for the reduction of the conversion rate for tax credits for union and professional dues from 20% to 10% as of 2015.

Despite this reduction, the tax assistance granted to low-income workers for the payment of union and professional dues will remain comparable to that granted in the other Canadian provinces.

Treatment of union and professional dues

In the other provinces and at the federal level, the tax advantage related to union and professional dues takes the form of a deduction with an effective rate corresponding to the taxpayer's marginal tax rate. In Québec, the assistance is granted in the form of non-refundable tax credits.

With the reduction of the rate of the tax credits for union and professional dues from 20% to 10%, Québec's tax assistance will be comparable to the rate applicable to low-income taxpayers elsewhere in Canada. For example:

- in Ontario, the effective rate of the deduction is 5.05% for low incomes, which corresponds to the minimum marginal rate;
- in Alberta, the effective rate of the deduction is 10%, since all taxpayers are taxed at this rate.

Comparison of the rate of the tax credits for union and professional dues in Québec with the minimum marginal rate applicable to low incomes elsewhere in Canada – 2015
(per cent)

	Rate of the tax credits in Québec and minimum marginal rates elsewhere in Canada
Ontario	5.05
British Columbia	5.06
Newfoundland and Labrador	7.70
Nova Scotia	8.79
New Brunswick	9.68
Prince Edward Island	9.80
Alberta	10.00
Québec(1)	**10.00**
Manitoba	10.80
Saskatchewan	11.00
Federal – Québec(2)	12.53

(1) Non-refundable tax credit.
(2) Taking into account the Québec abatement of 16.5% applicable on basic federal income tax.

❑ Financial impact

This measure will generate annual savings of $112 million for the government.

TABLE D.30

Impact of the reduction of the conversion rate for tax credits for union and professional dues
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Reduction of the conversion rate from 20% to 10%	—	112	112

2.2.2 Harmonization of the eligibility criteria for the work premium with those for the federal working income tax benefit

Since 2005, Québec workers with low incomes have been able to increase their work income by claiming the work premium.

Essentially, this tax assistance has two objectives:

- encourage people to enter the labour market;
- support and value the additional work effort of people whose main activity is related to a job.

The federal tax system provides for a measure that is similar to the Québec work premium, namely, the working income tax benefit (WITB), which is not aimed at the same clientele as Québec's work premium. For example, people whose main activity is not related to a job are not eligible for the WITB, in particular, full-time students. However, they may claim the Québec work premium.

❑ Better targeting of the work premium clientele

To more effectively refocus the work premium on its primary objectives, the December 2014 Update on Québec's Economic and Financial Situation provides that eligibility for the work premium will henceforth be limited to the clientele that is in the process of entering the labour market or whose main activity is related to a job.

This harmonization of the clientele of the work premium with that of the WITB will enable the Québec government to free up savings of nearly $30 million per year.

TABLE D.31

Financial impact of the measure to harmonize the clientele of the work premium with that of the federal working income tax benefit
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Harmonization of the clientele of the work premium with that of the WITB	—	29	29

2.2.3 A marginal reduction in assistance for individuals

The actions taken at the time of the December 2014 update will have little impact on individuals.

Accordingly, all of the initiatives announced, including those of Budget 2014-2015, represent only:

— 0.3% of tax expenditures[5] in 2014;

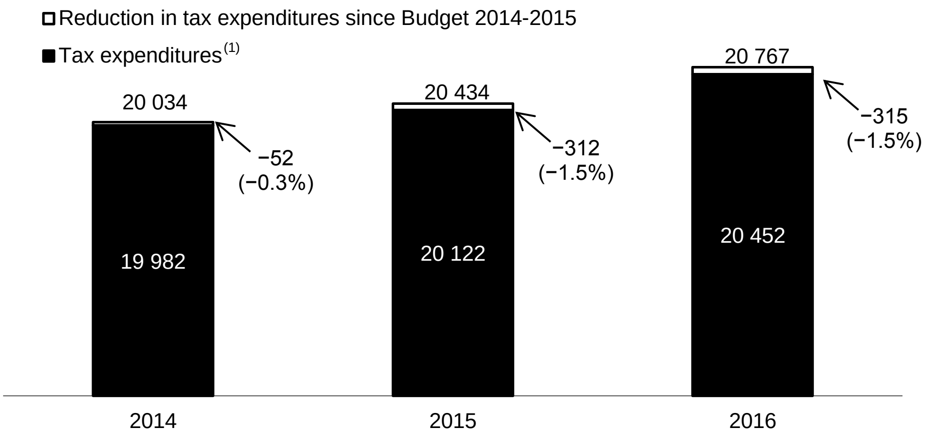
— 1.5% of tax expenditures in 2015;

— 1.5% of tax expenditures in 2016.

In addition, tax expenditures will continue to increase annually, from $19 982 million in 2014 to $20 452 million in 2016.

CHART D.8

Change in the cost of tax expenditures as a result of the measures introduced in Budget 2014-2015 and the December 2014 update
(millions of dollars)



(1) Including tax expenditures related to the personal income tax system and those related to the sales tax regime. Excluding measures presented for information purposes and business capitalization measures.

5 Tax expenditures are measures aimed at achieving strategic economic, social, cultural or other objectives, such as economic development, support for families, work incentive, savings incentives and support for low-income households. For more information on the concept of tax expenditures, see the publication *Dépenses fiscales – Édition 2013* available on the website of the Ministère des Finances (www.finances.gouv.qc.ca).

2.3 Other measures

2.3.1 Elimination of the reduced rate of the tax on insurance premiums for automobile insurance

Insurance premiums are subject to a tax whose general rate is 9%.

However, some tax relief applies, such as the reduced rate of 5% for insurance premiums payable under an automobile insurance policy covering essentially material damage (property damage insurance).

— Contributions payable to the Société d'assurance automobile du Québec (SAAQ) to fund the public automobile insurance plan applicable to bodily injury are subject to a general rate of 9%.

In 2013, the cost attributable to this rate reduction was $133 million.

Contribution payable to the Société de l'assurance automobile du Québec

Passenger vehicle registration and driver's licences are renewed every year with the Société de l'assurance automobile du Québec (SAAQ).

Upon payment of the registration or driver's licence, a portion of the amount is paid as a contribution to the public automobile insurance plan. With this public plan, all Quebecers are covered for injuries sustained in an automobile accident:

- whether or not they are responsible for the accident;
- whether the accident occurs in Québec or elsewhere in the world.

The main objective of the public automobile insurance plan is to ensure fair compensation for everyone, while reducing automobile insurance costs.

Since 1985, the general rate of 9% on insurance premiums has applied to the contribution to the public plan. For example, the contribution paid for the registration of a passenger vehicle in 2015 will total $131.23, including an amount of $10.84 for the applicable tax.

Reduction of $65 in the cost of insurance contributions

On November 27, 2014, the SAAQ tabled an information document on the draft regulation respecting insurance contributions for 2016-2018.

This document states that, thanks to an unprecedented collective effort, the contributions of almost all drivers and owners of motor vehicles will decrease by up to 35%, which represents an annual saving of $394 million for Quebecers.

In concrete terms, for a driver who owns a passenger vehicle, this represents, on average, a total reduction of $65, with the contribution for a licence going from $64 to $55 and that for registration, from $120 to $64.

❑ Application of the general rate as of January 1, 2015

The December 2014 update provides for the elimination of the reduced rate of the tax on insurance premiums for automobile insurance starting on January 1, 2015.

Accordingly, as of that date, the general rate of 9% will apply to automobile insurance premiums covering essentially material damage. They will thus be treated in the same way as contributions to the SAAQ to cover bodily injury and premiums paid for the other categories of damage insurance, such as home insurance.

— Automobile insurance premiums also apply to motorcycles, snowmobiles and all-terrain vehicles.

Other tax relief, such as the exemption for individual personal insurance premiums, will continue to apply.

❑ Average increase per automobile insurance premium

The average impact of eliminating the reduced rate of the tax on insurance premiums for automobile insurance will be roughly:

— $20 a year for passenger vehicles;

— $28 a year for vehicles used mainly for professional purposes;

— $9 for motorcycles.

TABLE D.32

Average impact of the elimination of the reduced rate of the tax on insurance premiums for automobile insurance by type of vehicle
(dollars)

	Passenger	Professional	Motorcycle
Average premium (2013)	497.14	694.29	220.95
Rate of 5%	24.86	34.71	11.05
Rate of 9%	44.74	62.49	19.89
IMPACT	**19.88**	**27.78**	**8.84**

Sources: Groupement des assureurs automobiles and Ministère des Finances du Québec.

The financial impact of eliminating the reduction of the rate of the tax on insurance premiums for automobile insurance will be:

— $34 million in 2014-2015;

— $135 million in 2015-2016;

— $136 million in 2016-2017.

TABLE D.33

Total impact of the elimination of the reduced rate of the tax on insurance premiums for automobile insurance by type of policy holder
(millions)

	2014-2015 [1]	2015-2016	2016-2017
Individuals	29	116	117
Businesses	5	19	19
TOTAL	**34**	**135**	**136**

(1) As of January 1, 2015.

2.3.2 Changes to the additional registration fee for vehicles having a large engine displacement

To further promote the reduction of polluting emissions, the government wants to bolster the impact of the additional registration fee applicable, since 2005, to vehicles equipped with an engine with a displacement of 4 litres or more. In this context, provision is being made to:

- increase the number of levels of the additional registration fee to 7 litres instead of 5.2 litres,
  - the maximum amount of the additional registration fee will thus apply to all vehicles equipped with an engine with a displacement of 7 litres or more;
- increase by 10% each level of the registration fee, with each level corresponding to a deciliter of displacement in an engine of 4 litres or more.

TABLE D.34

Impact of the changes to the additional registration fee for vehicles having a large engine displacement

Displacement	**Fee**		**Displacement**	**Fee**		**Displacement**	**Fee**	
(litres)	(dollars)		(litres)	(dollars)		(litres)	(dollars)	
	Before	After		Before	After		Before	After
4.0	32.25	35.48	5.0	140.00	154.00	6.0	162.00	266.20
4.1	43.00	47.30	5.1	151.00	166.10	6.1	162.00	277.20
4.2	53.75	59.13	5.2	162.00	178.20	6.2	162.00	288.20
4.3	64.25	70.68	5.3	162.00	189.20	6.3	162.00	299.20
4.4	75.50	83.05	5.4	162.00	200.20	6.4	162.00	310.20
4.5	86.00	94.60	5.5	162.00	211.20	6.5	162.00	321.20
4.6	97.00	106.70	5.6	162.00	222.20	6.6	162.00	332.20
4.7	108.00	118.80	5.7	162.00	233.20	6.7	162.00	343.20
4.8	118.00	129.80	5.8	162.00	244.20	6.8	162.00	354.20
4.9	129.00	141.90	5.9	162.00	255.20	6.9	162.00	365.20
						≥7.0	162.00	376.20

Note: Displacements of 3.95 to 3.99 litres are considered displacements of 4 litres. Moreover, the engine displacement is rounded to the nearest decilitre and, if the engine displacement is equidistant between 2 decilitres, it is rounded to the higher decilitre (e.g. a displacement of 4.05 litres is rounded to 4.1 litres).
Sources: Société de l'assurance automobile du Québec and Ministère des Finances du Québec.

In addition, to foster the development of a motor vehicle fleet in Québec consisting of vehicles that uses less energy, a purchase premium will be added to the additional registration fee upon the new registration of a vehicle to which the fee applies:

— $50 for a vehicle equipped with an engine with a displacement of 4 litres to 4.9 litres;

— $100 for a vehicle equipped with an engine with a displacement of 5 litres to 5.9 litres;

— $200 for a vehicle equipped with an engine with a displacement of 6 litres or more.[6]

All of these changes will apply as of January 1, 2016. They are expected to generate revenue of $8 million in 2015-2016 and $30 million as of 2016-2017.

This additional revenue will be paid into the Land Transportation Network Fund.

TABLE D.35

Total impact of the changes to the additional registration fee on vehicles having a large engine displacement
(millions of dollars)

	2014-2015	2015-2016(1)	2016-2017
Individuals	—	5	19
Businesses	—	3	11
TOTAL	**—**	**8**	**30**

(1) As of January 1, 2016.

6 For the purposes of this purchase premium, displacements of 3.95 to 3.99 litres, 4.95 to 4.99 litres and 5.95 to 5.99 litres will be considered displacements of 4 litres, 5 litres and 6 litres respectively.

Section E

THE GOVERNMENT'S DETAILED FINANCIAL FRAMEWORK

INTRODUCTION

This section of the Update on Québec's Economic and Financial Situation presents the government's detailed financial framework for 2014-2015 to 2016-2017.[1]

The information provided concerns:

— consolidated budgetary transactions for the period from 2014-2015 to 2016-2017;

— the detailed change in consolidated revenue and expenditure, as well as adjustments made since Budget 2014-2015;

— the results of the reporting entity's sectoral components, particularly the general fund, special funds, non-budget-funded bodies and the health and social services and education networks.

The five-year financial framework, i.e. the government's financial forecasts up to 2018-2019, is presented in Section A.

Presentation of budgetary information on a consolidated basis

The December 2014 Update on Québec's Financial and Economic Situation is an opportunity for the government to continue improving the presentation of the budget documents for the purpose of acting on its commitment to present consolidated budgetary information.

- In addition to the revenue and expenditure of the general fund, detailed transactions of the government's consolidated entities are added to the budgetary data.

Accordingly, all of the data that are part of the government reporting entity are presented on a comparable basis, since the data pertaining to government entities are fully incorporated into each of the financial framework's components.

Note: For additional information, see Appendix 4 in this section.

1 The budgetary data presented throughout this section are forecasts.

1. CHANGE IN CONSOLIDATED REVENUE AND EXPENDITURE

1.1 Change in the budgetary balance

The updated financial framework confirms that there will be a return to fiscal balance in 2015-2016.

— The deficit for 2014-2015 remains at $2 350 million.

Spending will continue to increase, but at a rate below that of revenue. Accordingly, for the first two years, consolidated expenditure will grow by 2.2% in 2014-2015 and 1.2% in 2015-2016, while revenue will grow by 2.9% and 4.0% respectively.

These objectives will be achieved while continuing to make deposits in the Generations Fund. These deposits will total $1 285 million in 2014-2015 and $1 617 million in 2015-2016.

TABLE E.1

Summary of consolidated budgetary transactions from 2014-2015 to 2016-2017
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Own-source revenue	77 108	80 501	83 223
% change	*3.2*	*4.4*	*3.4*
Federal transfers	18 805	19 249	19 717
% change	*1.4*	*2.4*	*2.4*
Consolidated revenue	**95 913**	**99 750**	**102 940**
% change	***2.9***	***4.0***	***3.2***
Expenditure	–86 332	–87 058	–88 658
% change	*2.4*	*0.8*	*1.8*
Debt service	–10 646	–11 075	–11 594
% change	*0.5*	*4.0*	*4.7*
Consolidated expenditure	**–96 978**	**–98 133**	**–100 252**
% change	***2.2***	***1.2***	***2.2***
Contingency reserve	—	—	–400
SURPLUS (DEFICIT)	**–1 065**	**1 617**	**2 288**
BALANCED BUDGET ACT			
Deposits of dedicated revenues in the Generations Fund	–1 285	–1 617	–2 288
BUDGETARY BALANCE(1)	**–2 350**	**—**	**—**

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

❑ Adjustments in 2014-2015

The change in the economy entails downward adjustments of $243 million in own-source revenue in 2014-2015, primarily in regard to personal income tax.

— However, these adjustments are offset by a $153-million downward adjustment in debt service and a $121-million upward adjustment in federal transfers.

The other adjustments are related mainly to the lower revenue and expenditure of consolidated entities, which are consistent with those observed for fiscal 2013-2014.

— Deposits in the Generations Fund are adjusted downward by $16 million compared with the forecast in Budget 2014-2015.

Overall, these adjustments make it possible to maintain the budgetary deficit objective at $2 350 million for 2014-2015.

TABLE E.2

Adjustments for 2014-2015
(millions of dollars)

	2014-2015		
	Adjustments related to the economy	**Other adjustments**	**Total**
BUDGETARY BALANCE — BUDGET 2014-2015			**–2 350**
Consolidated revenue			
Own-source revenue excluding government enterprises			
General fund	–215	–26	–241
Consolidated entities	—	–413	–413
Government enterprises	–28	—	–28
Own-source revenue	**–243**	**–439**	**–682**
Federal transfers	121	77	198
Total consolidated revenue	**–122**	**–362**(1)	**–484**
Consolidated expenditure			
Expenditure excluding debt service			
Program spending	—	—	—
Consolidated entities	—	283	283
Debt service	153	32	185
Total consolidated expenditure	**153**	**315**(1)	**468**
Deposits of dedicated revenues in the Generations Fund	**—**	**16**	**16**
TOTAL	**31**	**–31**	**—**
BUDGETARY BALANCE — DECEMBER 2014			**–2 350**

(1) Adjustments to revenue other than those related to the economy are accompanied by equivalent spending reductions.

1.2 Change in consolidated revenue

This section presents the updated consolidated revenue of the government for 2014-2015 to 2016-2017, as well as the change in this revenue.

The government's revenue will total $95.9 billion in 2014-2015, i.e. $77.1 billion in own-source revenue and $18.8 billion in federal transfers.

Revenue will rise by 2.9% in 2014-2015, 4.0% in 2015-2016 and 3.2% in 2016-2017.

TABLE E.3

Change in consolidated revenue
(millions of dollars)

	Budget 2014-2015		December 2014		
	2014-2015	**Adjustments**	**2014-2015**	**2015-2016**	**2016-2017**
Own-source revenue					
Own-source revenue excluding government enterprises	72 685	–654	72 031	75 751	78 522
% change	*4.7*		*4.0*	*5.2*	*3.7*
Government enterprises	5 105	–28	5 077	4 750	4 701
% change	*–6.2*		*–6.5*	*–6.4*	*–1.0*
Subtotal	**77 790**	**–682**	**77 108**	**80 501**	**83 223**
% change	***3.9***		***3.2***	***4.4***	***3.4***
Federal transfers	18 607	198	18 805	19 249	19 717
% change	*–1.1*		*1.4*	*2.4*	*2.4*
TOTAL	**96 397**	**–484**	**95 913**	**99 750**	**102 940**
% change	***2.9***		***2.9***	***4.0***	***3.2***

1.2.1 Consolidated own-source revenue excluding government enterprises

Consolidated own-source revenue excluding government enterprises consists chiefly of tax revenue, which is made up of personal income tax, contributions for health services, corporate taxes, school property taxes and consumption taxes. How it changes is closely tied to economic activity and changes to the tax systems.

In addition, consolidated own-source revenue excluding government enterprises includes revenue from other sources, i.e. duties and permits and miscellaneous revenue, such as interest, the sale of goods and services, as well as fines, forfeitures and recoveries.

Most consolidated own-source revenue excluding government enterprises is deposited into the general fund to finance the government's missions. The remainder of this revenue is paid, in particular, into special funds (for funding specific programs), the Generations Fund (for reducing the debt), non-budget-funded bodies and the health and social services and education networks.

❑ Downward adjustments in 2014-2015

For fiscal 2014-2015, consolidated own-source revenue excluding government enterprises amounts to over $72.0 billion, an increase of 4.0% compared with the revenue observed for fiscal 2013-2014.

Compared with the forecast in the June 4, 2014 budget, consolidated own-source revenue excluding government enterprises is adjusted downward by $654 million, including more than $230 million in tax revenue. The balance of the adjustment is observed primarily in the miscellaneous revenue of consolidated entities, reflecting the recurrence of the lower real revenue observed for 2013-2014.[2]

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2 It should be noted that adjustments to revenue other than those related to the economy are accompanied by equivalent spending reductions.

Adjustments to own-source revenue by source

Tax revenue

Revenue from personal income tax is adjusted downward by $197 million for fiscal 2014-2015 compared with Budget 2014-2015. This adjustment is explained by the lower level of salaries and wages in 2014, which have led to lower-than-anticipated withholdings at source since the beginning of the fiscal year.

Contributions for health services are adjusted downward by $62 million for 2014-2015, also reflecting the lower-than-anticipated growth in salaries and wages in 2014 and the reduction of the contribution rate for businesses in the primary and manufacturing sectors.

TABLE E.4

Change in consolidated own-source revenue excluding government enterprises
(millions of dollars)

	Budget 2014-2015		December 2014		
	2014-2015	Adjustments	2014-2015	2015-2016	2016-2017
Tax revenue					
Personal income tax	27 349	–197	27 152	28 404	29 725
% change	*5.3*		*3.6*	*4.6*	*4.7*
Contributions for health services	6 482	–62	6 420	6 547	6 714
% change	*2.8*		*2.7*	*2.0*	*2.6*
Corporate taxes	5 819	82	5 901	6 388	6 633
% change	*5.0*		*4.9*	*8.3*	*3.8*
School property tax	1 901	5	1 906	2 043	2 135
% change	*8.6*		*6.7*	*7.2*	*4.5*
Consumption taxes	17 657	–60	17 597	18 463	18 436
% change	*2.9*		*2.7*	*4.9*	*–0.1*
Other revenue					
Duties and permits	2 506	22	2 528	2 663	2 714
% change	*15.6*		*15.0*	*5.3*	*1.9*
Miscellaneous revenue	9 670	–428	9 242	9 626	9 877
% change	*2.8*		*3.5*	*4.2*	*2.6*
Generations Fund revenue	1 301	–16	1 285	1 617	2 288
% change	*16.1*		*14.6*	*25.8*	*41.5*
TOTAL	**72 685**	**–654**	**72 031**	**75 751**	**78 522**
% change	**4.7**		**4.0**	**5.2**	**3.7**

Revenue from corporate taxes is adjusted upward by $82 million for fiscal 2014-2015, reflecting essentially the upward adjustment of the net operating surplus of corporations in 2014 and 2015. This higher level also reflects the reduction in tax expenditures, particularly the elimination of the reduced rate for the tax on capital of insurance corporations applicable to personal insurance premiums.

Forecast revenue from the school property tax is consistent with that contained in Budget 2014-2015.

Revenue from consumption taxes is adjusted downward by $60 million in 2014-2015. This adjustment, essentially in the Québec sales tax, stems in particular from the higher-than-anticipated level of the solidarity tax credit, amounting to $65 million.

- **Other revenue**

Revenue from duties and permits is $22 million higher than forecast in June 2014 owing chiefly to an upward adjustment of the value of timber harvested in forest revenue.

Miscellaneous revenue is adjusted downward by $428 million in 2014-2015, because of the recurrence of the lower revenue observed in 2013-2014.

Revenue dedicated to the Generations Fund is revised downward by $16 million in 2014-2015.

❑ Change in own-source revenue excluding government enterprises in 2015-2016 and 2016-2017

Own-source revenue excluding government enterprises will increase by 5.2% in 2015-2016 and 3.7% in 2016-2017. The higher growth in 2015-2016 reflects, in particular, the acceleration of economic activity in Québec and the measures implemented to achieve fiscal balance.

■ Change by revenue source in 2015-2016 and 2016-2017

- **Tax revenue**

Personal income tax, the government's largest revenue source, will grow by 4.6% in 2015-2016 and 4.7% in 2016-2017, to $28.4 billion and $29.7 billion respectively.

— This growth reflects mainly the anticipated change in household income, which represents most of the revenue base subject to personal income tax.

— It also reflects the growing contribution of pension income from private pension plans because of the increase in the number of retirees.

  — Since the early 2000s, pension income has grown at an average annual rate of about 7.0%.

— This growth is also influenced by the additional revenue arising from the increase, as of 2015, in the universal child care benefit announced by the federal government on October 30, 2014. This benefit is taxable both provincially and federally.

— Lastly, as of 2015-2016, it also takes into account the reduction in the conversion rate of the tax credits for union and professional dues.

Contributions for health services will grow by 2.0% in 2015-2016 and 2.6% in 2016-2017, to $6.5 billion and $6.7 billion respectively. This change stems essentially from the anticipated increase of 3.5% in 2015 and 3.4% in 2016 in salaries and wages and from average growth of 1.7% in revenue from the health contribution. In addition, the change in revenue is partly offset by the impact of the reduction of the contribution rate for businesses in the primary and manufacturing sectors.

Revenue from corporate taxes will grow by 8.3% in 2015-2016 and 3.8% in 2016-2017, to $6.4 billion and $6.6 billion respectively.

— This change reflects essentially the growth rate of the net operating surplus of corporations, which is expected to be 6.4% in 2015 and 4.4% in 2016, as well as the elimination of the reduced rate for the tax on capital of insurance corporations applicable to personal insurance premiums and the implementation of a temporary surtax on financial institutions.

The growth of 7.2% and 4.5% in revenue from school property taxes in 2015-2016 and 2016-2017 respectively can be attributed mainly to the increase in property values and changes to the school tax equalization program.

Revenue from consumption taxes will rise by 4.9% in 2015-2016 and −0.1% in 2016-2017 owing to the fact that consumption, excluding food and rent, will grow by 3.6% in 2015 and 3.4% in 2016.

— In 2015-2016, the growth in consumption tax revenue takes into account the elimination of the reduced rate of the tax on automobile insurance premiums, as well as the terms and conditions of the transitional fiscal pact with the municipalities announced on November 5, 2014.

— In 2016-2017, the annual deposit of $500 million in the Generations Fund from revenue derived from the specific tax on alcoholic beverages, i.e. $400 million more than in 2015-2016, will slow the growth in consumption tax revenue.

Revenue from duties and permits will increase by 5.3% in 2015--2016 and 1.9% in 2016-2017. In 2015-2016, this growth can be attributed mainly to the additional revenue of the Green Fund arising from the fact that fuel distributors will be subject to Québec's cap-and-trade system for greenhouse gas emission allowances on January 1, 2015.

Miscellaneous revenue will rise by 4.2% in 2015-2016 and 2.6% in 2016-2017, primarily as a result of the revenue of organizations in the health and social services and education networks and non-budget-funded bodies.

Revenue dedicated to the Generations Fund will increase by $332 million in 2015-2016 to $1.6 billion, essentially because of the deposit of total mining revenues and the increase in this Fund's investment income. The $671-million increase in revenue in 2016-2017 is explained mainly by the additional deposit of $400 million drawn from the specific tax on alcoholic beverages in the Generations Fund. The Fund's revenue will thus reach $2.3 billion.

1.2.2 Revenue from government enterprises

❑ Adjustments for 2014-2015

Revenue from government enterprises is adjusted downward by $28 million for 2014-2015 owing to the fact that Loto-Québec's revenue is lower than expected. This adjustment is explained primarily by lower-than-forecast revenue in the lottery sector.

❑ Outlook for 2015-2016 and 2016-2017

In 2015-2016 and 2016-2017, revenue from government enterprises, before allocation to the Generations Fund, will stand at $4.9 billion.

- In 2015-2016, the decline of 5.7% stems, in particular, from:
  - Hydro-Québec's results for 2014-2015, which will reflect, for this year, the impact of favourable conditions for electricity sale prices on export markets;
  - the effort requested of Hydro-Québec in the last budget, which will generate higher earnings in 2014-2015 than in 2015-2016.
- For 2016-2017, anticipated revenue will grow by 0.9% due to the increase in the forecast results of Hydro-Québec.

In addition, Hydro-Québec's revenue from the indexation of the price of heritage electricity will be allocated to the Generations Fund. The amount deposited will correspond to $105 million in 2015-2016 and $200 million in 2016-2017, bringing total revenue from government enterprises to $4.8 billion in 2015-2016 and $4.7 billion in 2016-2017.

TABLE E.5

Change in revenue from government enterprises
(millions of dollars)

	Budget 2014-2015		December 2014		
	2014-2015	Adjustments	2014-2015	2015-2016	2016-2017
Hydro-Québec	3 050	—	3 050	2 699	2 760
Loto-Québec	1 065	–28	1 037	1 075	1 075
Société des alcools du Québec	1 021	—	1 021	1 040	1 026
Other	40	—	40	41	40
Subtotal	**5 176**	**–28**	**5 148**	**4 855**	**4 901**
% change	***–4.9***		***–5.2***	***–5.7***	***0.9***
Hydro-Québec revenue allocated to the Generations Fund(1)	–71	—	–71	–105	–200
TOTAL	**5 105**	**–28**	**5 077**	**4 750**	**4 701**
% change	***–6.2***		***–6.5***	***–6.4***	***–1.0***

(1) Corresponds to the amounts relating to the indexation of the price of heritage electricity.

1.2.3 **Revenues from federal transfers**

In 2014-2015, consolidated revenues from federal transfers[3] will reach nearly $18.8 billion and grow by 1.4%. This represents $198 million more than forecast in Budget 2014-2015.

This upward adjustment is due primarily to an adjustment of $182 million in the revenue of other programs arising, in particular, from the revenue of the Société de financement des infrastructures locales du Québec (SOFIL) because of the higher level of infrastructure work that will be carried out in 2014-2015.

— It should be noted that the mission of SOFIL is to grant financial assistance to municipalities and municipal bodies in order to contribute to municipal infrastructure and public transit projects. Its revenue is derived in particular from the federal contribution under the Canada-Québec agreement on the Gas Tax Fund.

In 2015-2016, consolidated federal transfers will rise by 2.4%, to $19.2 billion, chiefly because of:

— a 5.8% increase in health transfers owing, in particular, to annual growth of 6% in the Canada Health Transfer (CHT) envelope for the provinces as a whole;

— a 2.8% rise in equalization revenue, attributable primarily to growth in the equalization envelope, which is capped at nominal Canadian GDP growth. This increase is also explained by the relative decline in Québec's share of the corporate income tax base compared with the other recipient provinces. It should be noted that under the equalization program, a relative decline in Québec's fiscal capacity compared with the other recipient provinces results in an increase in Québec's equalization payment.

In 2016-2017, consolidated federal transfers will reach more than $19.7 billion. This represents an increase of 2.4% that can be attributed among other things to the increase in health transfers arising from annual growth of 6% in the CHT envelope for the provinces as a whole.

— It should be mentioned that as of 2017-2018 the CHT envelope will grow in pace with the annual growth of Canada's nominal GDP,[4] subject to a floor of 3%.

— Because of this cap, Québec will incur an estimated shortfall of $158 million in 2017-2018.

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3 For an explanation of the transition of federal transfer revenues of the general fund to a consolidated basis, see the box on page E.55.

4 Starting in 2017-2018, the growth rate of the CHT envelope will correspond to the average annual growth rate of Canada's nominal GDP over the previous three calendar years. For example, the annual growth rate of Canada's nominal GDP in 2015, 2016 and 2017 will be used to establish the CHT envelope in 2017-2018.

It should be mentioned that the forecast for consolidated federal transfer revenues takes into account the fiscal measures announced by the federal government on October 30, 2014. These measures have led to an adjustment in revenues from federal transfers, up $69 million in 2014-2015 and down roughly $15 million per year thereafter, due to the impact of these measures on the value of the special abatement, which, in particular, is subtracted from health transfers and transfers for post-secondary education and other social programs.

TABLE E.6

Change in consolidated federal transfer revenues
(millions of dollars)

	Budget 2014-2015		December 2014		
	2014-2015	**Adjustments**	**2014-2015**	**2015-2016**	**2016-2017**
Equalization	9 286	—	9 286	9 550	9 809
% change	*18.5*		*18.5*	*2.8*	*2.7*
Health transfers	5 262	13	5 275	5 582	5 937
% change	*–0.5*		*–0.3*	*5.8*	*6.4*
Transfers for post-secondary education and other social programs	1 585	3	1 588	1 603	1 630
% change	*3.3*		*3.5*	*0.9*	*1.7*
Other programs	2 474	182	2 656	2 514	2 341
% change	*–8.2*		*9.5*	*–5.3*	*–6.9*
TOTAL	**18 607**	**198**	**18 805**	**19 249**	**19 717**
% change	***–1.1***		***1.4***(1)	***2.4***	***2.4***

(1) Consolidated federal transfer revenues, which included the second and last payment of $1 467 million for harmonization of the QST with the GST, stood at $18.6 billion in 2013-2014. The growth of 1.4% in consolidated federal transfer revenues in 2014-2015 is explained, in particular, by the non-recurrence of this last payment.

1.3 Change in consolidated expenditure

Consolidated expenditure will stand at $97.0 billion in 2014-2015, $98.1 billion in 2015-2016 and $100.3 billion in 2016-2017, representing an increase of 2.2%, 1.2% and 2.2% respectively.

TABLE E.7

Change in consolidated expenditure
(millions of dollars)

	Budget 2014-2015		Décembre 2014		
	2014-2015	**Adjustments**	**2014-2015**	**2015-2016**	**2016-2017**
Program spending[1]	65 704	—	65 704	66 141	67 631
% change	*1.8*		*2.1*	*0.7*	*2.3*
Other consolidated expenditures[2]	20 911	–283	20 628	20 917	21 027
% change	*1.9*		*3.1*	*1.4*	*0.5*
Expenditure excluding debt service	**86 615**	**–283**	**86 332**	**87 058**	**88 658**
% change	***1.9***		***2.4***	***0.8***	***1.8***
Debt service	10 831	–185	10 646	11 075	11 594
% change	*2.1*		*0.5*	*4.0*	*4.7*
TOTAL	**97 446**	**–468**	**96 978**	**98 133**	**100 252**
% change	***1.9***		***2.2***	***1.2***	***2.2***

(1) Program spending includes transfers intended for consolidated entities.
(2) Includes, in particular, consolidation adjustments.

❑ Consolidated expenditure excluding debt service

Consolidated expenditure excluding debt service consists of program spending and other consolidated expenditures that include, in particular, expenditures attributable to other consolidated entities and tax-funded expenditures.

For fiscal 2014-2015, consolidated expenditure excluding debt service totals $86.3 billion and is adjusted downward by $283 million. More specifically:

— for 2014-2015, program spending totals $65.7 billion, an increase of 2.1% compared with 2013-2014. This spending is unchanged compared with Budget 2014-2015;

— other consolidated expenditures total $20.6 billion and are up 3.1% relative to the previous year. In addition, these expenditures are adjusted downward by $283 million to take into account, in particular, the recurrence of the lower level of spending observed in 2013-2014.

For 2015-2016 and 2016-2017, consolidated expenditure excluding debt service will grow by 0.8% and 1.8% respectively.

— The annual growth rate of program spending remains at 0.7% and 2.3% for these years, as forecast in Budget 2014-2015.

— Other consolidated expenditures will grow by 1.4% and 0.5% for these two years.

❑ Debt service

In 2014-2015, consolidated debt service will stand at $10.6 billion, i.e. $7.5 billion for direct debt service and $3.2 billion for interest on the liability related to the retirement plans of public and parapublic sector employees. Compared with the June 2014 budget, debt service has been adjusted downward by $185 million in 2014-2015 mainly because of lower-than anticipated interest rates.

Debt service will increase by 4.0% in 2015-2016 and 4.7% in 2016-2017, chiefly because of the anticipated increase in interest rates and the debt.

TABLE E.8

Change in debt service
(millions of dollars)

	Budget 2014-2015		December 2014		
	2014-2015	**Adjustments**	**2014-2015**	**2015-2016**	**2016-2017**
Direct debt service	7 683	–205	7 478	8 163	8 842
Interest on the retirement plans liability(1)	3 136	20	3 156	2 907	2 749
Interest on the employee future benefits liability(2)	12	—	12	5	3
TOTAL	**10 831**	**–185**	**10 646**	**11 075**	**11 594**
% change	***2.1***		***0.5***	***4.0***	***4.7***

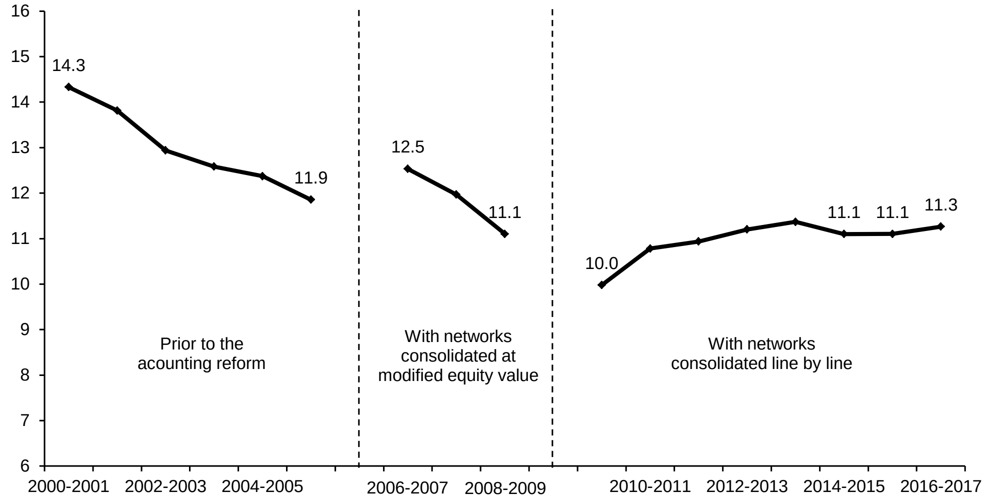
(1) Corresponds to the interest on the obligations relating to the retirement plans of public and parapublic sector employees less the investment income of the Retirement Plans Sinking Fund.
(2) Corresponds to the interest on the obligation relating to the survivor's pension plan less the investment income of the Survivor's Pension Plan Fund and the interest on the obligation relating to accumulated sick leave less the investment income of the Accumulated Sick Leave Fund.

■ Proportion of revenue devoted to consolidated debt service

The proportion of revenue devoted to consolidated debt service will stand at 11.1% in 2014-2015 and 2015-2016 and 11.3% in 2016-2017, compared with 14.3% in 2000-2001.

CHART E.1

Consolidated debt service
(as a percentage of consolidated revenue)



2. FINANCIAL FRAMEWORK BY SECTOR

The government's consolidated financial framework has several sectoral components included in the government reporting entity that reflect the financial organization of public and parapublic sector activities. Table E.9 presents the forecast revenue and expenditure of these different components for fiscal 2014-2015 to 2016-2017.

More specifically, tables E.10 to E.15 present, for 2014-2015 to 2016-2017, the transactions carried out by the general fund, special funds, non-budget-funded bodies and the health and social services and education networks, as well as tax-funded expenditures.

Lastly, to determine consolidated revenue and expenditure levels, financial transactions between entities in the government reporting entity are eliminated.

TABLE E.9

Financial framework for consolidated revenue and expenditure by sector
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Revenue			
General fund	71 225	74 311	76 891
Special funds	10 635	11 363	11 726
Generations Fund	1 285	1 617	2 288
Non-budget-funded bodies	19 603	20 626	21 461
Health and social services and education networks	39 052	39 492	40 092
Specified purpose accounts	1 144	1 023	965
Tax-funded transfers(1)	6 654	6 303	6 083
Consolidation adjustments(2)	–53 685	–54 985	–56 566
Consolidated revenue	**95 913**	**99 750**	**102 940**
Expenditure			
General fund (program spending)	–65 704	–66 141	–67 631
Special funds	–8 836	–9 289	–9 494
Non-budget-funded bodies	–18 507	–19 503	–20 392
Health and social services and education networks	–38 244	–38 501	–38 932
Specified purpose accounts	–1 144	–1 023	–965
Tax-funded expenditures(1)	–6 654	–6 303	–6 083
Consolidation adjustments(2)	52 757	53 702	54 839
Consolidated expenditure excluding debt service	**–86 332**	**–87 058**	**–88 658**
Debt service			
General fund	–8 430	–8 671	–8 910
Consolidated entities(3)	–2 216	–2 404	–2 684
Consolidated debt service	**–10 646**	**–11 075**	**–11 594**
Consolidated expenditure	**–96 978**	**–98 133**	**–100 252**
Contingency reserve	—	—	–400
SURPLUS (DEFICIT)	**–1 065**	**1 617**	**2 288**
BALANCED BUDGET ACT			
Deposits of dedicated revenues in the Generations Fund	–1 285	–1 617	–2 288
BUDGETARY BALANCE(4)	**–2 350**	**—**	**—**

(1) Includes doubtful tax accounts.
(2) Consolidation adjustments stem mainly from the elimination of reciprocal transactions between entities in different sectors.
(3) Includes consolidation adjustments.
(4) Budgetary balance within the meaning of the *Balanced Budget Act*.

2.1 General fund

The general fund is used to finance nearly three quarters of the government's consolidated expenditure.

The revenue of the general fund, including own-source revenue and federal transfers, will amount to $71.2 billion in 2014-2015 and then increase by 4.3% to $74.3 billion in 2015-2016 and by 3.5% to $76.9 billion in 2016-2017.

The expenditure of the general fund, which includes, in particular, program spending, will stand at $74.1 billion in 2014-2015 and then grow by 0.9% to $74.8 billion in 2015-2016 and by 2.3% to $76.5 billion in 2016-2017.

TABLE E.10

Summary of the budgetary transactions of the general fund from 2014-2015 to 2016-2017
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Revenue			
Income and property taxes	30 250	32 387	34 296
Consumption taxes	17 049	17 862	17 867
Duties and permits	452	349	366
Miscellaneous revenue	1 585	1 642	1 669
Government enterprises	5 077	4 750	4 701
Own-source revenue	**54 413**	**56 990**	**58 899**
% change	***2.2***	***4.7***	***3.3***
Federal transfers	16 812	17 321	17 992
% change	*1.7*	*3.0*	*3.9*
Total revenue	**71 225**	**74 311**	**76 891**
% change	***2.1***	***4.3***	***3.5***
Expenditure			
Program spending	–65 704	–66 141	–67 631
% change	*2.1*	*0.7*	*2.3*
Debt service	–8 430	–8 671	–8 910
% change	*–0.0*	*2.9*	*2.8*
Total expenditure	**–74 134**	**–74 812**	**–76 541**
% change	***1.9***	***0.9***	***2.3***
Contingency reserve	—	—	–400
SURPLUS (DEFICIT)	**–2 909**	**–501**	**–50**

Change in the revenue of the general fund

The following table shows the revenue of the general fund according to the reporting structure used in the monthly report on financial transactions.

Revenue of the general fund
(millions of dollars)

	2013-2014	2014-2015	% change
Own-source revenue excluding government enterprises			
Income and property taxes			
Personal income tax	19 399	19 844	2.3
Contributions for health services	6 780	6 894	1.7
Corporate taxes	3 254	3 512	7.9
Consumption taxes	16 607	17 049	2.7
Other revenue sources	1 772	2 037	15.0
Total own-source revenue excluding government enterprises	**47 812**	**49 336**	**3.2**(1)
Government enterprises	5 430	5 077	–6.5
Total own-source revenue	**53 242**	**54 413**	**2.2**
Federal transfers			
Equalization	7 833	9 286	18.5
Health transfers	5 290	4 845(2)	–8.4
Transfers for post-secondary education and other social programs	1 534	1 588	3.5
Other programs	834	1 093	31.1
Subtotal	**15 491**	**16 812**	**8.5**
Harmonization of the QST with the GST – Compensation	1 037(3)	—	—
Total federal transfers	**16 528**	**16 812**	**1.7**
TOTAL	**69 770**	**71 225**	**2.1**

(1) In comparison, the increase was 2.3% in 2013-2014.
(2) In 2014-2015, an amount of $430 million from health transfers is allocated to the Fund to Finance Health and Social Services Institutions (FINESSS), which is a consolidated entity. This allocation of $430 million has already been deducted from health transfers which, had it not been for the allocation, would have undergone a change of −0.3%.
(3) An amount of $430 million allocated to FINESSS has been added to this amount, bringing total compensation to $1 467 million in 2013-2014.

2.2 Special funds

The special funds consist of 36 entities set up by law to finance certain activities within government departments or bodies.

The activities of special funds may be financed, in particular, through program spending, fees or tax revenues.

The following table presents the forecasts pertaining to special funds for 2014-2015 to 2016-2017.

TABLE E.11

Summary of the budgetary transactions of special funds[1]
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Revenue			
Income and property taxes	2 074	2 153	2 186
Consumption taxes	2 426	2 490	2 495
Duties and permits	1 720	1 942	1 948
Miscellaneous revenue	1 697	2 083	2 428
Own-source revenue	**7 917**	**8 668**	**9 057**
Québec government transfers	2 186	2 191	2 185
Federal transfers	532	504	484
Total revenue	**10 635**	**11 363**	**11 726**
% change	***9.0***	***6.8***	***3.2***
Expenditure			
Expenditure excluding debt service	–8 836	–9 289	–9 494
% change	*7.0*	*5.1*	*2.2*
Debt service	–1 415	–1 739	–2 080
Total expenditure	**–10 251**	**–11 028**	**–11 574**
% change	***8.4***	***7.6***	***5.0***
SURPLUS (DEFICIT)	**384**	**335**	**152**

(1) Excludes the Generations Fund.

The revenue of special funds will amount to $10.6 billion for 2014-2015, $11.4 billion for 2015-2016 and $11.7 billion for 2016-2017, representing an increase of 9.0%, 6.8% and 3.2% respectively.

The expenditure excluding debt service of special funds will stand at $8.8 billion in 2014-2015, $9.3 billion in 2015-2016 and $9.5 billion in 2016-2017, representing an increase of 7.0 %, 5.1% and 2.2% respectively.

The growth in the revenue and expenditure of special funds stems mainly from:

- the Land Transportation Network Fund, for financing road and public transit infrastructures;

- the Green Fund, given the deployment of the 2013-2020 Climate Change Action Plan (2013-2020 CCAP).

In addition, the higher growth in revenue and expenditure for 2014-2015 can also be attributed to:

- the transfer of the financial management of mandates pertaining to the Québec Health Record to the Health and Social Services Information Resources Fund. Previously, such mandates were the responsibility of the Régie de l'assurance maladie du Québec;

- the additional investments of the Natural Resources Fund in silvicultural work.

2.3 Generations Fund

For 2014-2015, 2015-2016 and 2016-2017, revenues dedicated to the Generations Fund will reach $1.3 billion, $1.6 billion and $2.3 billion respectively.

TABLE E.12

Revenues dedicated to the Generations Fund
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Dedicated revenues			
Water-power royalties	754	770	784
Indexation of the price of heritage electricity	71	105	200
Mining revenues	—	146	186
Tax on alcoholic beverages	100	100	500
Unclaimed property	22	12	12
Investment income	338	484	606
TOTAL	**1 285**	**1 617**	**2 288**

List of special funds

- Access to Justice Fund
- Assistance Fund for Independent Community Action
- Fonds d'aide aux victimes d'actes criminels
- Territorial Information Fund
- Labour Market Development Fund
- Regional Development Fund
- Financing Fund
- Fund to Finance Health and Social Services Institutions (FINESSS)
- Rolling Stock Management Fund
- Fonds de la Commission des lésions professionnelles
- Fund of the Commission des relations du travail
- Highway Safety Fund
- Tourism Partnership Fund
- Caregiver Support Fund
- Goods and Services Fund
- Generations Fund
- Register Fund of the Ministère de la Justice
- Land Transportation Network Fund (FORT)
- Health and Social Services Information Resources Fund
- Natural Resources Fund (NRF)
- Police Services Fund
- Information Technology Fund of the Ministère de l'Emploi et de la Solidarité sociale
- Fund of the Bureau de décision et de révision
- Fonds du centre financier de Montréal
- Economic Development Fund
- Northern Development Fund
- Québec Cultural Heritage Fund
- Fund of the Administrative Tribunal of Québec
- University Excellence and Performance Fund
- Fund for the Promotion of a Healthy Lifestyle
- Early Childhood Development Fund
- Sports and Physical Activity Development Fund
- Fonds québécois d'initiatives sociales
- Natural Disaster Assistance Fund
- Tax Administration Fund (FRAF)
- Green Fund

2.4 Non-budget-funded bodies

The 59 non-budget-funded bodies were created to provide specific public services. These bodies include, for example:

- La Financière agricole du Québec, in the agricultural sector;
- the Agence métropolitaine de transport and the Société des traversiers du Québec, in the transportation sector;
- government museums and the Société de développement des entreprises culturelles, in the cultural sector.

The following table shows the forecasts pertaining to non-budget-funded bodies for 2014-2015 to 2016-2017.

TABLE E.13

Summary of the transactions of non-budget-funded bodies
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Revenue			
Income and property taxes	71	72	74
Consumption taxes	122	121	121
Duties and permits	414	428	456
Miscellaneous revenue	5 759	5 943	6 051
Own-source revenue	**6 366**	**6 564**	**6 702**
Québec government transfers	12 346	13 095	13 889
Federal transfers	891	967	870
Total revenue	**19 603**	**20 626**	**21 461**
% change	***1.2***	***5.2***	***4.0***
Expenditure			
Expenditure excluding debt service	–18 507	–19 503	–20 392
% change	*1.7*	*5.4*	*4.6*
Debt service	–923	–908	–928
Total expenditure	**–19 430**	**–20 411**	**–21 320**
% change	***0.8***	***5.0***	***4.5***
SURPLUS (DEFICIT)	**173**	**215**	**141**

The revenue of non-budget-funded bodies will amount to $19.6 billion for 2014-2015, $20.6 billion for 2015-2016 and $21.5 billion for 2016-2017, representing an increase of 1.2%, 5.2% and 4.0% respectively.

The expenditure excluding debt service of non-budget-funded bodies will stand at $18.5 billion in 2014-2015, $19.5 billion in 2015-2016 and $20.4 billion in 2016-2017, representing an increase of 1.7%, 5.4% and 4.6% respectively.

The primary missions of the Régie de l'assurance maladie du Québec and the Prescription Drug Insurance Fund account, in particular, for the higher growth in the revenue and expenditure of non-budget-funded bodies.

List of non-budget-funded bodies

- Agence du revenu du Québec
- Agence métropolitaine de transport
- Autorité des marchés financiers
- Bibliothèque et Archives nationales du Québec
- Centre de la francophonie des Amériques
- Centre de recherche industrielle du Québec
- Centre de services partagés du Québec
- Commission de la capitale nationale du Québec
- Commission des normes du travail
- Commission des services juridiques
- Conseil des arts et des lettres du Québec
- Conservatoire de musique et d'art dramatique du Québec
- Corporation d'urgences-santé
- École nationale de police du Québec
- École nationale des pompiers du Québec
- Financement-Québec
- Fondation de la faune du Québec
- Fonds d'aide aux recours collectifs
- Fonds de l'assurance médicaments
- Fonds de recherche du Québec – Nature et technologies
- Fonds de recherche du Québec – Santé
- Fonds de recherche du Québec – Société et culture
- Héma-Québec
- Institut de la statistique du Québec
- Institut de tourisme et d'hôtellerie du Québec
- Institut national d'excellence en santé et services sociaux
- Institut national de la santé publique du Québec
- Institut national des mines
- La Financière agricole du Québec
- Musée d'art contemporain de Montréal
- Musée de la civilisation
- Musée national des beaux-arts du Québec
- Office de la sécurité du revenu des chasseurs et piégeurs cris
- Office des professions du Québec
- Office Québec-Amériques pour la jeunesse
- Office Québec-Monde pour la jeunesse
- Régie de l'assurance maladie du Québec
- Régie de l'énergie
- Régie des installations olympiques
- Régie du bâtiment du Québec
- Régie du cinéma
- Société de développement de la Baie-James
- Société d'habitation du Québec
- Société de développement des entreprises culturelles
- Société de financement des infrastructures locales du Québec
- Société de l'assurance automobile du Québec
- Société de la Place des Arts de Montréal
- Société de télédiffusion du Québec
- Société des établissements de plein air du Québec
- Société des parcs de sciences naturelles du Québec
- Société des traversiers du Québec
- Société du Centre des congrès de Québec
- Société du Grand Théâtre de Québec
- Société du Palais des congrès de Montréal
- Société du parc industriel et portuaire de Bécancour
- Société nationale de l'amiante
- Société québécoise d'information juridique
- Société québécoise de récupération et de recyclage
- Société québécoise des infrastructures

2.5 Health and social services and education networks

The health and social services network is made up of 197 entities. These entities comprise 15 agencies and the regional authority in health and social services, as well as 181 public health and social services institutions.

As for the education networks, they are made up of 132 entities, including 72 school boards, the Comité de gestion de la taxe scolaire de l'île de Montréal, 48 CEGEPS, as well as the Université du Québec and its 10 constituent universities.

The following table presents the forecasts pertaining to the health and social services and education networks for 2014-2015 to 2016-2017.

TABLE E.14

Summary of the budgetary transactions of the health and social services and education networks
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Revenue			
Income and property taxes	1 906	2 043	2 135
Miscellaneous revenue	3 965	4 054	4 118
Own-source revenue	**5 871**	**6 097**	**6 253**
Québec government transfers	32 906	33 117	33 583
Federal transfers	275	278	256
Total revenue	**39 052**	**39 492**	**40 092**
% change	***2.0***	***1.1***	***1.5***
Expenditure			
Expenditure excluding debt service	–38 244	–38 501	–38 932
% change	*1.9*	*0.7*	*1.1*
Debt service	–888	–1 022	–1 160
Total expenditure	**–39 132**	**–39 523**	**–40 092**
% change	***2.0***	***1.0***	***1.4***
SURPLUS (DEFICIT)	**–80**	**–31**	**—**

The revenue of organizations in the health and social services and education networks will amount to $39.1 billion for 2014-2015, $39.5 billion for 2015-2016 and $40.1 billion for 2016-2017, representing an increase of 2.0%, 1.1% and 1.5% respectively.

The expenditure excluding debt service of the health and social services and education networks will stand at $38.2 billion in 2014-2015, $38.5 billion in 2015-2016 and $38.9 billion in 2016-2017, representing an increase of 1.9%, 0.7% and 1.1% respectively.

— This growth excludes costs relating to the remuneration of physicians and prescription drugs, which are covered by the Régie de l'assurance maladie du Québec and the Prescription Drug Insurance Fund.

2.6 Tax-funded expenditures

Refundable tax credits for individuals and corporations, which are similar to tax-funded transfer expenditures, are recorded in spending rather than as reductions in revenue. Doubtful tax accounts are added to these expenditures.

For fiscal 2014-2015, tax-funded expenditures will stand at nearly $6.7 billion.

For fiscal 2014-2015, 2015-2016 and 2016-2017, tax-funded expenditures will grow by 5.3%, –5.3% and –3.5% respectively. This change is explained by:

- the implementation of the LogiRénov tax credit, which increases tax-funded expenditures in 2014-2015;
- certain measures announced since the June 2014 budget to reduce tax expenditures, in particular:
  - the 20% reduction in the rates of tax credits granted to corporations;
  - the introduction of a minimum eligible expenditure threshold for R&D tax credits and the investment tax credit;
  - harmonization of the eligibility criteria for the work premium with those for the federal working income tax benefit.

TABLE E.15

Summary of budgetary transactions relating to tax-funded expenditures
(millions of dollars)

	2014-2015	2015-2016	2016-2017
Revenue			
Personal income tax	4 337	4 244	4 187
Corporate taxes	2 116	1 852	1 683
Consumption taxes	201	207	213
Total revenue	**6 654**	**6 303**	**6 083**
% change	***5.3***	***–5.3***	***–3.5***
Expenditure	**–6 654**	**–6 303**	**–6 083**
% change	***5.3***	***–5.3***	***–3.5***
SURPLUS (DEFICIT)	**—**	**—**	**—**

APPENDIX 1: ALLOCATION OF REVENUE FROM CONSUMPTION TAXES AND NATURAL RESOURCES

❑ Consumption taxes

Consumption taxes include sales taxes and specific taxes. Sales taxes include, in particular, the Québec sales tax (QST) and the tax on insurance premiums, while specific taxes are applied to fuel, tobacco products and alcoholic beverages. For 2014-2015, revenue from consumption taxes will amount to nearly $17.7 billion, i.e. $13.6 billion from sales taxes and $4.1 billion from specific taxes.

TABLE E.16

Revenue from consumption taxes
(millions of dollars)

	2013-2014	2014-2015	2015-2016	2016-2017
Sales taxes(1)	13 264	13 638	14 423	14 829
Fuel	2 310	2 338	2 403	2 409
Tobacco products	1 010	1 123	1 113	1 067
Alcoholic beverages(2)	551	598	624	631
TOTAL	**17 135**	**17 697**	**18 563**	**18 936**

(1) Including revenue from pari mutuel.
(2) Including an annual amount of $100 million in 2014-2015 and 2015-2016 and an amount of $500 million in 2016-2017 dedicated to the Generations Fund.

■ Sales taxes

Within the meaning of the *Act respecting the Québec sales tax,*[5] sales taxes include the QST as well as the tax on insurance premiums, the tax on lodging and the specific duty on new tires. For 2014-2015, sales tax revenue will reach $13.6 billion. More specifically:

— the revenue of the general fund, derived from the QST and the tax on insurance premiums, will amount to $15.5 billion;

— revenue of $75 million, derived mainly from the tax on lodging, is allocated to the Tourism Partnership Fund to promote and develop tourism;

— revenue of $20 million, derived in particular from the specific duty on new tires ($3 per tire), is dedicated to the Société québécoise de récupération et recyclage (RECYC-QUÉBEC) to finance the recycling of used tires.

Consolidated revenue also takes into account the cost of the solidarity tax credit and consolidation adjustments, such as the elimination of reciprocal transactions between entities in different sectors.

TABLE E.17

Allocation of sales tax revenue(1)
(millions of dollars)

	2013-2014	2014-2015	2015-2016	2016-2017
General fund(2)	15 150	15 542	16 338	16 781
Tourism Partnership Fund	71	75	75	75
RECYC-QUÉBEC	18	20	20	20
Solidarity tax credit and other(3)	–1 975	–1 999	–2 010	–2 047
TOTAL	**13 264**	**13 638**	**14 423**	**14 829**

(1) Including the tax on insurance premiums, the tax on lodging and the specific duty on new tires.
(2) Including revenue from pari mutuel.
(3) Includes, in particular, the solidarity tax credit of $1.8 billion in 2014-2015 and the partial rebate of the QST paid on property and services acquired by institutions in the health and social services and education networks.

5 CQLR, chapter T-0.1.

Specific taxes

Specific taxe on fuel

For 2014-2015, the government's own-source revenue from the specific tax on fuel will total $2.3 billion. This amount includes:

- revenue from the specific tax of 19.2 cents and 20.2 cents per litre on gasoline and diesel fuel (non-coloured fuel oil) respectively, dedicated to the Land Transportation Network Fund (FORT) to finance the road network and public transit infrastructure ($2.2 billion):
  - revenue from FORT also includes revenue from the specific tax of 1 cent per litre of gasoline sold within the territory of the Gaspésie–Îles-de-la-Madeleine administrative region to improve public transportation services in this region ($1 million);
- revenue from the specific tax of 3 cents per litre on kerosene fuel (domestic), aviation fuel and fuel oil for locomotives, paid into the general fund ($17 million);
- revenue from the specific tax of 3 cents per litre of gasoline sold within the territory of the Agence métropolitaine de transport (AMT), dedicated to the AMT, for public transportation services in the metropolitan Montréal region ($101 million).

TABLE E.18

Allocation of revenue from the specific taxes on fuel
(millions of dollars)

	2013-2014	2014-2015	2015-2016	2016-2017
FORT	2 193	2 220	2 284	2 289
General fund	17	17	18	19
AMT	100	101	101	101
TOTAL	**2 310**	**2 338**	**2 403**	**2 409**

- **Specific tax on tobacco products**

For 2014-2015, tax revenue from the sale of tobacco products amounts to $1.1 billion, including:

— $992 million paid into the general fund;

— $131 million allocated to various special funds.

TABLE E.19

Allocation of revenue from the specific tax on tobacco products
(millions of dollars)

	2013-2014	2014-2015	2015-2016	2016-2017
General fund	**889**	**992**	**982**	**936**
Special funds				
Sports and Physical Activity Development Fund	55	60	60	60
Québec Cultural Heritage Fund	16	16	16	16
Fund for the Promotion of a Healthy Lifestyle	20	20	20	20
Early Childhood Development Fund	15	15	15	15
Caregiver Support Fund	15	15	15	15
Fonds Avenir Mécénat Culture(1)	—	5	5	5
Subtotal	**121**	**131**	**131**	**131**
TOTAL	**1 010**	**1 123**	**1 113**	**1 067**

(1) This special fund will be created as part of the 2014-2015 budget omnibus bill.

▪ Specific tax on alcoholic beverages

Tax revenue from the sale of alcoholic beverages totals $598 million in 2014-2015. This revenue will reach $631 million in 2016-2017.

— In 2013-2014, all of the revenue from the tax was paid into the general fund.

— In 2014-2015 and 2015-2016, $100 million from the specific tax will be allocated to the Generations Fund each year.

— As of 2016-2017, an additional amount of $400 million will be deposited in the Fund, bringing the total deposit from the specific tax on alcoholic beverages in the Generations Fund to $500 million annually.

TABLE E.20

Allocation of revenue from the specific tax on alcoholic beverages
(millions of dollars)

	2013-2014	2014-2015	2015-2016	2016-2017
General fund	551	498	524	131
Generations Fund	—	100	100	500
TOTAL	**551**	**598**	**624**	**631**

❑ Natural resource duties and permits

The government uses various means to enable Quebecers to benefit from the development of natural resources. It collects revenues from resource development, as well as revenue from the granting of permits.

— An exploration licence confers on the holder an exclusive right for exploration and the future development of the resource concerned. A lease (or right) to develop enables the holder to develop the resource in exchange for the payment of an annual rent.

In addition, to enable future generations to benefit from natural resource development and to ensure the sustainable development of resources, the legislation currently stipulates that a portion of the revenue derived from natural resources must be devoted to:

- the Natural Resources Fund to finance:
  - activities fostering the development of mineral potential, including geoscientific knowledge acquisition activities, research and development on techniques for the exploration, development, redevelopment and rehabilitation of mining sites and support for the development of Québec entrepreneurship (mining heritage component);
  - forest development work to ensure the sustainability of Québec's forest (sustainable forest development component).
- reduction of the debt through the deposit in the Generations Fund of revenue from mining resources (100% as of 2015-2016) and water-power royalties.

Total revenue from natural resources will stand at $1.2 billion in 2014-2015 and 2015-2016.

TABLE E.21

Revenue from natural resources
(millions of dollars)

	2013-2014	2014-2015	2015-2016	2016-2017
Duties and royalties				
Mining	44	127	157	197
Forest	203	255	257	257
Water-power	767	757	773	787
Oil and natural gas	—	—	—	—
Subtotal	**1 014**	**1 139**	**1 187**	**1 241**
Other duties and permits				
Mining	13	9	9	9
Forest	23	28	33	39
Oil and natural gas	1	1	1	2
Subtotal	**37**	**38**	**43**	**50**
TOTAL	**1 051**	**1 177**	**1 230**	**1 291**
Allocation of revenue				
General fund	47	163	54	60
Special funds(1)	241	260	260	261
Generations Fund	763	754	916	970

(1) Includes, in particular, revenue paid into the Natural Resources Fund as of 2014-2015 under the sustainable forest development component ($239 million) and the mining heritage component ($20 million).

APPENDIX 2: DETAILED CONSOLIDATED FINANCIAL FRAMEWORK

TABLE E.22

Detailed consolidated financial framework
(millions of dollars)

	2014-2015			
	Consolidated Revenue Fund			
	General fund	**Special funds**	**Generations Fund**	**Specified purpose accounts**
Revenue				
Personal income tax	19 844	1 155	—	—
Contributions for health services	6 894	717	—	—
Corporate taxes	3 512	202	—	—
School property tax	—	—	—	—
Consumption taxes	17 049	2 426	—	—
Duties and permits	452	1 720	—	—
Miscellaneous revenue	1 585	1 697	—	243
Government enterprises	5 077	—	—	—
Generations Fund revenue	—	—	1 285	—
Own-source revenue	**54 413**	**7 917**	**1 285**	**243**
Québec government transfers	—	2 186	—	—
Federal transfers	16 812	532	—	901
Total revenue	**71 225**	**10 635**	**1 285**	**1 144**
Expenditure				
Expenditure	–65 704	–8 836	—	–1 144
Debt service	–8 430	–1 415	—	—
Total expenditure	**–74 134**	**–10 251**	**—**	**–1 144**
SURPLUS (DEFICIT)	**–2 909**	**384**	**1 285**	**—**
BALANCED BUDGET ACT				
Deposits of dedicated revenues in the Generations Fund			–1 285	
BUDGETARY BALANCE(3)				

(1) Includes doubtful tax accounts.
(2) Reclassification of abatements and consolidation adjustments resulting mainly from the elimination of reciprocal transactions between entities in different sectors.
(3) Budgetary balance within the meaning of the *Balanced Budget Act*.

2014-2015				
Tax-funded expenditures [(1)]	Non-budget-funded bodies	Health and social services and education networks	Consolidation adjustments [(2)]	Consolidated results
4 337	—	—	1 816	27 152
—	—	—	–1 191	6 420
2 116	71	—	—	5 901
—	—	1 906	—	1 906
201	122	—	–2 201	17 597
—	414	—	–58	2 528
—	5 759	3 965	–4 007	9 242
—	—	—	—	5 077
—	—	—	—	1 285
6 654	**6 366**	**5 871**	**–5 641**	**77 108**
—	12 346	32 906	–47 438	—
—	891	275	–606	18 805
6 654	**19 603**	**39 052**	**–53 685**	**95 913**
–6 654	–18 507	–38 244	52 757	–86 332
—	–923	–888	1 010	–10 646
–6 654	**–19 430**	**–39 132**	**53 767**	**–96 978**
—	**173**	**–80**	**82**	**–1 065**
				–1 285
				–2 350

TABLE E.23

Detailed consolidated financial framework

(millions of dollars)

	2015-2016			
	Consolidated Revenue Fund			
	General fund	**Special funds**	**Generations Fund**	**Specified purpose accounts**
Revenue				
Personal income tax	21 108	1 206	—	—
Contributions for health services	7 028	734	—	—
Corporate taxes	4 251	213	—	—
School property tax	—	—	—	—
Consumption taxes	17 862	2 490	—	—
Duties and permits	349	1 942	—	—
Miscellaneous revenue	1 642	2 083	—	238
Government enterprises	4 750	—	—	—
Generations Fund revenue	—	—	1 617	—
Own-source revenue	**56 990**	**8 668**	**1 617**	**238**
Québec government transfers	—	2 191	—	—
Federal transfers	17 321	504	—	785
Total revenue	**74 311**	**11 363**	**1 617**	**1 023**
Expenditure				
Expenditure	–66 141	–9 289	—	–1 023
Debt service	–8 671	–1 739	—	—
Total expenditure	**–74 812**	**–11 028**	**—**	**–1 023**
SURPLUS (DEFICIT)	**–501**	**335**	**1 617**	**—**
BALANCED BUDGET ACT				
Deposits of dedicated revenues in the Generations Fund			–1 617	
BUDGETARY BALANCE[3]				

(1) Includes doubtful tax accounts.
(2) Reclassification of abatements and consolidation adjustments resulting mainly from the elimination of reciprocal transactions between entities in different sectors.
(3) Budgetary balance within the meaning of the *Balanced Budget Act*.

2015-2016				
Tax-funded expenditures (1)	Non-budget-funded bodies	Health and social services and education networks	Consolidation adjustments (2)	Consolidated results
4 244	—	—	1 846	28 404
—	—	—	–1 215	6 547
1 852	72	—	—	6 388
—	—	2 043	—	2 043
207	121	—	–2 217	18 463
—	428	—	–56	2 663
—	5 943	4 054	–4 334	9 626
—	—	—	—	4 750
—	—	—	—	1 617
6 303	**6 564**	**6 097**	**–5 976**	**80 501**
—	13 095	33 117	–48 403	—
—	967	278	–606	19 249
6 303	**20 626**	**39 492**	**–54 985**	**99 750**
–6 303	–19 503	–38 501	53 702	–87 058
—	–908	–1 022	1 265	–11 075
–6 303	**–20 411**	**–39 523**	**54 967**	**–98 133**
—	**215**	**–31**	**–18**	**1 617**
				–1 617
				—

TABLE E.24

Detailed consolidated financial framework

(millions of dollars)

	2016-2017			
	Consolidated Revenue Fund			
	General fund	**Special funds**	**Generations Fund**	**Specified purpose accounts**
Revenue				
Personal income tax	22 414	1 229	—	—
Contributions for health services	7 220	743	—	—
Corporate taxes	4 662	214	—	—
School property tax	—	—	—	—
Consumption taxes	17 867	2 495	—	—
Duties and permits	366	1 948	—	—
Miscellaneous revenue	1 669	2 428	—	221
Government enterprises	4 701	—	—	—
Generations Fund revenue	—	—	2 288	—
Own-source revenue	**58 899**	**9 057**	**2 288**	**221**
Québec government transfers	—	2 185	—	—
Federal transfers	17 992	484	—	744
Total revenue	**76 891**	**11 726**	**2 288**	**965**
Expenditure				
Expenditure	–67 631	–9 494	—	–965
Debt service	–8 910	–2 080	—	—
Total expenditure	**–76 541**	**–11 574**	**—**	**–965**
Contingency reserve	–400	—	—	—
SURPLUS (DEFICIT)	**–50**	**152**	**2 288**	**—**
BALANCED BUDGET ACT				
Deposits of dedicated revenues in the Generations Fund			–2 288	
BUDGETARY BALANCE(3)				

(1) Includes doubtful tax accounts.
(2) Reclassification of abatements and consolidation adjustments resulting mainly from the elimination of reciprocal transactions between entities in different sectors.
(3) Budgetary balance within the meaning of the *Balanced Budget Act*.

2016-2017				
Tax-funded expenditures [1]	**Non-budget-funded bodies**	**Health and social services and education networks**	**Consolidation adjustments** [2]	**Consolidated results**
4 187	—	—	1 895	29 725
—	—	—	–1 249	6 714
1 683	74	—	—	6 633
—	—	2 135	—	2 135
213	121	—	–2 260	18 436
—	456	—	–56	2 714
—	6 051	4 118	–4 610	9 877
—	—	—	—	4 701
—	—	—	—	2 288
6 083	**6 702**	**6 253**	**–6 280**	**83 223**
—	13 889	33 583	–49 657	—
—	870	256	–629	19 717
6 083	**21 461**	**40 092**	**–56 566**	**102 940**
–6 083	–20 392	–38 932	54 839	–88 658
—	–928	–1 160	1 484	–11 594
–6 083	**–21 320**	**–40 092**	**56 323**	**–100 252**
—	—	—	—	–400
—	**141**	**—**	**–243**	**2 288**
				–2 288
				—

APPENDIX 3: SENSITIVITY ANALYSIS OF ECONOMIC VARIABLES

The financial framework's forecasts incorporate certain components of uncertainty that do not depend on the government directly, but which may cause actual results to differ from the forecasts.

❑ Sensitivity of the Québec economy to external shocks

The forecasts for the Québec economy are based on numerous analyses, including periodic assessments of the main economic statistics and the results obtained with various econometric models.

Given that the Québec economy is characterized by considerable openness to trade, Québec's economic variables are influenced by several external factors. The most important of these factors are related to the activities of Québec's main trading partners, the United States and the rest of Canada.

■ Impact of external variables on the Québec economy

An analysis conducted with a Structural VAR model[6] has made it possible to estimate, on the basis of historical data, the sensitivity of Québec's economic variables to certain important external variables.

— The findings show that a change of 1% in U.S. real GDP entails, on average, a change of 0.5% in Québec's real GDP.

In addition, the model suggests that Québec's real GDP is influenced by the economic activity of Ontario.

— Consequently, a change of 1% in Ontario's real GDP gives rise, on average, to a change of 0.4% in Québec's real GDP.

— Ontario is the Canadian province with which Québec has the most commercial ties, in addition to having a similar economic structure. In 2010, exports to Ontario accounted for roughly 60% of Québec's interprovincial exports.

TABLE E.25

Impact of external shocks on the growth rate of Québec's real GDP

External shocks of 1%	**Maturity**(1) (quarters)	**Impact on Québec's real GDP** (percentage points)
U.S. real GDP	2	0.5
Ontario real GDP	2	0.4

(1) Maturity corresponds to the number of quarters needed to record the greatest impact on Québec's real GDP, presented in the right-hand column.
Sources: Institut de la statistique du Québec, Ontario Ministry of Finance, IHS Global Insight, Statistics Canada, Bloomberg and Ministère des Finances du Québec.

6 Vector autoregression. This econometric technique is used to estimate, on the basis of numerous observations, the extent to which changes in one economic variable affect another economic variable (impulse response). The estimates were made using quarterly data from Statistics Canada's 1993 System of National Accounts (SNA 1993), for the 1981-2010 period.

❑ Sensitivity of own-source revenue to economic fluctuations

In general, the nominal GDP forecast is a very good indicator of growth in the own-source revenue of the general fund given the direct link between tax bases and nominal GDP.

— According to the overall sensitivity analysis, a change of one percentage point in nominal GDP has an impact of about $500 million on the own-source revenue of the government's general fund.

This sensitivity analysis is based on a revision of each tax base in proportion to the revision of nominal GDP.

— In reality, a change in economic outlook can have a greater impact on some economic variables and a larger impact on certain tax bases.

Sensitivity analyses set an average historical relationship between the change in the general fund's own-source revenue and growth in nominal GDP. Accordingly, they may prove inaccurate for a given year depending on the economic situation and yet not lose their validity.

— Indeed, for a given year, economic fluctuations may have various impacts on revenue depending on the change in behaviour of economic agents.

— In these situations, the change in the general fund's own-source revenue can be more pronounced than the change in nominal GDP.

TABLE E.26

Sensitivity of own-source revenue to major economic variables

Variables	Growth forecasts for 2014	Impacts for fiscal 2014-2015
Nominal GDP	3.1%	A variation of 1 percentage point changes own-source revenue by roughly $500 million.
– Salaries and wages	2.2%	A variation of 1 percentage point changes personal income tax revenue by roughly $260 million.
– Employment insurance	2.4%	A variation of 1 percentage point changes personal income tax revenue by roughly $5 million.
– Pension income	7.1%	A variation of 1 percentage point changes personal income tax revenue by roughly $40 million.
– Net operating surplus of corporations	5.2%	A variation of 1 percentage point changes corporate income tax revenue by almost $30 million.
– Household consumption	3.4%	A variation of 1 percentage point changes QST revenue by roughly $150 million.
– Residential investments	0.7%	A variation of 1 percentage point changes QST revenue by roughly $20 million.

❑ Sensitivity of debt service to a change in interest rates and exchange rates

A greater-than-anticipated rise in interest rates of one percentage point over a full year would increase the consolidated interest expenditure by roughly $250 million.

A change in the value of the Canadian dollar compared with other currencies would have no impact on debt service because the government's debt has no foreign currency exposure.

APPENDIX 4: CHANGES TO THE PRESENTATION OF BUDGETARY INFORMATION

❑ Presentation of budgetary information on a consolidated basis

The December 2014 Update on Québec's Financial and Economic Situation is an opportunity for the government to continue improving the presentation of the budget documents for the purpose of acting on its commitment to present consolidated budgetary information.

— In addition to the revenue and expenditure of the general fund, detailed transactions of the government's consolidated entities are added to the budgetary data.

— Accordingly, all of the data that are part of the government reporting entity are presented on a comparable basis, since the data pertaining to government entities are fully incorporated into each of the financial framework's components.

■ Why change the presentation of budgetary information?

The government reporting entity has changed over the years. In this regard, two major accounting reforms were carried out, one in 1997-1998 and the other in 2006-2007.

— The 2006-2007 accounting reform was designed, in particular, to consolidate the health and social services and education networks.

Furthermore, since 2009-2010, budgetary information has been consolidated using the "line-by-line" method in accordance with the accounting standards in effect in public administrations. To date, this information has been presented in a summary manner in the budget documents, even though it was fully consolidated.

With a view to continually improving government practices and transparency, prospective budgetary information is now presented in detail on a fully consolidated basis.

— The presentation of detailed consolidated budgetary information enables readers to better understand the scope of the revenue and expenditure of the various special funds and bodies included in the government reporting entity.

— This transition began in the 2014-2015 budget plan with the presentation of consolidated expenditure by mission.

Lastly, this presentation is fully comparable with that used in the public accounts, which are published annually by the government.

❑ Sources of consolidated revenue and expenditure

Québec has several sources of revenue for funding public services and debt service.

■ Revenue sources

The various public services are funded simultaneously by several sources of revenue derived from taxes for the most part, as well as from federal transfers and fees collected directly from users.

In 2014-2015, consolidated revenue totals $95.9 billion. Nearly 75% of this revenue is paid into the general fund, while 25% is paid to entities.

— Consolidated revenue is derived mainly from income and property taxes ($41.4 billion), consumption taxes ($17.6 billion) and federal transfers ($18.8 billion).

— This revenue also includes revenue dedicated to the Generations Fund ($1.3 billion).

TABLE E.27

Consolidated revenue by source in 2014-2015
(millions of dollars)

	Revenue – general fund	Other consolidated revenue(1)	Consolidated revenue
Own-source revenue			
Income and property taxes	30 250	11 129	41 379
Consumption taxes	17 049	548	17 597
Duties and permits	452	2 076	2 528
Miscellaneous revenue	1 585	7 657	9 242
Government enterprises	5 077	—	5 077
Generations Fund revenue	—	1 285	1 285
Subtotal – Own-source revenue	**54 413**	**22 695**	**77 108**
Federal transfers	**16 812**	**1 993**	**18 805**
TOTAL	**71 225**	**24 688**	**95 913**

(1) Includes, in particular, consolidation adjustments.

New presentation of federal transfer revenues

Until now, forecast federal transfer revenues of the general fund consisted of revenue from the equalization program, health transfers, transfers for post-secondary education and other social programs, and other programs. In 2014-2015, this revenue will amount to nearly $16.8 billion.

To determine consolidated federal transfers, other federal transfer revenues of nearly $2 billion must be added to other programs, making it possible to present all of the federal transfers received by Québec, which will reach more than $18.8 billion in 2014-2015. These other federal transfer revenues include those of the special funds, specified purpose accounts, non-budget-funded bodies, the health and social services and education networks, and consolidation adjustments.

Consolidated federal transfer revenues
(millions of dollars)

	Budget 2014-2015		December 2014
	2014-2015	**Adjustments**	**2014-2015**
Equalization	9 286	—	9 286
Health transfers	5 262	13	5 275
Transfers for post-secondary education and other social programs	1 585	3	1 588
Other programs	988	105	1 093
Subtotal	**17 121**	**121**	**17 242**
Allocation to FINESSS of a portion of health transfers	–430	—	–430
FEDERAL TRANSFERS OF THE GENERAL FUND	**16 691**	**121**	**16 812**
Addition to “Other programs”			
Special funds(1)	525	7	532
Specified purpose accounts	901	—	901
Non-budget-funded bodies	814	77	891
Health and social services and education networks	282	–7	275
Consolidation adjustment	–606	—	–606
Subtotal	**1 916**	**77**	**1 993**
TOTAL	**18 607**	**198**	**18 805**

(1) Including the allocation of $430 million from health transfers to the Fund to Finance Health and Social Services Institutions (FINESSS).

■ Consolidated expenditure

In addition to departmental program spending, consolidated expenditure includes, in particular, the expenditure of special funds, non-budget-funded bodies and entities in the health and social services and education networks, and debt service.

In 2014-2015, consolidated expenditure represents nearly $97 billion, i.e. $86.3 billion for the funding of public services and $10.6 billion for debt service.

TABLE E.28

Consolidated expenditure in 2014-2015
(millions of dollars)

	Program spending	Other consolidated expenditure(1)	Consolidated expenditure
Expenditure	65 704	20 628	86 332
Debt service	8 430	2 216	10 646
TOTAL	**74 134**	**22 844**	**96 978**

(1) Includes, in particular, consolidation adjustments.

❑ Budgetary sectors

In addition to presenting revenue and expenditure according to their various sources, it is possible to present budgetary information according to the sectoral components of the government's reporting entity. These sectors reflect the budget organization structures that governments have adopted over time.

TABLE E.29

Consolidated revenue by sector for 2014-2015
(millions of dollars)

	Consolidated revenue
General fund	71 225
Special funds	10 635
Generations Fund	1 285
Non-budget-funded bodies	19 603
Health and social services and education networks	39 052
Specified purpose accounts	1 144
Tax-funded transfers(1)	6 654
Consolidation adjustments(2)	–53 685
TOTAL	**95 913**

(1) Includes doubtful tax accounts.
(2) Elimination of reciprocal transactions between entities in different sectors.

TABLE E.30

Consolidated expenditure by sector for 2014-2015
(millions of dollars)

	Consolidated expenditure
General fund	65 704
Special funds	8 836
Non-budget-funded bodies	18 507
Health and social services and education networks	38 244
Specified purpose accounts	1 144
Tax-funded expenditures(1)	6 654
Consolidation adjustments(2)	–52 757
Subtotal	**86 332**
Consolidated debt service	**10 646**
TOTAL	**96 978**

(1) Includes doubtful tax accounts.
(2) Elimination of reciprocal transactions between entities in different sectors.

Section F

THE QUÉBEC GOVERNMENT'S DEBT

1. DEBT

Several concepts of debt are used to measure a government's indebtedness. The following table presents data on Québec's debt according to three concepts, i.e. gross debt, net debt and debt representing accumulated deficits.

TABLE F.1

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

	2014	2015F	2016F	2017F	2018F	2019F
GROSS DEBT(1)	**197 098**	**206 131**	**211 225**	**214 478**	**216 756**	**217 945**
As a % of GDP	*54.3*	*55.1*	*54.4*	*53.3*	*52.1*	*50.7*
Less: Financial assets, net of other liabilities	–15 837	–14 970	–17 513	–19 793	–22 305	–24 613
NET DEBT	**181 261**	**191 161**	**193 712**	**194 685**	**194 451**	**193 332**
As a % of GDP	*50.0*	*51.1*	*49.9*	*48.4*	*46.7*	*45.0*
Less: Non-financial assets	–61 372	–66 407	–70 575	–73 836	–76 653	–79 034
DEBT REPRESENTING ACCUMULATED DEFICITS	**119 889**	**124 754**	**123 137**	**120 849**	**117 798**	**114 298**
As a % of GDP	*33.0*	*33.3*	*31.7*	*30.1*	*28.3*	*26.6*

F: Forecasts.
(1) The gross debt excludes pre-financing and takes into account the sums accumulated in the Generations Fund.

1.1 Gross debt

The gross debt represents the amount of debt issued on financial markets and the net liabilities in respect of the retirement plans and future benefits of public and parapublic sector employees, minus the balance of the Generations Fund.

As at March 31, 2014, the gross debt stood at $197 098 million, or 54.3% of Québec's GDP. As at March 31, 2015, the gross debt should stand at $206 131 million, or 55.1% of GDP. As of 2015-2016, the ratio of gross debt to GDP should gradually decline to 50.7% as at March 31, 2019.

TABLE F.2

Gross debt as at March 31
(millions of dollars)

		2014	2015F	2016F	2017F	2018F	2019F
Consolidated direct debt(1)		174 085	184 437	190 618	195 911	201 145	205 926
Plus:	Net retirement plans liability	28 537	28 535	29 097	29 385	29 262	28 833
Plus:	Net employee future benefits liability	135	103	71	31	24	23
Less:	Generations Fund	–5 659	–6 944	–8 561	–10 849	–13 675	–16 837
GROSS DEBT(1)		**197 098**	**206 131**	**211 225**	**214 478**	**216 756**	**217 945**
As a % of GDP		***54.3***	***55.1***	***54.4***	***53.3***	***52.1***	***50.7***

F: Forecasts.
(1) The consolidated direct debt and the gross debt exclude pre-financing.

Retirement plans liability

The net retirement plans liability, which is included in the gross debt, is calculated by subtracting from the retirement plans liability the balance of the Retirement Plans Sinking Fund (RPSF), an asset established to pay the retirement benefits of public and parapublic sector employees.

The retirement plans liability represents the present value of the retirement benefits the government will pay to public and parapublic sector employees, taking into account the conditions of their plans and their years of service. This liability stood at $79 870 million as at March 31, 2014.

The government created the RPSF in 1993. As at March 31, 2014, the book value of the RPSF stood at $51 333 million.

Thus, the net retirement plans liability represented $28 537 million as at March 31, 2014.

Net retirement plans liability as at March 31, 2014
(millions of dollars)

Retirement plans liability	
Government and Public Employees Retirement Plan (RREGOP)	49 130
Pension Plan of Management Personnel (PPMP) and Retirement Plan for Senior Officials (RPSO)	11 404
Other plans(1)	19 336
Subtotal	**79 870**
Less: Retirement Plans Sinking Fund (RPSF)	–51 333
NET RETIREMENT PLANS LIABILITY	**28 537**

(1) The liability for the other plans takes into account the assets of the other plans, including those of the Pension Plan of the Université du Québec.

Employee future benefits liability

The government records in the gross debt the value of its commitments regarding future benefits programs for its employees, namely, programs for accumulated sick leave and for pensions paid to the survivors of government employees. These programs give rise to long-term obligations whose costs are covered in full by the government.

As at March 31, 2014, the employee future benefits liability stood at $1 422 million.

As at March 31, 2014, the value of the sums accumulated to pay for employee future benefits programs (Accumulated Sick Leave Fund and Survivor's Pension Plan Fund) stood at $1 287 million.

Thus, the net employee future benefits liability was $135 million as at March 31, 2014.

Net employee future benefits liability as at March 31, 2014
(millions of dollars)

Employee future benefits liability	
Accumulated sick leave	829
Survivor's pension plan	408
Université du Québec programs	185
Subtotal	**1 422**
Less:	
Accumulated Sick Leave Fund	–854
Survivor's Pension Plan Fund	–433
Subtotal	**–1 287**
NET EMPLOYEE FUTURE BENEFITS LIABILITY	**135**

Generations Fund

The Generations Fund was created by the Liberal government in June 2006, through the adoption of the *Act to reduce the debt and establish the Generations Fund*. The sums accumulated in the fund are dedicated solely to repaying the debt.

As at March 31, 2014, the book value of the Generations Fund stood at $5 659 million.

The sums accumulated in the Generations Fund are expected to reach $16 837 million as at March 31, 2019.

Generations Fund
(millions of dollars)

	2013-2014	2014-2015F	2015-2016F	2016-2017F	2017-2018F	2018-2019F
Book value, beginning of year	**5 238**	**5 659**	**6 944**	**8 561**	**10 849**	**13 675**
Dedicated revenues						
Water-power royalties						
Hydro-Québec	670	661	677	690	706	723
Private producers	93	93	93	94	96	98
	763	754	770	784	802	821
Indexation of the price of heritage electricity	—	71	105	200	295	395
Mining revenues	—	—	146	186	236	266
Tax on alcoholic beverages	—	100	100	500	500	500
Savings relative to the closure of Gentilly-2	—	—	—	—	215	215
Unclaimed property	19	22	12	12	12	12
Investment income	339	338	484	606	766	953
Total dedicated revenues	**1 121**	**1 285**	**1 617**	**2 288**	**2 826**	**3 162**
Deposit from the Territorial Information Fund	300	—	—	—	—	—
Total deposits	**1 421**	**1 285**	**1 617**	**2 288**	**2 826**	**3 162**
Use of the Generations Fund to repay maturing borrowings	–1 000	—	—	—	—	—
BOOK VALUE, END OF YEAR	**5 659**	**6 944**	**8 561**	**10 849**	**13 675**	**16 837**

F: Forecasts.

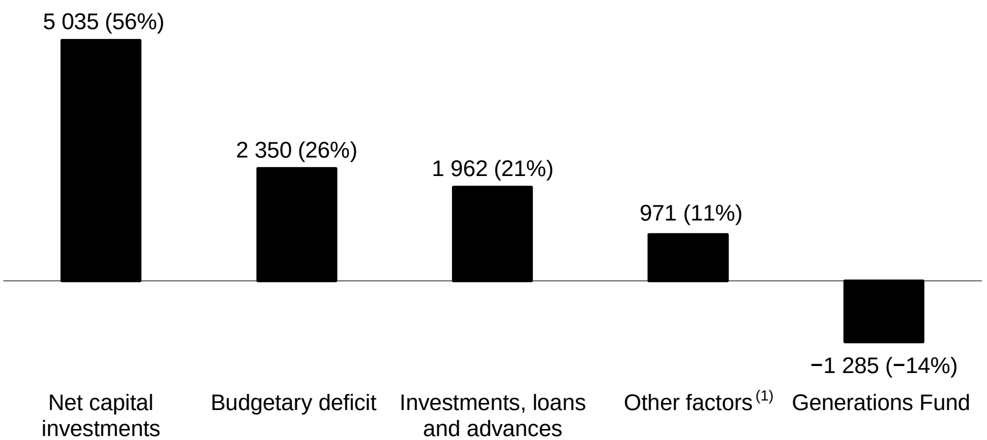
❑ Factors responsible for the growth in the gross debt

In 2014-2015, the gross debt is expected to increase by $9 033 million, mainly because of capital investments ($5 035 million), the budgetary deficit ($2 350 million) and investments, loans and advances ($1 962 million).

Deposits in the Generations Fund will help to reduce the gross debt by $1 285 million.

CHART F.1

Factors responsible for the growth in the gross debt in 2014-2015
(millions of dollars)



(1) Other factors include in particular the change in other accounts, such as accounts receivable and accounts payable.

The table on the next page shows the factors responsible for the growth in the government's gross debt since March 31, 2000.

TABLE F.3

Factors responsible for the growth in the Québec government's gross debt

(millions of dollars)

	Debt, beginning of year	Budgetary (surplus) deficit	Closure of Gentilly-2	Investments, loans and advances	Net investment in the networks(1)	Net capital investments(2)	Other factors(3)	Deposits in the Generations Fund(4)	Total change	Debt, end of year	As a % of GDP
With networks consolidated at modified equity value											
2000-2001	116 761	−427		1 701	841	578	1 108		3 801	120 562	52.3
2001-2002	120 562	−22		1 248	934	1 199	–9		3 350	123 912	52.0
2002-2003	123 912	728		1 921	631	1 706	237		5 223	129 135	51.9
2003-2004	129 135	358		1 367	560	1 186	625		4 096	133 231	51.3
2004-2005	133 231	664		1 303	1 486	1 006	–796		3 663	136 894	50.4
2005-2006	136 894	−37		1 488	1 013	1 179	–809		2 834	139 728	49.8
2006-2007	139 728	−109		2 213	1 002	1 177	1 078	–584	4 777	144 505	49.7
2007-2008	144 505	—		2 658	487	1 457	767	–649	4 720	149 225	48.8
2008-2009	149 225	—		966	622	2 448	–28	–719	3 289	152 514	48.6
With networks consolidated line by line(5)											
2009-2010	157 630	3 174		1 746		4 226	–2 733	–725	5 688	163 318	51.8
2010-2011	163 318	3 150		2 507		4 923	298	–760	10 118	173 436	52.6
2011-2012	173 436	2 628		1 861		5 071	1 228	–840	9 948	183 384	53.0
2012-2013	183 384	1 600	1 876	659		4 863	445	–961	8 482	191 866	53.7
2013-2014	191 866	2 824		1 349		3 977	–1 497	–1 421	5 232	197 098	54.3
2014-2015	197 098	2 350		1 962		5 035	971	–1 285	9 033	206 131	55.1
2015-2016	206 131	—		2 257		4 168	286	–1 617	5 094	211 225	54.4
2016-2017	211 225	—		2 113		3 261	167	–2 288	3 253	214 478	53.3
2017-2018	214 478	−225(6)		1 839		2 817	673	–2 826	2 278	216 756	52.1
2018-2019	216 756	−338(6)		1 993		2 381	315	–3 162	1 189	217 945	50.7

(1) The net investment in the networks includes mainly loans by Financement-Québec and the Corporation d'hébergement du Québec to institutions in the health and social services and the education networks. Since 2009-2010, these items have been part of net capital investments.
(2) Investments made under private-public partnership agreements are included in net capital investments.
(3) Other factors include in particular the change in other accounts, such as accounts receivable and accounts payable.
(4) Deposits in the Generations Fund in 2013-2014 include $1 121 million in dedicated revenues and $300 million from the accumulated surplus of the Territorial Information Fund.
(5) The line-by-line consolidation of the financial statements of institutions in the health and social services and the education networks raised the gross debt by $5 116 million as at March 31, 2009. This amount represents the debt contracted by the networks in their own name. The data prior to 2009-2010 could not be restated and are thus not comparable.
(6) Corresponds to half of the forecast budgetary surplus, in accordance with the government's policy of allocating half of budgetary surpluses to reducing the debt and the other half to easing the tax burden, by giving priority to the gradual elimination of the health contribution.

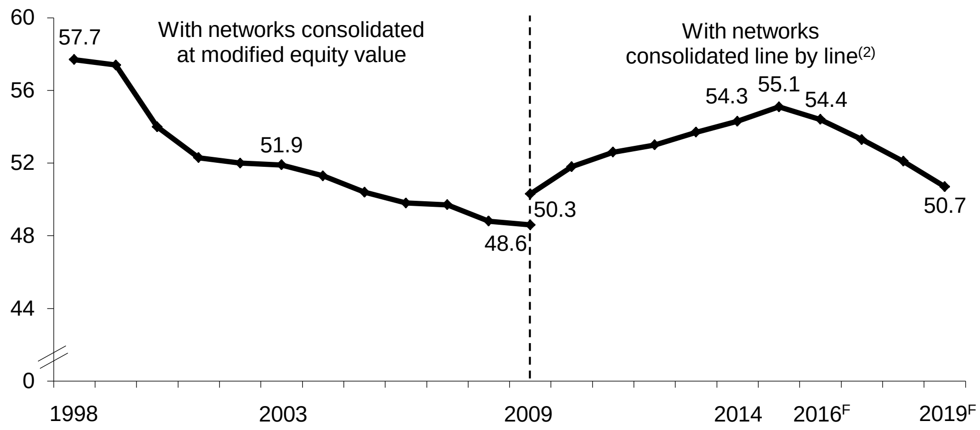
❑ Gross debt burden

Between 1998 and 2009, the government's gross-debt-to-GDP ratio fell significantly. While the gross debt was equivalent to 57.7% of GDP as at March 31, 1998, this ratio stood at 51.9% as at March 31, 2003 and 48.6% as at March 31, 2009. The line-by-line consolidation of the financial statements of institutions in the health and social services and the education networks with those of the government raised the gross-debt-to-GDP ratio to 50.3% as at March 31, 2009.

The increase in the ratio as of 2009 is due to the growth in capital investments and the 2008-2009 recession. The gross debt burden is expected to decrease as of 2015-2016, once the budget has been balanced.

CHART F.2

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



F: Forecasts.
(1) The gross debt excludes pre-financing and takes into account the sums accumulated in the Generations Fund.
(2) The gross debt takes into account the debt that the health and social services and the education networks have contracted in their own name. The data as of 2009 are not comparable with those for prior years since they do not include this debt.

1.2 Net debt

The net debt is equal to the Québec government's liabilities less its financial assets. It represents the debt that has funded capital investments and current expenditures. The net debt is obtained by subtracting from the gross debt the government's financial assets, net of other liabilities.

As at March 31, 2014, the net debt stood at $181 261 million, or 50.0% of GDP. As a proportion of GDP, the net debt will gradually decline as of 2015-2016, to 45.0% as at March 31, 2019.

TABLE F.4

Factors responsible for the growth in the net debt
(millions of dollars)

	Debt, beginning of year	Budgetary (surplus) deficit	Net capital investments	Other(1)	Generations Fund	Total change	Debt, end of year	As a % of PIB
2013-2014	175 498	2 824	3 977	83	–1 121	5 763	181 261	50.0
2014-2015F	181 261	2 350	5 035	3 800	–1 285	9 900	191 161	51.1
2015-2016F	191 161	—	4 168	—	–1 617	2 551	193 712	49.9
2016-2017F	193 712	—	3 261	—	–2 288	973	194 685	48.4
2017-2018F	194 685	−225(2)	2 817	—	–2 826	−234	194 451	46.7
2018-2019F	194 451	−338(2)	2 381	—	–3 162	–1 119	193 332	45.0

F: Forecasts.
(1) For 2013-2014, corresponds to the other comprehensive income items of government enterprises and to changes stemming from inventories and prepaid expenses that are non-financial assets. For 2014-2015, the forecast includes a provision of $3.8 billion resulting from the adoption of new accounting standards by a government enterprise. This has an impact on the net debt, but does not affect the gross debt.
(2) Corresponds to half of the forecast budgetary surplus, in accordance with the government's policy of allocating half of budgetary surpluses to reducing the debt and the other half to easing the tax burden, by giving priority to the gradual elimination of the health contribution.

1.3 Debt representing accumulated deficits

The debt representing accumulated deficits corresponds to the difference between the Québec government's liabilities and its financial and non-financial assets as a whole. This debt is calculated by subtracting financial assets, net of other liabilities, as well as non-financial assets from the gross debt.

As at March 31, 2014, the debt representing accumulated deficits stood at $119 889 million, or 33.0% of GDP. As a proportion of GDP, the debt representing accumulated deficits will gradually decline as of 2015-2016, to 26.6% as at March 31, 2019.

The following table shows the factors responsible for the growth in the debt representing accumulated deficits since March 31, 2009.

TABLE F.5

Factors responsible for the growth in the debt representing accumulated deficits
(millions of dollars)

	Debt, beginning of year	Budgetary (surplus) deficit	Closure of Gentilly-2	Accounting adjustments(1)	Generations Fund	Total change	Debt, end of year	As a % of GDP
2009-2010	103 433	3 174		3 243	–725	5 692	109 125	34.6
2010-2011	109 125	3 150		431	–760	2 821	111 946	34.0
2011-2012	111 946	2 628		1 486	–840	3 274	115 220	33.3
2012-2013	115 220	1 600	1 876	371	–961	2 886	118 106	33.0
2013-2014	118 106	2 824		80	–1 121	1 783	119 889	33.0
2014-2015F	119 889	2 350		3 800	–1 285	4 865	124 754	33.3
2015-2016F	124 754	—		—	–1 617	–1 617	123 137	31.7
2016-2017F	123 137	—		—	–2 288	–2 288	120 849	30.1
2017-2018F	120 849	−225(2)		—	–2 826	–3 051	117 798	28.3
2018-2019F	117 798	−338(2)		—	–3 162	–3 500	114 298	26.6

F: Forecasts.
(1) The forecast includes for 2014-2015 a provision of $3.8 billion resulting from the adoption of new accounting standards by a government enterprise. This has an impact on the debt representing accumulated deficits, but does not affect the gross debt.
(2) Corresponds to half of the forecast budgetary surplus, in accordance with the government's policy of allocating half of budgetary surpluses to reducing the debt and the other half to easing the tax burden, by giving priority to the gradual elimination of the health contribution.

1.4 Debt reduction objectives

The Québec government has set debt reduction objectives that have been included in the *Act to reduce the debt and establish the Generations Fund*. For fiscal 2025-2026:

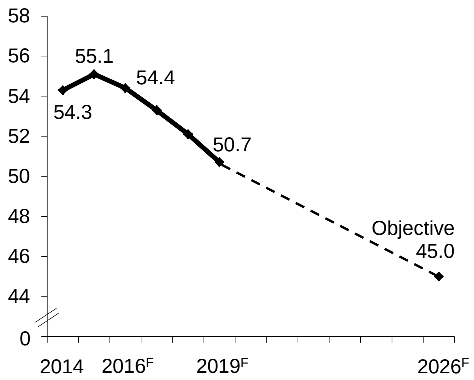
— the gross debt cannot exceed 45% of GDP;

— the debt representing accumulated deficits cannot exceed 17% of GDP.

CHART F.3

Gross debt as at March 31

(as a percentage of GDP)

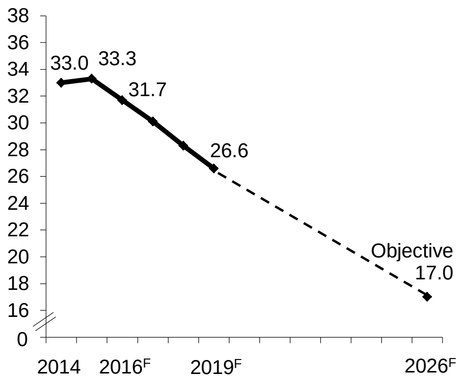


F: Forecasts for 2015 to 2019 and projections for subsequent years.
Note: The gross debt excludes pre-financing and takes into account the sums accumulated in the Generations Fund.

CHART F.4

Debt representing accumulated deficits as at March 31

(as a percentage of GDP)



F: Forecasts for 2015 to 2019 and projections for subsequent years.

To achieve these debt reduction objectives, the government has the Generations Fund, established in 2006, at its disposal. In addition to the water-power royalties paid by Hydro-Québec and private producers of hydro-electricity,[1] the following revenue sources are dedicated to the Generations Fund:

— the revenue generated by the indexation of the price of heritage electricity. This will amount to $71 million in 2014-2015, $105 million in 2015-2016, $200 million in 2016-2017, $295 million in 2017-2018 and $395 million in 2018-2019;

[1] The *Act to reduce the debt and establish the Generations Fund* also provides for the deposit in the Generations Fund of unclaimed property administered by Revenu Québec and income generated by the investment of the sums making up the fund.

— all mining revenues as of 2015-2016. This will amount to $146 million in 2015-2016, $186 million in 2016-2017, $236 million in 2017-2018 and $266 million in 2018-2019;

— the savings, as of 2017-2018, stemming from the closure of the Gentilly-2 nuclear power plant. This will amount to $215 million per year;

— an amount of $100 million per year, in 2014-2015 and 2015-2016, derived from the specific tax on alcoholic beverages, which will increase to $500 million per year as of 2016-2017.

In addition, as of 2017-2018, the fiscal outlook will make it possible to generate surpluses, half of which will be used to reduce the debt and the other half to ease the tax burden of Quebecers, by giving priority to the gradual elimination of the health contribution.

The Generations Fund should reach $16.8 billion as at March 31, 2019.

1.5 Public sector debt

The public sector debt includes the government's gross debt as well as the debt of Hydro-Québec, the municipalities, universities other than the Université du Québec and its constituents and other government enterprises. This debt has served in particular to fund public infrastructure, such as roads, schools, hospitals, hydroelectric dams and water treatment plants.

As at March 31, 2014, Québec's public sector debt stood at $262 833 million, or 72.4% of GDP. These figures must be seen in perspective for they do not take into account the economic value of certain assets held by the government, such as Hydro-Québec, the Société des alcools du Québec and Loto-Québec.

TABLE F.6

Public sector debt as at March 31
(millions of dollars)

	2010	2011	2012	2013	2014
Government's gross debt(1)	163 318	173 436	183 384	191 866	197 098
Hydro-Québec	36 385	37 723	38 514	39 631	40 361
Municipalities(2)	19 538	20 307	20 719	21 820	22 622
Universities other than the Université du Québec and its constituents(3)	1 930	1 925	1 797	1 739	1 610
Other government enterprises(4)	697	1 363	1 363	1 479	1 142
PUBLIC SECTOR DEBT	**221 868**	**234 754**	**245 777**	**256 535**	**262 833**
As a % of GDP	***70.3***	***71.2***	***71.1***	***71.8***	***72.4***

(1) The gross debt excludes pre-financing and takes into account the sums accumulated in the Generations Fund.
(2) These amounts correspond to the long-term debt contracted by municipalities in their own name. Part of this debt is subsidized by the government ($4 144 million as at March 31, 2014).
(3) These amounts correspond to the debt contracted by universities other than the Université du Québec and its constituents in their own name. Part of this debt is subsidized by the government ($91 million as at March 31, 2014).
(4) These amounts correspond to the debt of the Financing Fund to finance government enterprises and entities not included in the reporting entity.

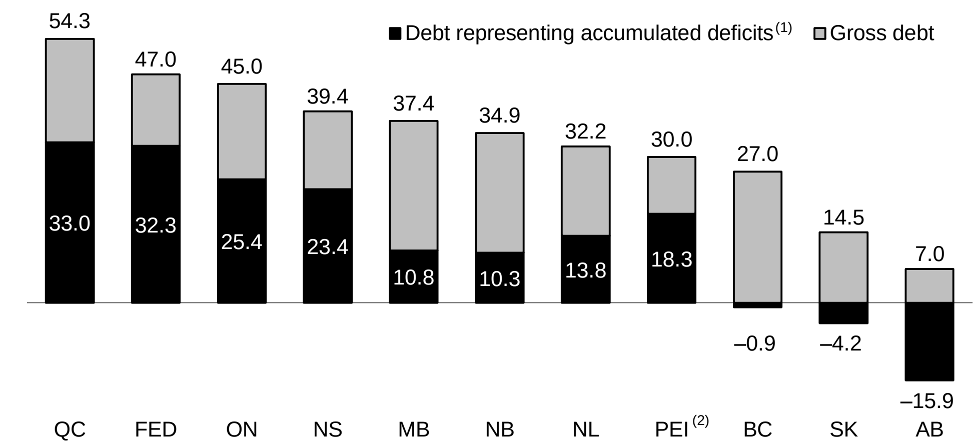
1.6 Comparison of the debt of governments in Canada

Whether on the basis of gross debt or debt representing accumulated deficits, as a percentage of GDP, Québec is the most heavily indebted province.

As at March 31, 2014, the ratio of Québec's gross debt to GDP was 54.3%, compared with 45.0% in Ontario, the second most indebted province, and 39.4% in Nova Scotia, which ranks third.

CHART F.5

Gross debt and debt representing accumulated deficits as at March 31, 2014
(as a percentage of GDP)



(1) A negative entry means that the government has accumulated surpluses.
(2) Data as at March 31, 2013 given that the 2013-2014 public accounts for this province had not yet been published as at November 21, 2014.
Sources: Governments' public accounts, Statistics Canada and Ministère des Finances du Québec.

The table on the following page shows the debt of the federal government and each province as at March 31, 2014. The boxes indicate the debt concept used by each government in its budget documents to measure its debt level. Some governments use more than one concept.

Contrary to the net debt and the debt representing accumulated deficits, the gross debt cannot be observed directly in the public accounts of the other provinces. However, the public accounts show the components of gross debt, i.e. the consolidated direct debt, the net retirement plans liability and the net employee future benefits liability. Therefore, it is possible to calculate the level of the gross debt according to the concept used by Québec.

TABLE F.7

Debt of governments in Canada as at March 31, 2014 according to various concepts
(millions of dollars)

	QC	FED	ON	NS	MB	NB	NL	PEI(1)	BC	SK	AB
Consolidated direct debt	**174 085**	**664 872**	**308 667**	**12 991**	**20 435**	**10 768**	**5 066**	**1 688**	**59 967**	**4 986**	**11 983**
Net retirement plans liability	28 537	153 083	–6 610	581	2 038	–1	3 908	–86	214	7 085	11 600
Net employee future benefits liability	135	71 409	10 747	1 855	458	353	2 554	52	1 870	—	—
Generations Fund	–5 659										
Gross debt	**197 098**	**889 364**	**312 804**	**15 427**	**22 931**	**11 120**	**11 528**	**1 654**	**62 051**	**12 071**	**23 583**
As a % of GDP	*54.3*	*47.0*	*45.0*	*39.4*	*37.4*	*34.9*	*32.2*	*30.0*	*27.0*	*14.5*	*7.0*
Less: Financial assets, net of other liabilities	–15 837	–207 050	–45 614	–665	–5 587	521	–2 443	386	–23 274	–7 456	–34 222
Net debt(2)	**181 261**	**682 314**	**267 190**	**14 762**	**17 344**	**11 641**	**9 085**	**2 040**	**38 777**	**4 615**	**–10 639**
As a % of GDP	*50.0*	*36.0*	*38.4*	*37.7*	*28.3*	*36.5*	*25.4*	*37.0*	*16.9*	*5.5*	*−3.1*
Less: Non-financial assets	–61 372	–70 433	–90 556	–5 613	–10 719	–8 368	–4 148	–1 031	–40 912	–8 084	–43 232
Debt representing accumulated deficits(2)	**119 889**	**611 881**	**176 634**	**9 149**	**6 625**	**3 273**	**4 937**	**1 009**	**–2 135**	**–3 469**	**–53 871**
As a % of GDP	*33.0*	*32.3*	*25.4*	*23.4*	*10.8*	*10.3*	*13.8*	*18.3*	*−0.9*	*−4.2*	*−15.9*

Note: The boxes indicate the debt concept(s) used in the governments' budget papers.
(1) Data as at March 31, 2013 given that the 2013-2014 public accounts for this province had not yet been published as at November 21, 2014.
(2) A negative entry means that the government has net assets or accumulated surpluses.
Sources: Governments' public accounts, Statistics Canada and Ministère des Finances du Québec.

2. FINANCING AND DEBT MANAGEMENT

2.1 Financing program

The government's financing program for 2014-2015 amounts to $15 264 million, i.e. $230 million more than forecast in the June 2014 budget. The upward revision in the financing program is explained, in particular, by a $500-million deposit in the Retirement Plans Sinking Fund.

TABLE F.8

The government's financing program in 2014-2015F
(millions of dollars)

	June 2014 budget	Revisions	Revised program	Completed(1)	To be completed
GENERAL FUND					
Net financial requirements(2),(3)	4 165	9	4 174		
Repayments of borrowings	7 701	274	7 975		
Change in cash position(4)	−5 610	−195	−5 805		
Deposits in the Retirement Plans Sinking Fund(5)	—	500	500		
Transactions under the credit policy(6)	−55	142	87		
Additional contributions to the Sinking Fund for borrowings	300	—	300		
GENERAL FUND	**6 501**	**730**	**7 231**		
FINANCING FUND	**7 533**	**−500**	**7 033**		
Subtotal – General fund and Financing Fund	**14 034**	**230**	**14 264**	**13 476**	**788**
FINANCEMENT-QUÉBEC	**1 000**	**—**	**1 000**	**—**	**1 000**
TOTAL	**15 034**	**230**	**15 264**	**13 476**	**1 788**
Including: repayments of borrowings(7)	12 363	320	12 683		

F: Forecasts.
Note: A negative entry indicates a source of financing and a positive entry, a financial requirement.
(1) Borrowings contracted or negotiated as at November 21, 2014.
(2) The amounts exclude the net financial requirements of consolidated entities funded through the Financing Fund.
(3) Net financial requirements are adjusted to take into account the non-receipt of revenues of the RPSF and of funds dedicated to employee future benefits.
(4) Corresponds to pre-financing made the previous year.
(5) Deposits in the RPSF are optional. They are recorded in the financing program only once they are made.
(6) Under the credit policy, which is designed to limit financial risk with respect to counterparties, the government disburses or receives amounts because of movements in exchange rates. These amounts have no effect on the debt.
(7) The amounts include repayments of borrowings of the general fund ($7 975 million), the Financing Fund ($1 197 million) and Financement-Québec ($3 511 million).

The financing program should amount to $18 781 million in 2015-2016 and $19 248 million in 2016-2017.

TABLE F.9

The government's financing program in 2015-2016 and 2016-2017
(millions of dollars)

	2015-2016F	2016-2017F
GENERAL FUND		
Net financial requirements(1),(2)	1 996	717
Repayments of borrowings	7 082	10 533
GENERAL FUND	**9 078**	**11 250**
FINANCING FUND	**8 703**	**6 998**
Subtotal – General fund and Financing Fund	**17 781**	**18 248**
FINANCEMENT-QUÉBEC	**1 000**	**1 000**
TOTAL	**18 781**	**19 248**
Including: repayments of borrowings(3)	10 215	14 898

F: Forecasts.
Note: A negative entry indicates a source of financing and a positive entry, a financial requirement.
(1) These amounts exclude the net financial requirements of consolidated entities funded through the Financing Fund.
(2) Net financial requirements are adjusted to take into account the non-receipt of revenues of the RPSF and of funds dedicated to employee future benefits.
(3) The amounts include repayments of borrowings, for 2015-2016 and 2016-2017, of the general fund ($7 082 million and $10 533 million), the Financing Fund ($1 253 million and $1 257 million) and Financement-Québec ($1 880 million and $3 108 million).

2.2 Financing strategy

The government aims to borrow at the lowest possible cost. To that end, it applies a strategy for diversifying sources of funding by market, financial instrument and maturity.

2.2.1 Diversification by market

Financing transactions are carried out regularly on most markets, i.e. in Canada, the United States, Europe, Australia and Asia.

From 2004-2005 to 2013-2014, 16.7% of borrowings were contracted in foreign currencies. Nonetheless, the government keeps no exposure of its debt to these currencies (see section 2.5).

In 2014-2015, the government has thus far carried out 19.4% of its borrowings on foreign markets, i.e.:

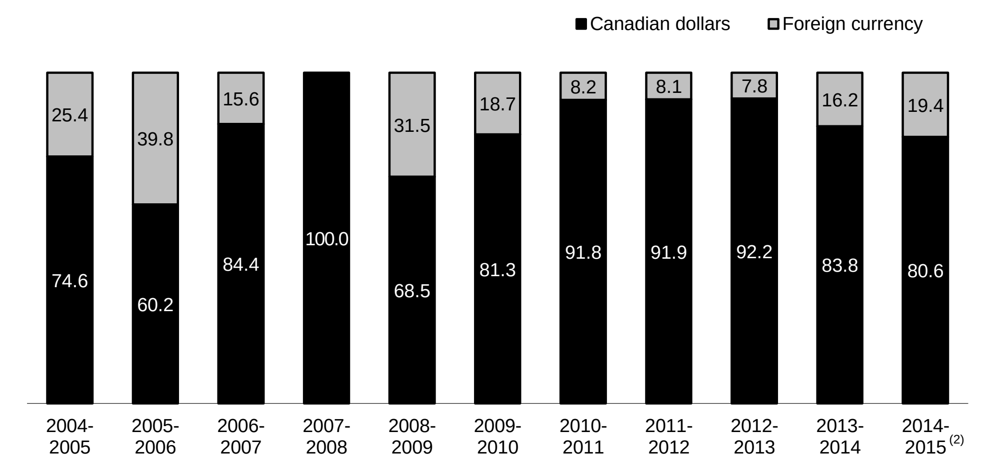
— three issues totalling A$400 million (CAN$387 million) in September 2014;

— one issue of US$1 600 million (CAN$1 788 million) in October 2014;

— one issue of 375 million CHF (CAN$433 million) in November 2014.

CHART F.6

Borrowings by currency(1)
(per cent)



(1) Borrowings of the general fund, borrowings for the Financing Fund and borrowings of Financement-Québec.
(2) Borrowings contracted as at November 21, 2014.

2.2.2 **Diversification by instrument**

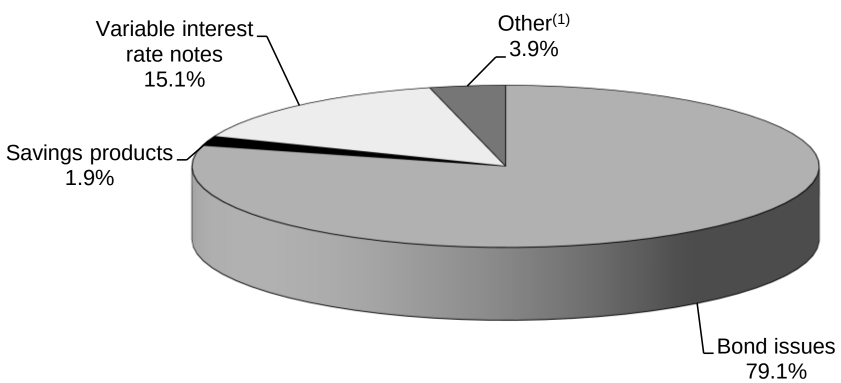
To satisfy investors' needs, an extensive array of financial products is used in the course of financing transactions.

Long-term instruments consist primarily of bond issues and variable interest rate notes.

In 2014-2015, bond issues have thus far represented 79.1% of the instruments used.

CHART F.7

Long-term borrowings contracted in 2014-2015 by instrument
(per cent)



Note: Borrowings contracted as at November 21, 2014.
(1) Business Assistance - Immigrant Investor Program.

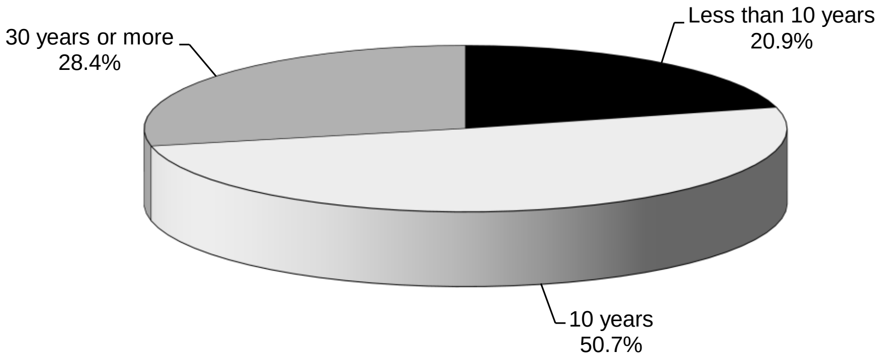
2.2.3 **Diversification by maturity**

Maturities of new borrowings are distributed over time to obtain a stable refinancing profile and ensure the government's regular presence on capital markets.

In the case of borrowings contracted thus far in 2014-2015, 20.9% had a maturity of less than 10 years, 50.7% a maturity of 10 years and 28.4% a maturity of 30 years or more.

CHART F.8

Long-term borrowings contracted in 2014-2015 by maturity
(per cent)

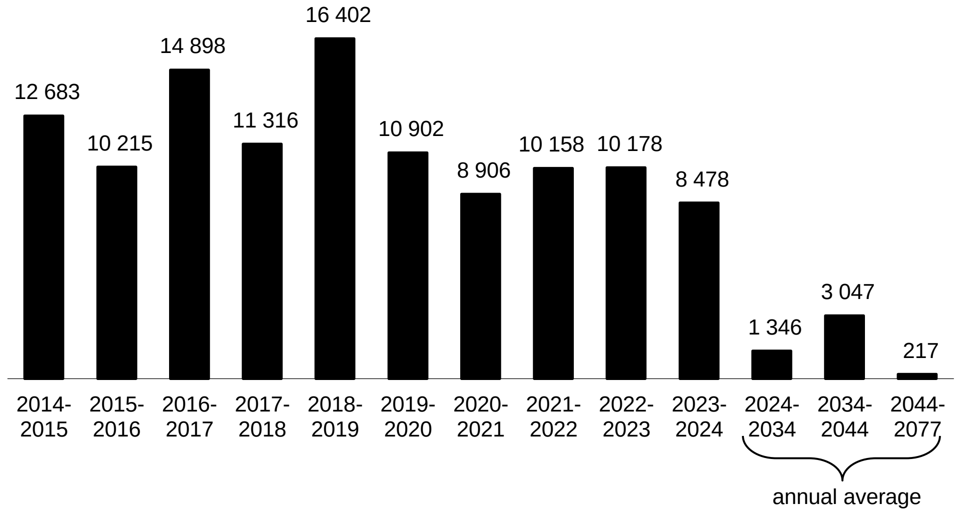


Note: Borrowings contracted as at November 21, 2014.

This diversification by maturity is reflected on the maturity of the debt shown in the following chart. As at March 31, 2014, the average maturity of the debt stood at slightly over 11 years.

CHART F.9

Maturity of the long-term debt as at March 31, 2014
(millions of dollars)



Note: Direct debt of the general fund, debt issued to make advances to the Financing Fund and debt of Financement-Québec.

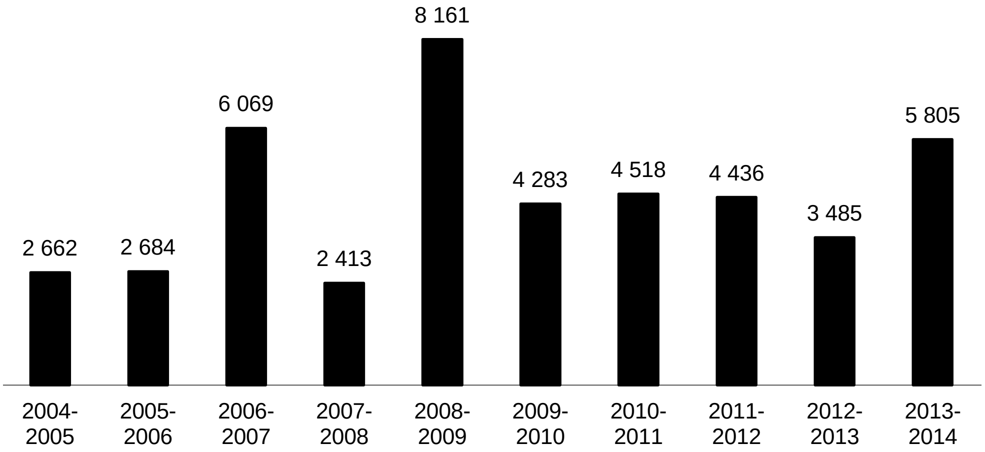
2.3 Pre-financing

The government carries out pre-financing to take advantage of favourable market conditions. These are borrowings that would normally be contracted during the subsequent fiscal year.

In 2013-2014, the government contracted pre-financing of $5 805 million. The average for the past 10 years was $4 452 million a year.

CHART F.10

Pre-financing
(millions of dollars)

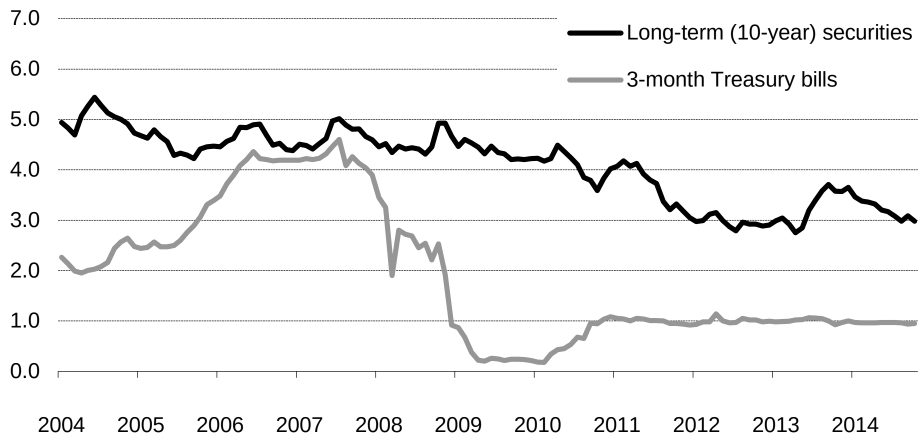


2.4 **Yield**

The yield on the Québec government's long-term securities is currently about 3.0%, while that on short-term securities is roughly 1.0%.

CHART F.11

Yield on Québec securities
(per cent)

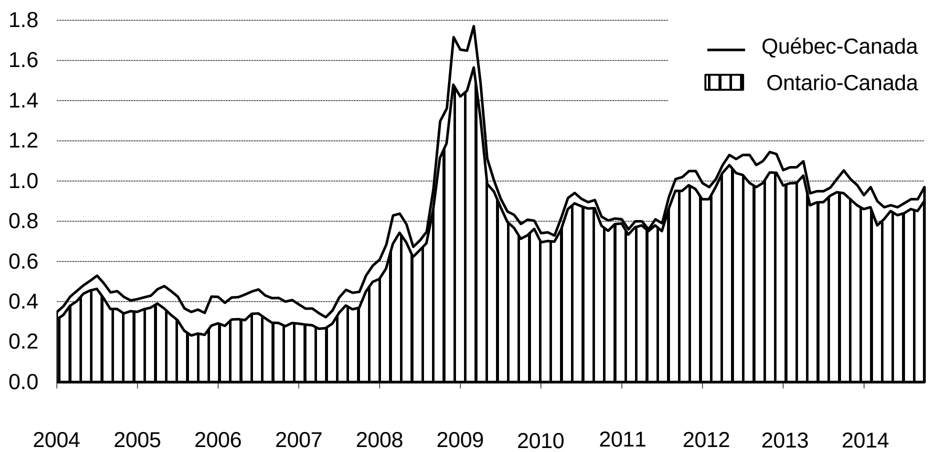


Sources: PC-Bond and Ministère des Finances du Québec.

In addition, the substantial increase in the spread between the yield on Québec and federal government securities, observed starting in the summer of 2008 during the financial crisis, has narrowed considerably since then. However, the level of the spread has not returned to the levels observed prior to 2008. The same situation has also been observed in the case of the other provinces.

CHART F.12

Yield spread on long-term (10-year) securities
(percentage points)



Source: PC-Bond.

2.5 Debt management

The government's debt management strategy aims to minimize the cost of the debt while limiting the risks related to fluctuations in foreign exchange and interest rates.

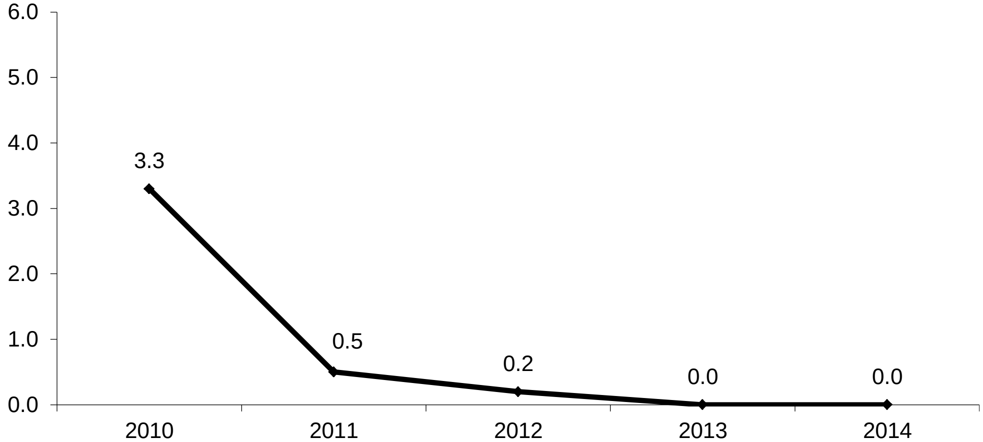
The government uses a range of financial instruments, particularly interest rate and currency swap agreements, to achieve desired debt proportions by currency and interest rate.

❑ Proportion of the gross debt in foreign currency

As at March 31, 2014, the proportion of the government's gross debt in foreign currency, after taking into account interest rate and currency swap agreements, was nil. This proportion was also nil as at March 31, 2013.

CHART F.13

Proportion of the gross debt in foreign currency as at March 31
(per cent)



Note: Gross debt including pre-financing.

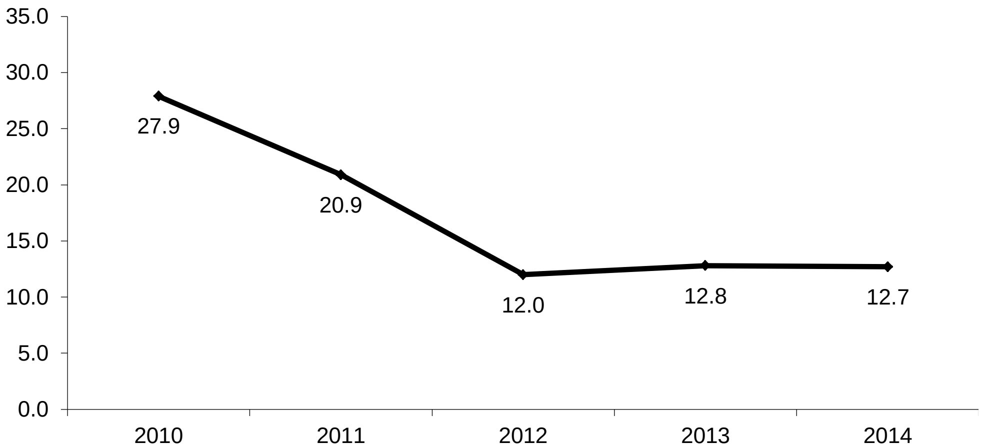
❑ Proportion of the gross debt at variable interest rates

The government keeps part of its debt at variable interest rates and part at fixed interest rates.

After taking into account interest rate and currency swap agreements, the proportion of the gross debt at variable interest rates was 12.7% as at March 31, 2014. The proportion of the gross debt at variable interest rates has fallen since 2010.

CHART F.14

Proportion of the gross debt at variable interest rates(1) as at March 31
(per cent)



Note: Gross debt including pre-financing.
(1) The debt at variable interest rates includes variable interest rate financial instruments as well as fixed interest rate financial instruments that mature in one year or less.

2.6 Borrowings contracted

TABLE F.10

Québec government
Summary of long-term borrowings in 2014-2015(1)

Currency	$ million	%
CANADIAN DOLLAR		
Bond issues	8 055	59.7
Variable interest rate notes	2 033	15.1
Savings products	254	1.9
Business Assistance - Immigrant Investor Program	526	3.9
Subtotal	**10 868**	**80.6**
OTHER CURRENCIES		
US dollar	1 788	13.3
Swiss franc	433	3.2
Australian dollar	387	2.9
Subtotal	**2 608**	**19.4**
TOTAL	**13 476**	**100.0**

Note: Borrowings contracted as at November 21, 2014.
(1) The amounts include the borrowings of the general fund, the borrowings for the Financing Fund and the borrowings of Financement-Québec.

TABLE F.11

Québec government
Borrowings contracted in 2014-2015 for the General Fund and the Financing Fund

Amount received in Canadian dollars[1]	Face value in foreign currency	Interest rate[2]	Date of issue	Date of maturity	Price to investor	Yield to investor[3]
(millions)		(%)			($)	(%)
518	—	3.75	May 7	2024-09-01	103.683	3.325
461	—	3.50	May 13	2045-12-01	92.160	3.936
521	—	3.75	May 16	2024-09-01	104.154	3.271
2 033	—	Variable[4]	May 21	2019-08-21	100.000	Variable[5]
467	—	3.50	May 30	2045-12-01	93.470	3.860
527	—	3.75	June 3	2024-09-01	105.323	3.138
525	—	3.75	June 23	2024-09-01	104.951	3.177
473	—	3.50	June 30	2045-12-01	94.645	3.793
532	—	3.75	August 18	2024-09-01	106.494	2.996
486	—	3.50	August 26	2045-12-01	97.140	3.654
100	A$100	4.20	September 10	2025-03-10	99.622	4.245
530	—	3.75	September 12	2024-09-01	105.907	3.058
482	—	3.50	September 16	2045-12-01	96.402	3.695
120	A$125	4.20	September 18	2025-03-10	97.372	4.518
167	A$175	4.20	September 24	2025-03-10	96.949	4.570
1 788	US$1 600	2.875	October 16	2024-10-16	99.192	2.969
534	—	3.75	October 28	2024-09-01	106.841	2.944
486	—	3.50	November 10	2045-12-01	97.207	3.651
485	—	3.50	November 18	2045-12-01	96.973	3.664
433	375 CHF	0.75[6]	November 21	2024-11-21	99.712	0.780[7]
536	—	3.75	November 21	2024-09-01	107.152	2.904
492	—	3.50	November 24	2045-12-01	98.434	3.584
254[8]	—	Various	Various	Various	Various	Various
526[9]	—	Zero coupon	Various	Various	Various	Various
13 476						

Note: Borrowings contracted or negotiated as at November 21, 2014.
(1) Borrowings in foreign currency given in Canadian equivalent of their value on the date of borrowing.
(2) Interest payable semi-annually except if another frequency is indicated in a note.
(3) Yield to investor is determined on the basis of interest payable semi-annually except if another frequency is indicated in a note.
(4) Interest payable quarterly.
(5) Yield to investor is determined on the basis of interest payable quarterly.
(6) Interest payable annually.
(7) Yield to investor is determined on the basis of interest payable annually.
(8) Savings products issued by Épargne Placements Québec.
(9) Business Assistance - Immigrant Investor Program.

TABLE F.12

Borrowings contacted in 2014 by Hydro-Québec

Amount received in Canadian dollars(1)	Face value in foreign currency	Interest rate(2)	Date of issue	Date of maturity	Price to investor	Yield to investor(3)
(millions)		(%)			($)	(%)
12	—	3.308	March 7	2024-03-07	100.000	3.308
9	—	Zero coupon	April 24	2017-04-15	95.018	1.731
1 000	—	Variable(4)	August 28	2019-12-01	100.000	Variable(5)
540	—	4.000	November 4	2055-02-15	108.041	3.619
1 561						

Note: Borrowings contracted from January 1 to November 21, 2014.
(1) Borrowings in foreign currency given in Canadian equivalent of their value on the date of borrowing.
(2) Interest payable semi-annually except if another frequency is indicated in a note.
(3) Yield to investor is determined on the basis of interest payable semi-annually except if another frequency is indicated in a note.
(4) Interest payable quarterly.
(5) Yield to investor is determined on the basis of interest payable quarterly.

3. INFORMATION ON THE RETIREMENT PLANS AND ON FUNDS DEPOSITED BY THE MINISTÈRE DES FINANCES WITH THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

3.1 Retirement plans

The Québec government participates financially in the retirement plans of its employees. These plans had 586 524 active participants and 339 228 beneficiaries as at December 31, 2013.

TABLE F.13

Retirement plans of public and parapublic sector employees as at December 31, 2013

	Active participants	Beneficiaries
Government and Public Employees Retirement Plan (RREGOP)	538 360	236 028
Pension Plan of Management Personnel (PPMP) and Retirement Plan for Senior Officials (RPSO)	29 118	27 575
Other plans:		
— Teachers Pension Plan (TPP)(1) and Pension Plan of Certain Teachers (PPCT)(1)	81	44 344
— Civil Service Superannuation Plan (CSSP)(1)	24	19 857
— Superannuation Plan for the Members of the Sûreté du Québec (SPMSQ)	5 800	4 990
— Pension Plan of Peace Officers in Correctional Services (PPPOCS)	3 650	1 753
— Pension Plan of the Judges of the Court of Québec and of Certain Municipal Courts (PPJCQM)	291	361
— Pension Plan for Federal Employees Transferred to Employment with the Gouvernement du Québec (PPFEQ)(2)	173	166
— Pension Plan of the Members of the National Assembly (PPMNA)	118	413
— Pension Plan of the Université du Québec (PPUQ)	8 909	3 741
Total for other plans	19 046	75 625
TOTAL	**586 524**	**339 228**

(1) These plans have not accepted any new participants since July 1, 1973.
(2) This plan has not accepted any new participants since it came into effect on January 1, 1992.
Source: Public Accounts 2013-2014.

❑ Summary description of the retirement plans

The retirement plans of public and parapublic sector employees are defined benefit retirement plans. Benefits are calculated on the basis of participants' average income for the best paid years (generally five) and their number of years of service. The pension usually represents 2% of an employee's average income per year of service. Benefits are partially indexed to inflation.

RREGOP and PPMP, which account for nearly 97% of active participants, are cost-sharing plans: the government is responsible for paying 50% of the benefits, and the participants are responsible for paying the other 50%.[2]

Most of the other retirement plans are cost-balance plans. The government covers the cost of these plans, net of contributions paid by participants.

The Commission administrative des régimes de retraite et d'assurances (CARRA) is responsible for administering the retirement plans.[3]

TABLE F.14

Change in the employee contribution rate of certain retirement plans
(per cent)

	RREGOP(1)	PPMP(2)	SPMSQ(3)	PPPOCS(4)
2004	5.35	4.50	8 / 6.2 / 8	4.0
2005	7.06	7.78	8 / 6.2 / 8	4.0
2006	7.06	7.78	8 / 6.2 / 8	4.0
2007	7.06	7.78	8 / 6.2 / 8	4.0
2008	8.19	10.54	8 / 6.2 / 8	4.0
2009	8.19	10.54	8 / 6.2 / 8	4.0
2010	8.19	10.54	8 / 6.2 / 8	4.0
2011	8.69	11.54	8 / 6.2 / 8	4.0
2012	8.94	12.30	8 / 6.2 / 8	4.0
2013	9.18	12.30	8 / 6.2 / 8	6.5
2014	9.84	14.38	8 / 6.2 / 8	8.3

(1) For 2004 to 2012, rate applicable to the excess of 35% of maximum pensionable earnings (MPE), which is determined by the Régie des rentes du Québec (RRQ). The contribution formula as of 2012 was changed at the time of the collective agreements' renewal. For 2012, the rate applies to the excess of 33% of the MPE. For 2013, the rate applies to the excess of 31% of the MPE. For 2014, the rate applies to the excess of 29% of the MPE. In 2014, the MPE is $52 500.
(2) Rate applicable to the excess of 35% of the MPE.
(3) Rate applicable up to the annual basic exemption of the RRQ ($3 500) / rate applicable to the excess up to the amount of the MPE / rate applicable to the excess of the MPE.
(4) Rate applicable to the excess of 25% of the employee's salary or of 25% of the MPE if it is lower.

2 This cost-sharing formula has been in effect since July 1, 1982. Previously, the government was responsible for payment of 7/12 of the benefits (58.3%).

3 Except for the Pension Plan of the Université du Québec (PPUQ).

❑ Recent changes

In 2010, the government modified RREGOP and the PPMP to enable participants to accumulate up to 38 years of service. This change, which was agreed upon during the latest renewal of the collective agreements with government employees, was aimed at ensuring that employees nearing the end of their career stay longer in the labour market, thus facilitating the transfer of expertise.

The PPMP was also modified with the adoption of Bill 58 by the National Assembly in 2012. The changes included in the Bill were the product of consultations with participant representatives and included several amendments fostering the financial health of the PPMP. In particular, the pension eligibility criteria were tightened. Since January 1, 2013, new participants must complete an additional five-year period of membership in the plan for their retirement benefit to be calculated in accordance with the provisions of the PPMP. In addition, the reduction of the benefit for early retirement was increased.

3.1.1 Retirement plans liability

In its financial statements, the government discloses the present value of the retirement benefits it will pay to its employees, taking into account the conditions governing their plans as well as their years of service. This value is called the retirement plans liability. It does not take into account the sums accumulated to pay retirement benefits, particularly the Retirement Plans Sinking Fund (RPSF), which will be discussed later on.

The actuarial valuations of the liability of the various retirement plans are carried out by CARRA,[4] following the rules of the Canadian Institute of Actuaries (CIA) and the Chartered Professional Accountants of Canada (CPA Canada) for the public sector.

As at March 31, 2014, the liability for the retirement plans of public and parapublic sector employees amounted to $79 870 million (net of the plans' assets). This amount is recognized in the government's gross debt.

4 Except in the case of the PPUQ, whose liability valuation is performed by a private-sector actuarial firm.

TABLE F.15

Retirement plans liability
(millions of dollars)

	March 31, 2014
Government and Public Employees Retirement Plan (RREGOP)	49 130
Pension Plan of Management Personnel (PPMP) and Retirement Plan for Senior Officials (RPSO)	11 404
Other plans:	
— Teachers Pension Plan (TPP) and Pension Plan of Certain Teachers (PPCT)	11 288
— Civil Service Superannuation Plan (CSSP)	3 691
— Superannuation Plan for the Members of the Sûreté du Québec (SPMSQ)	3 776
— Pension Plan of the Université du Québec (PPUQ)	3 180
— Pension Plan of Peace Officers in Correctional Services (PPPOCS)	755
— Pension Plan of the Judges of the Court of Québec and of Certain Municipal Courts (PPJCQM)	556
— Pension Plan of the Members of the National Assembly (PPMNA)	189
— Pension Plan for Federal Employees Transferred to Employment with the Gouvernement du Québec (PPFEQ)	138
— Plans' assets(1)	–4 237
Total for other plans	19 336
RETIREMENT PLANS LIABILITY	**79 870**

(1) Plans' assets, particularly those of the PPFEQ, SPMSQ and PPUQ.

❑ Annual retirement plans expenditure

Every year, the government also records its expenditure as an employer with regard to the retirement plans. This expenditure comprises two components:

— the net cost of vested benefits, that is, the present value of retirement benefits that employees have accumulated for work performed during the year, net of contributions paid, i.e. $2 129 million in 2013-2014;

— the amortization of revisions to the government's actuarial obligations arising from previous updates of actuarial valuations, for a cost of $793 million in 2013-2014.

In 2013-2014, government spending in respect of the retirement plans thus stood at $2 922 million.

TABLE F.16

Spending in respect of the retirement plans
(millions of dollars)

	2013-2014
Net cost of vested benefits	2 129
Amortization of revisions stemming from actuarial valuations	793
SPENDING IN RESPECT OF THE RETIREMENT PLANS	**2 922**

3.1.2 **Retirement Plans Sinking Fund**

The Retirement Plans Sinking Fund (RPSF) is an asset that was created in 1993 for the purpose of paying the retirement benefits of public and parapublic sector employees.

As at March 31, 2014, the RPSF's book value stood at $51 333 million.

TABLE F.17

Change in the Retirement Plans Sinking Fund (RPSF)
(millions of dollars)

	Book value, beginning of year	Deposits	Imputed investment income	Book value, end of year
1993-1994	—	850	4	854
1994-1995	854	—	–5	849
1995-1996	849	—	74	923
1996-1997	923	—	91	1 014
1997-1998	1 095 (1)	—	84	1 179
1998-1999	1 179	944	86	2 209
1999-2000	2 209	2 612	219	5 040
2000-2001	5 040	1 607	412	7 059
2001-2002	7 059	2 535	605	10 199
2002-2003	10 199	900	741	11 840
2003-2004	11 840	1 502	862	14 204
2004-2005	14 204	3 202	927	18 333
2005-2006	18 333	3 000	1 230	22 563
2006-2007	22 437 (1)	3 000	1 440	26 877
2007-2008	26 877	3 000	1 887	31 764
2008-2009	31 749 (2)	2 100	2 176	36 025
2009-2010	36 025	—	2 175	38 200
2010-2011	38 200	2 000	2 065	42 265
2011-2012	42 265	1 000	2 087	45 352
2012-2013	45 352	1 000	1 992	48 344
2013-2014	48 344	1 000	1 989	51 333

(1) These amounts take into account restatements arising from the government accounting reforms of 1997-1998 and 2006-2007.
(2) This amount takes into account an adjustment arising from consideration of the expected average remaining service life (EARSL) of participants in the PPMP.

The information on the RPSF shown in the preceding table is based on the government's accounting policies, which are in full compliance with generally accepted accounting principles (GAAP) for Canada's public sector.

The book value of the RPSF as at March 31, 2014 was higher than its market value. However, the difference between these two items has decreased substantially in recent years. As a result of the accounting policies, the difference will be fully amortized in the coming years. In addition, the financial impact of gradually amortizing the difference is fully incorporated into the government's financial framework over the entire planning horizon. Section 3.4 describes these items in greater detail.

The government's accounting policies apply when the return on the RPSF is higher than anticipated as well as when it is lower.

TABLE F.18

Book value and market value of the Retirement Plans Sinking Fund as at March 31
(millions of dollars)

	Book value	Market value	Difference
1994-1995	849	831	18
1995-1996	923	954	–31
1996-1997	1 014	1 095	–81
1997-1998	1 179	1 321	–142
1998-1999	2 209	2 356	–147
1999-2000	5 040	5 703	–663
2000-2001	7 059	7 052	7
2001-2002	10 199	9 522	677
2002-2003	11 840	9 240	2 600
2003-2004	14 204	12 886	1 318
2004-2005	18 333	17 362	971
2005-2006	22 563	23 042	–479
2006-2007	26 877	28 859	–1 982
2007-2008	31 764	32 024	–260
2008-2009	36 025	25 535	10 490
2009-2010	38 200	29 559	8 641
2010-2011	42 265	35 427	6 838
2011-2012	45 352	38 222	7 130
2012-2013	48 344	42 562	5 782
2013-2014	51 333	49 034	2 299

❑ Amounts deposited in the RPSF have no impact on the gross debt

The government issues bonds on financial markets in order to make deposits in the RPSF. Nevertheless, the amounts deposited in the RPSF do not affect the government's gross debt.

Even though the borrowings contracted to make deposits increase the direct debt, these deposits in turn reduce the net retirement plans liability by the same amount. Therefore, the net impact on the gross debt is nil.

TABLE F.19

Illustration of the impact on the government's gross debt of borrowing $1 billion on financial markets in order to deposit it in the RPSF[(1)]
(millions of dollars)

		Before deposit	After deposit	Change
(A)	Consolidated direct debt	174 085	175 085	1 000
	Retirement plans liability	79 870	79 870	—
	Less: Book value of the RPSF	–51 333	–52 333	–1 000
(B)	Net retirement plans liability	28 537	27 537	–1 000
(C)	Net employee future benefits liability	135	135	—
(D)	Less: Generations Fund	–5 659	–5 659	—
(E)	**GROSS DEBT (E = A + B + C + D)**	**197 098**	**197 098**	**—**

(1) Illustration based on results as at March 31, 2014.

❑ A decline in debt service

Deposits in the RPSF entail a reduction in the government's debt service. Indeed, the rates of return on funds managed by the Caisse de dépôt et placement du Québec (the Caisse) are generally higher than interest rates on Québec government bonds issued to finance deposits in the RPSF. Therefore, the income of the RPSF, which is applied against the government's debt service, is usually higher than the additional interest charges that arise from new borrowings. This leads to a net decrease in the government's debt service.

Since the RPSF was created, the return obtained by the Caisse has been higher than the cost of new borrowings by the government 15 years out of 20.

TABLE F.20

Comparison of the RPSF's annual return and the Québec government's borrowing costs
(per cent)

	Return of the RPSF(1)	**Cost of new borrowings**(2)	**Difference** (percentage points)
1994-1995	–3.3(3)	5.9	–9.2
1995-1996	17.0	5.3	11.7
1996-1997	16.1	6.3	9.8
1997-1998	13.4	5.7	7.7
1998-1999	10.4	5.8	4.6
1999-2000	15.3	7.2	8.1
2000-2001	7.2	6.2	1.0
2001-2002	–4.7	5.5	–10.2
2002-2003	–8.5	4.7	–13.2
2003-2004	14.9	4.6	10.3
2004-2005	11.4	4.4	7.0
2005-2006	13.5	4.4	9.1
2006-2007	13.5	4.4	9.1
2007-2008	5.2	4.8	0.4
2008-2009	–25.6	4.2	–29.8
2009-2010	10.7	4.6	6.1
2010-2011	13.4	4.4	9.0
2011-2012	3.5	4.0	–0.5
2012-2013	9.4	3.6	5.8
2013-2014	12.6	2.9	9.7

(1) On a calendar year basis.
(2) On a fiscal year basis.
(3) From February to December 1994.

❑ A flexible deposit policy

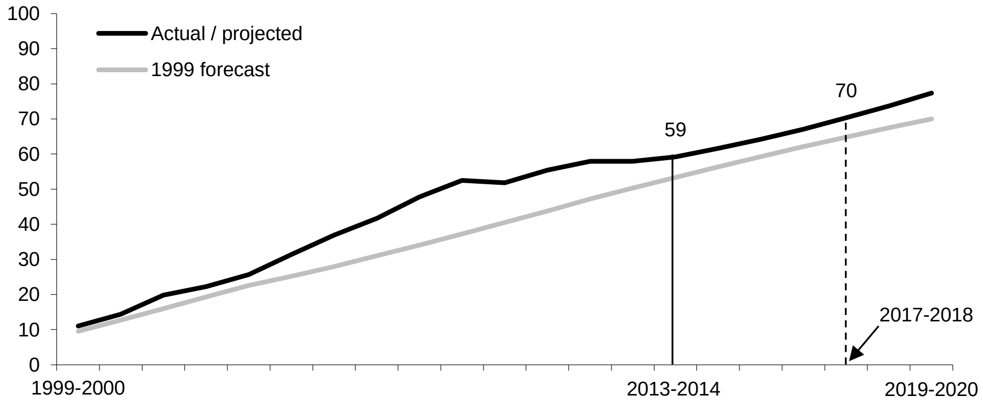
In December 1999, as part of the agreement concluded for the renewal of its employees' collective agreements, the government set the objective that the book value of the amounts accumulated in the RPSF would be equal, in 2020, to 70% of its actuarial obligations in regard to the retirement plans of public and parapublic sector employees.

However, the government has all the necessary flexibility in applying this policy. Deposits in the RPSF are made only when market conditions are favourable, particularly with respect to interest rates and market receptiveness to bond issues.

As at March 31, 2014, the RPSF's book value represented 59% of the government's actuarial obligations in regard to the retirement plans of public and parapublic sector employees. If deposits of $1 billion per year were made in the RPSF, the objective of 70% should be attained two years earlier than anticipated, i.e. in 2017-2018.

CHART F.15

RPSF in proportion to the government's actuarial obligations regarding the retirement plans of public and parapublic sector employees
(per cent)



3.2 Generations Fund

The following table shows the book and market values of the Generations Fund since its creation. As at March 31, 2014, the market value of the Generations Fund was higher than its book value.

TABLE F.21

Book value and market value of the Generations Fund as at March 31
(millions of dollars)

	Book value	Market value	Difference
2006-2007(1)	584	576	8
2007-2008	1 233	1 147	86
2008-2009	1 952	1 598	354
2009-2010	2 677	2 556	121
2010-2011	3 437	3 524	–87
2011-2012	4 277	4 375	–98
2012-2013	5 238	5 550	–312
2013-2014	5 659	6 299	–640

(1) The first deposit in the Generations Fund was made on January 31, 2007.

Since the first deposit was made in the Generations Fund in January 2007, the return has been higher than or equivalent to the cost of new borrowings by the government six years out of seven.

TABLE F.22

Comparison of the Generations Fund's annual return and the Québec government's borrowing costs
(per cent)

	Return of the Generations Fund(1)	Cost of new borrowings(2)	Difference (percentage points)
2007-2008	5.6(3)	4.8	0.8
2008-2009	–22.4	4.2	–26.6
2009-2010	11.3	4.6	6.7
2010-2011	12.3	4.4	7.9
2011-2012	4.0	4.0	—
2012-2013	8.4	3.6	4.8
2013-2014	12.0	2.9	9.1

(1) On a calendar year basis.
(2) On a fiscal year basis.
(3) Return realized from February to December 2007, since the first deposit was made in the Generations Fund on January 31, 2007.

3.3 Returns of the Caisse de dépôt et placement du Québec on funds deposited by the Ministère des Finances

In 2013, the return on funds deposited by the Ministère des Finances with the Caisse de dépôt et placement du Québec was 12.61% for the RPSF, 11.99% for the Generations Fund and 12.50% for the Accumulated Sick Leave Fund. The investment policy of these funds is presented in the box on page F.48.

TABLE F.23

Market value and return in 2013 on funds deposited with the Caisse de dépôt et placement du Québec by the Ministère des Finances

	Return	Market value as at December 31, 2013
	(%)	($ million)
Retirement Plans Sinking Fund	12.61	46 863
Generations Fund	11.99	5 908
Accumulated Sick Leave Fund	12.50	843

3.3.1 Retirement Plans Sinking Fund

The RPSF posted a return of 12.61% in 2013. Its market value was $46 863 million as at December 31, 2013.

The assets of the RPSF are managed by the Caisse in accordance with an investment policy established by the Ministère des Finances in cooperation with the Caisse. This investment policy is established taking several factors into account, including 10-year return, standard deviation and correlation forecasts for various categories of assets, opportunities for investing in these assets and recommendations of the Caisse.

The investment policy of the RPSF consists of 35.75% fixed-income securities (bonds, real estate debt, etc.), 16.0% inflation-sensitive investments (real estate, infrastructure, etc.) and 48.25% equities. These weightings are similar to those used on average by the Caisse’s depositors as a whole.

TABLE F.24

Investment policy of the RPSF as at January 1, 2014
(per cent)

	Benchmark portfolio of the RPSF	Average benchmark portfolio of depositors as a whole(1)
Fixed-income securities	35.75	34.6
Inflation-sensitive investments	16.00	16.9
Equities	48.25	46.5
Other investments	—	2.0
TOTAL	**100.00**	**100.0**

(1) Data as at December 31, 2013. Annual Report 2013 of the Caisse de dépôt et placement du Québec.

With its investment policy, the RPSF should generate an annual return of 6.45%. It is important to note that the RPSF's investment policy is based on a long-term horizon and constitutes the benchmark portfolio for the Caisse. However, through active management, the Caisse adjusts the allocation of the RPSF's assets, particularly to take fluctuations in the economic and financial situation into account. The RPSF's benchmark portfolio would have generated a return of 12.11% in 2013.

3.3.2 **Generations Fund**

The Generations Fund posted a return of 11.99% in 2013. Its market value was $5 908 million as at December 31, 2013.

The assets of the Generations Fund are managed by the Caisse in accordance with an investment policy established by the Ministère des Finances in cooperation with the Caisse. This investment policy is established taking several factors into account, including 10-year return, standard deviation and correlation forecasts for various categories of assets, opportunities for investing in these assets and recommendations of the Caisse.

The investment policy of the Generations Fund consists of 41.0% fixed-income securities (bonds, real estate debt, etc.), 14.0% inflation-sensitive investments (real estate, infrastructure, etc.) and 45.0% equities.

TABLE F.25

Investment policy of the Generations Fund as at January 1, 2014
(per cent)

	Benchmark portfolio of the Generations Fund	Average benchmark portfolio of depositors as a whole(1)
Fixed-income securities	41.0	34.6
Inflation-sensitive investments	14.0	16.9
Equities	45.0	46.5
Other investments	—	2.0
TOTAL	**100.0**	**100.0**

(1) Data as at December 31, 2013. Annual Report 2013 of the Caisse de dépôt et placement du Québec.

The investment policy of the Generations Fund aims to achieve a long-term annual return of 6.45%. It is important to note that the investment policy of the Generations Fund is based on a long-term horizon and is the benchmark portfolio for the Caisse. However, through active management, the Caisse adjusts the allocation of the Generations Fund's assets, particularly to take fluctuations in the economic and financial situation into account. The benchmark portfolio of the Generations Fund would have generated a return of 11.39% in 2013.

3.3.3 **Accumulated Sick Leave Fund**

The Accumulated Sick Leave Fund (ASLF) posted a return of 12.50% in 2013. Its market value was $843 million as at December 31, 2013.

The assets of the ASLF are managed by the Caisse in accordance with an investment policy established by the Ministère des Finances in cooperation with the Caisse. Since January 1, 2009, the ASLF’s investment policy has been identical to that of the RPSF, as the creation of the ASLF stems from a long-term commitment made by the government in regard to employee future benefits, which is similar to the commitment regarding the retirement plans. The ASLF’s benchmark portfolio would have generated a return of 12.11% in 2013.

Comparison of investment policies

Investment policies as at January 1, 2014
(per cent)

Specialized portfolios	RPSF and ASLF	Generations Fund	Average benchmark portfolio of depositors as a whole[1]
Short-Term Investments	1.0	1.0	1.1
Bonds	28.75	34.0	27.0
Long-Term Bonds	0.0	0.0	1.0
Real Estate Debt	6.0	6.0	5.5
Total – Fixed income	**35.75**	**41.0**	**34.6**
Real Return Bonds	0.0	0.0	0.6
Infrastructure	5.0	4.5	4.9
Real Estate	11.0	9.5	11.4
Total – Inflation-Sensitive Investments	**16.0**	**14.0**	**16.9**
Canadian Equity	11.75	10.0	11.4
Global Equity	2.0	2.0	2.0
Global Quality Equity	8.5	8.0	6.6
US Equity	4.5	5.0	5.5
Foreign Equity (EAFE)	4.5	5.0	5.3
Emerging Markets Equity	5.0	5.0	5.0
Private Equity	12.0	10.0	10.7
Total – Equity	**48.25**	**45.0**	**46.5**
Hedge Funds	—	—	2.0
Total – Other Investments	**0.0**	**0.0**	**2.0**
TOTAL	**100.0**	**100.0**	**100.0**

RPSF: Retirement Plans Sinking Fund.
ASLF: Accumulated Sick Leave Fund.
EAFE: Europe, Australasia, Far East.
(1) Data as at December 31, 2013. Annual Report 2013 of the Caisse de dépôt et placement du Québec.

3.4 Interest on the retirement plans liability

The government records an interest charge on the retirement plans liability. This stems from the fact that, historically, it decided to manage its contributions to the retirement plans of its employees internally rather than have an external fund manage them. This reduced borrowings on financial markets and growth in the direct debt. On the other hand, the commitments in respect of the retirement plans of government employees are shown as a liability and the government must record an interest charge calculated on the value of the actuarial obligations in respect of these plans. However, the investment income of the RPSF must be subtracted from this amount. The interest charge on the retirement plans liability is included in the government's debt service.

TABLE F.26

Interest on the retirement plans liability
(millions of dollars)

	2013-2014
Interest on the actuarial obligations relating to the retirement plans(1)	5 353
Less: Investment income of the RPSF	–1 989
INTEREST ON THE RETIREMENT PLANS LIABILITY	**3 364**

(1) Net of the income of specific funds of the plans.

The returns realized by the Caisse on the RPSF are taken into account in the government's balance sheet and results by applying the accounting policy adopted in the wake of the December 2007 reform of government accounting in accordance with generally accepted accounting principles (GAAP).

> When determining a government's retirement benefit liability and expense, plan assets would be valued at market-related values. Under this method, plan assets are recorded at market value or they are adjusted to market value over a period not to exceed five years. Values adjusted to market closely approximate current economic value in a manner that can minimize short-term fluctuations. Market-related values would be used because they are objective and verifiable. Once a basis of valuation is chosen it would be applied consistently.[5]

[5] CHARTERED PROFESSIONAL ACCOUNTANTS OF CANADA, *CPA Canada Public Sector Accounting Handbook*, Section PS 3250, paragraph .035.

Under the accounting policy, the "adjusted market value" of the RPSF is adjusted every year based on realized returns. If, for a given year, the realized return differs from the anticipated long-term return, the difference between the two is spread over five years. All other things being equal, this means that the adjusted market value and the market value will converge over a five-year period. It is important to note that this method is applied when returns are higher than expected as well as when they are lower.[6]

In addition, the differences between the realized and expected return, which are spread over five years, are taken into account in RPSF income by amortizing them over a period of about 14 years, that is, the expected average remaining service life (EARSL) of retirement plan participants.[7] This amortization mechanism and the period used are prescribed by GAAP.[8]

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6 Before the accounting reform of 2007, the value of the RPSF was adjusted only once every three years, that is, when actuarial valuations were carried out. Since the reform, it is adjusted every year.

7 As with recognition of the retirement plans liability, the RPSF accounting method draws a distinction between the Pension Plan of Management Personnel (PPMP) and the other plans. The EARSL under the PPMP is 10 years compared with 15 years under the other plans.

8 "…actuarial gains and losses should be amortized to the liability or asset and the related expense in a systematic and rational manner over the expected average remaining service life of the related employee group." CHARTERED PROFESSIONAL ACCOUNTANTS OF CANADA, *CPA Canada Public Sector Accounting Handbook*, Section PS 3250, paragraph .062. For the purposes of retirement assets, CPA Canada defines actuarial gains (losses) as changes in the value of plan assets that are caused notably by variances between actual results and projected results.

4. CREDIT RATINGS

4.1 The Québec government's credit ratings

A borrower's credit rating measures its capacity to pay the interest on its debt and repay the principal at maturity. To establish the credit rating of a borrower like the Québec government, credit rating agencies analyze a series of economic, fiscal and financial factors. Among the main factors are the size, structure and vitality of the economy, the situation on the labour market, fiscal competitiveness, the public finance situation and indebtedness.

To express the quality of a borrower's credit, credit rating agencies use rating scales, namely, a scale for long-term debt and a scale for short-term debt.

The following table shows the rating scales used by agencies for long-term debt. The current credit ratings for Québec are indicated in bold.

TABLE F.27

Credit rating scales for long-term debt

Definition	Moody's	Standard & Poor's	DBRS	Fitch	Japan Credit Rating Agency
Extremely strong capacity to pay interest and repay principal.	Aaa	AAA	AAA	AAA	AAA
Very strong capacity to pay interest and repay principal.	Aa1 **Aa2** Aa3	AA+ AA AA–	AA (high) AA AA (low)	AA+ AA **AA–**	**AA+** AA AA–
Strong capacity to pay interest and repay principal, despite greater sensitivity to economic conditions than levels AAA and AA.	A1 A2 A3	**A+** A A–	**A (high)** A A (low)	A+ A A–	A+ A A–
Adequate capacity to pay interest and repay principal. Difficult economic conditions may reduce this capacity.	Baa1 Baa2 Baa3	BBB+ BBB BBB–	BBB (high) BBB BBB (low)	BBB+ BBB BBB–	BBB+ BBB BBB–
Uncertain capacity to pay interest and repay principal, particularly under difficult economic conditions.	Ba1 Ba2 Ba3	BB+ BB BB–	BB (high) BB BB (low)	BB+ BB BB–	BB+ BB BB–
Very uncertain capacity to pay interest and repay principal, particularly under difficult economic conditions.	B1 B2 B3	B+ B B–	B (high) B B (low)	B+ B B–	B+ B B–

Agencies add an "outlook" to the rating that indicates the trend the credit rating may follow in the future. The outlook may be positive, stable or negative. In the case of Québec, all of the agencies assign a "stable" outlook to its credit rating, except for Fitch which has assigned a "negative" outlook since December 2013, following the postponement of the return to a balanced budget to 2015-2016, announced in November 2013.

TABLE F.28

The Québec government's credit ratings

Credit Rating Agency	Credit Rating	Outlook
Moody's	Aa2	Stable
Standard & Poor's (S&P)	A+	Stable
DBRS	A (high)	Stable
Fitch	AA–	Negative
Japan Credit Rating Agency (JCR)	AA+	Stable

The following table shows the rating scales used by agencies for short-term debt. The current credit ratings for Québec are indicated in bold.

TABLE F.29

Credit rating scales for short-term debt(1)

Definition	Moody's	Standard & Poor's	DBRS	Fitch
Very strong capacity to pay interest and repay principal over the short term.	**P–1**	**A–1+** A–1	R–1 (high) **R–1 (middle)** R–1 (low)	**F1+** F1
Very adequate capacity to pay interest and repay principal over the short term, despite greater sensitivity to economic conditions than the upper level.	P–2	A–2	R–2 (high)	F2
Adequate capacity to pay interest and repay principal over the short term. Difficult economic conditions may reduce this capacity.	P–3	A–3	R–2 (middle) R–2 (low) R–3	F3
Uncertain capacity to pay interest and repay principal over the short term. Securities in this category are considered speculative securities.	Not Prime(2)	B–1 B–2 B–3 C	R–4 R–5	B C
Incapacity to pay interest and repay principal over the short term. Securities in this category are considered default securities.	Not Prime(2)	D	D	D

(1) JCR does not assign a short-term credit rating to Québec.
(2) Moody's uses the "Not Prime" category for all securities not included in the upper categories.

❑ Change in Québec's credit ratings

The following charts show the change in the Québec government's credit ratings. The credit ratings for 2014 are those in effect as at November 21, 2014.

CHART F.16

Credit rating assigned to Québec by Moody's

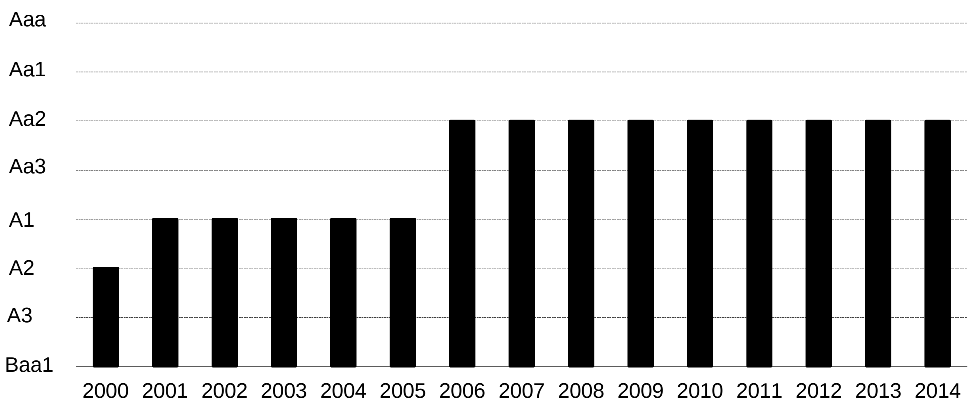


CHART F.17

Credit rating assigned to Québec by Standard & Poor's

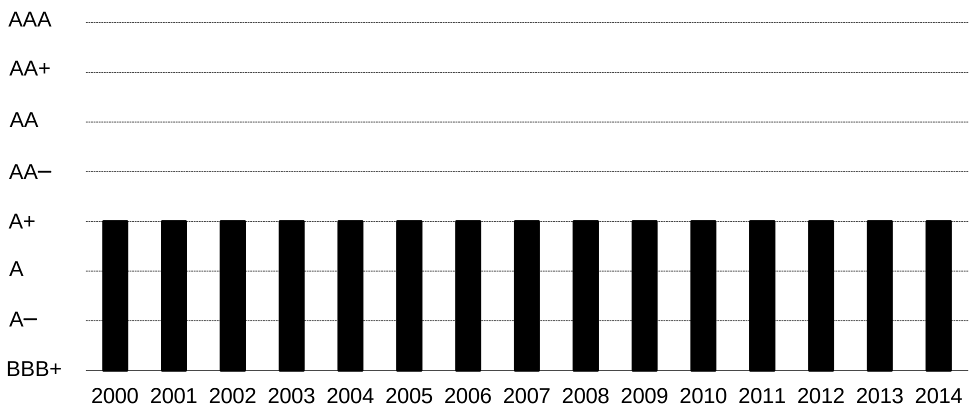
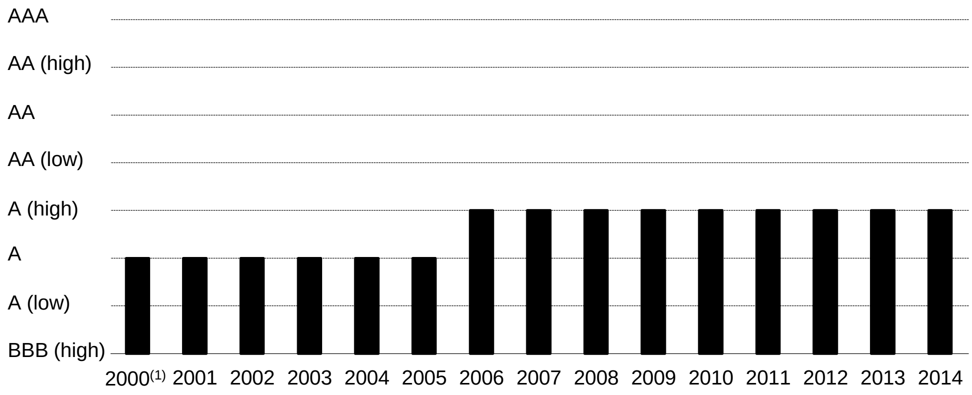


CHART F.18

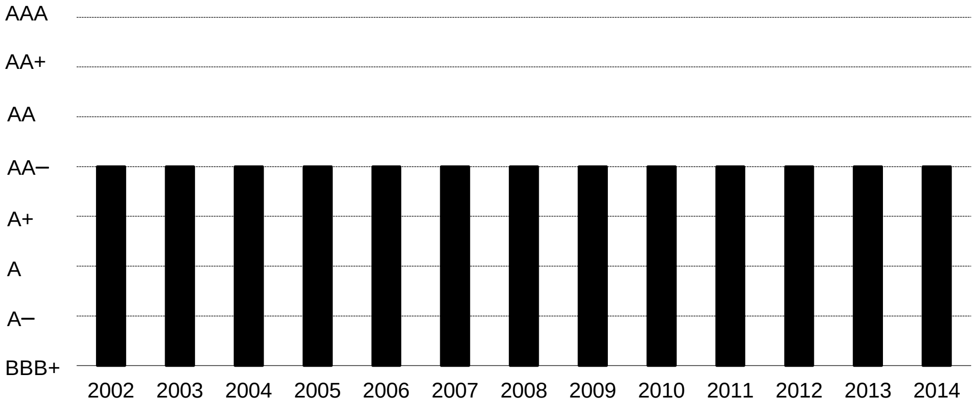
Credit rating assigned to Québec by DBRS



(1) The credit rating was raised from A (low) to A on June 14, 2000.

CHART F.19

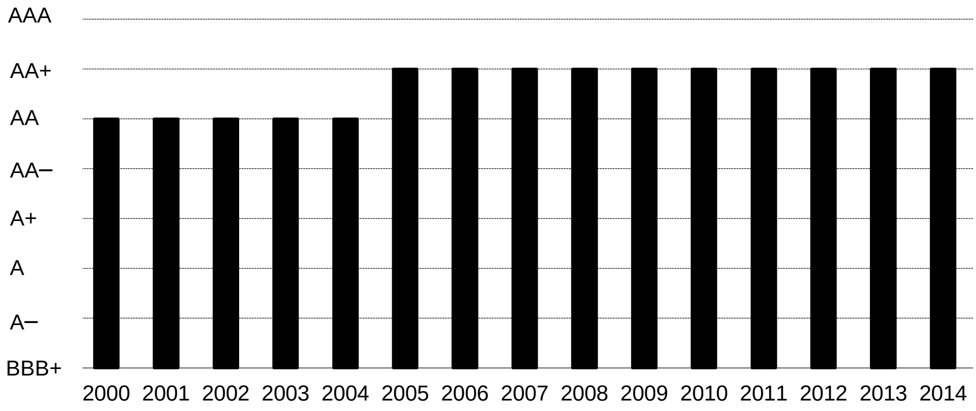
Credit rating assigned to Québec by Fitch



Note: Fitch has assigned Québec a credit rating since 2002.

CHART F.20

Credit rating assigned to Québec by JCR

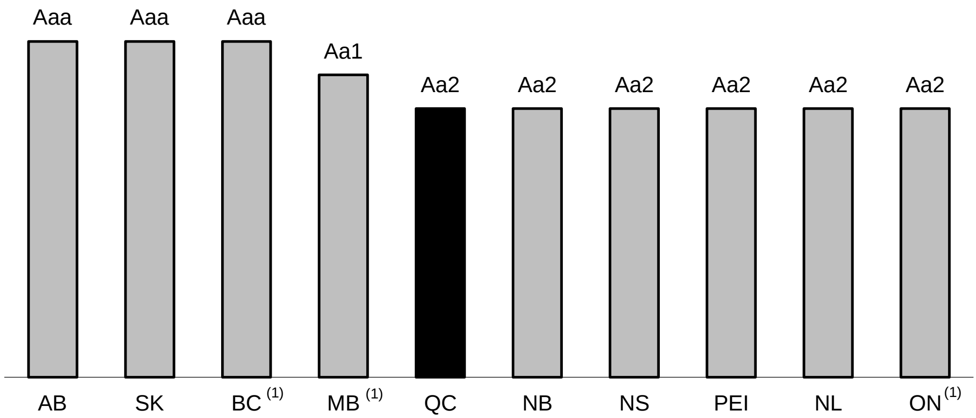


4.2 Comparison of the credit ratings of the Canadian provinces

The following charts show the credit ratings of the Canadian provinces as at November 21, 2014. No chart is given for JCR since Québec is the only province that receives a credit rating from that agency.

CHART F.21

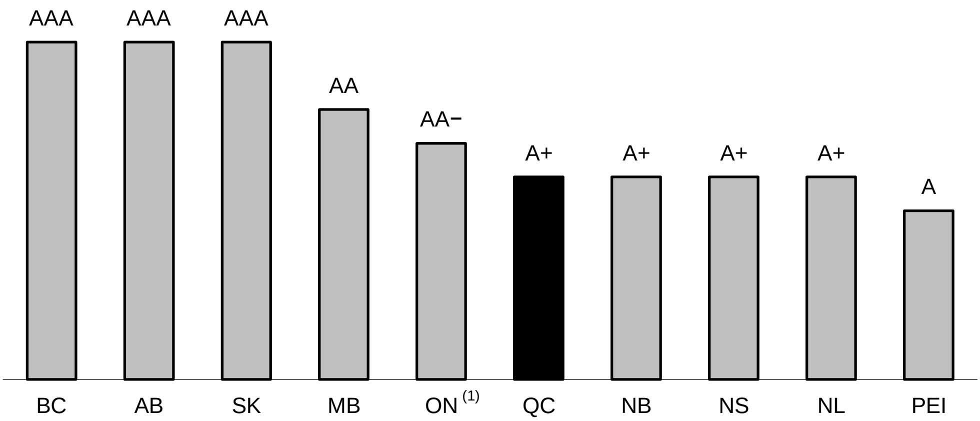
Credit rating of the Canadian provinces – Moody's



(1) Negative outlook.

CHART F.22

Credit rating of the Canadian provinces – Standard & Poor's



(1) Negative outlook.

CHART F.23

Credit rating of the Canadian provinces – DBRS

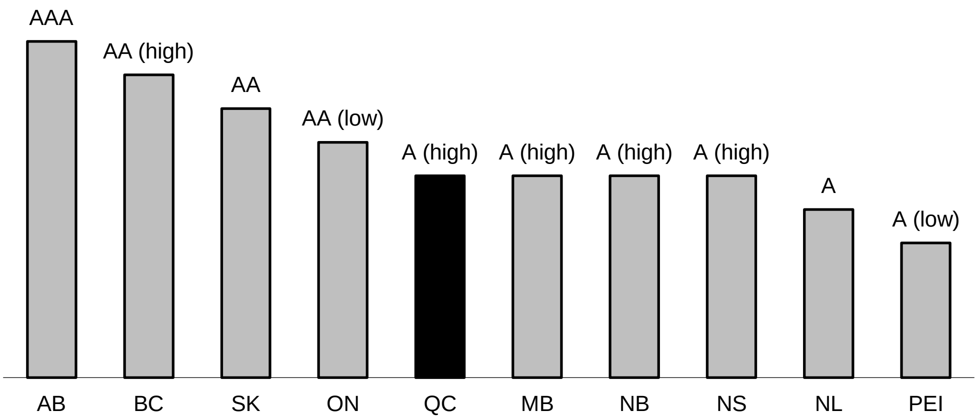
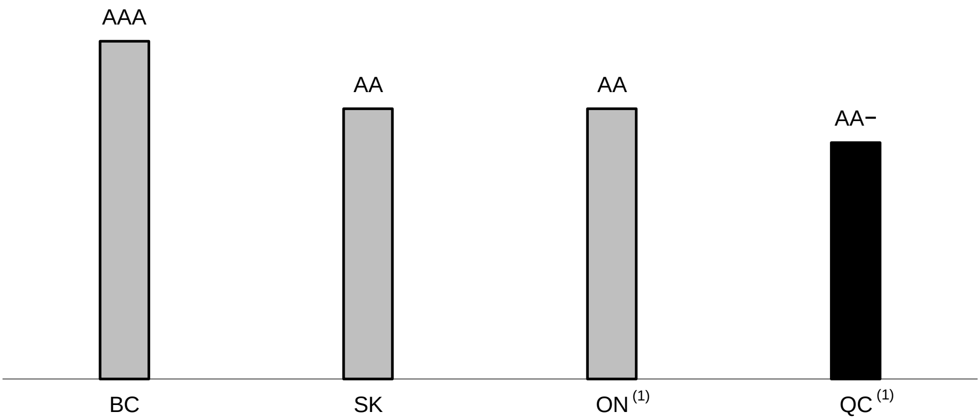


CHART F.24

Credit rating of the Canadian provinces – Fitch



Note: British Columbia, Saskatchewan, Ontario and Québec are the only provinces that receive credit ratings from this agency.
(1) Negative outlook.

Section G

INFORMATION BULLETIN 2014-11
FISCAL MEASURES ANNOUNCED IN THE UPDATE ON QUÉBEC'S ECONOMIC AND FINANCIAL SITUATION

1. ECONOMIC RECOVERY MEASURES

1.1 Reduction of the Health Services Fund contribution rate for SMEs in the primary and manufacturing sectors

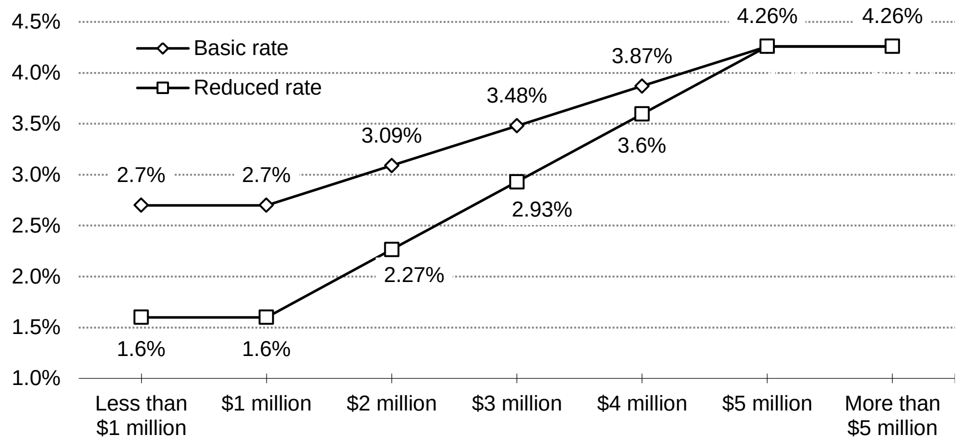
To assist small and medium-sized enterprises (SMEs) in sectors where competition is especially stiff, the Health Services Fund contribution rate for SMEs in the primary and manufacturing sectors will be reduced as of 2015.

Briefly, eligible employers whose total payroll is equal to or less than $1 million will see the applicable rate decrease from 2.7% to 1.6%. Eligible employers whose total payroll is between $1 million and $5 million will be subject to a rate ranging from 1.6% to 4.26%.

The chart below illustrates the reduction of the Health Services Fund contribution rate for SMEs in the primary and manufacturing sectors.

CHART G.1

Illustration of the reduction of the Health Services Fund contribution rate for SMEs in the primary and manufacturing sectors



Under the *Act respecting the Régie de l'assurance maladie du Québec*,[1] an employer must pay a contribution to the Health Services Fund in respect of the wages that the employer pays to the employer's employee who reports for work at the employer's establishment in Québec, that the employer is deemed to pay to the employee or that the employer pays in respect of the employee, or to the employer's employee to whom those wages, if the employee is not required to report for work at an establishment of the employer, are paid, deemed to be paid or paid in respect of the employee from such an establishment in Québec.

1 CQLR, chapter R-5.

Currently, the contribution payable for a year to the Health Services Fund must be calculated at a rate of 4.26%, unless the employer is a specified employer for the year and the employer's total payroll[2] is less than $5 million.

Briefly, a specified employer for a year is an employer[3] that has an establishment in Québec in the year and that is not the State, the government of another province or the Government of Canada or an employer that, at a particular time in the year, is:

— a mandatary body of the State, the government of another province or the Government of Canada;

— a municipality or a mandatary body of a municipality;

— a municipal or public body performing a function of government or a mandatary body of such a body;

— a corporation, commission or association exempt from income tax under section 985 of the *Taxation Act*.[4]

The applicable rate for the purposes of calculating the contribution to the Health Services Fund payable by a specified employer is 2.7% if the employer's total payroll for the year is $1 million or less. That rate rises linearly to 4.26% for specified employers whose total payroll is between $1 million and $5 million.

The *Act respecting the Régie de l'assurance maladie du Québec* will be amended to provide for the application of a new rate scale, as of 2015, to SMEs in the primary and manufacturing sectors.

The new rate scale will apply to an employer that, for a particular year, is a specified employer whose total payroll for the year is less than $5 million, where over 50% of the employer's total payroll for the year is attributable to activities in the agriculture, forestry, fishing and hunting sector, the mining, quarrying and oil and gas extraction sector or the manufacturing sector that are grouped under codes 11, 21 or 31 to 33 of the North American Industry Classification System (NAICS),[5] such an employer being hereinafter called an "eligible specified employer."

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2 The term "total payroll" is defined in the first paragraph of section 33 of the *Act respecting the Régie de l'assurance maladie du Québec*. Essentially, an employer's total payroll for a year means the aggregate of the wages paid or deemed to be paid in the year by the employer and by any other employer with which the employer is associated at the end of the year and that, at that time, carries on a business in which it ordinarily employs, for all or part of the year, at least one employee, whether full-time or part-time.

3 For the purposes of the employer contribution to the Health Services Fund, a partnership may be considered an employer, on the same basis as a legal person or an individual.

4 CQLR, chapter I-3.

5 The description of these codes is available on the Statistics Canada website: **www23.statcan.gc.ca/imdb/p3VD.pl?Function=getVDPage1&db=imdb&dis=2&adm=8&TVD=118464** (viewed on November 30, 2014).

More specifically, for the purposes of calculating the Health Services Fund contribution payable for a particular year by an eligible specified employer, the rate applicable to wages subject to the contribution for the year will correspond to one of the following rates:

— 1.6%, where the employer's total payroll for the year is $1 million or less;

— the percentage rate determined by the following formula, where the employer's total payroll for the year is over $1 million but under $5 million:

$$0.935\% + \frac{(0.665\% \text{ x employer's total payroll for the year})}{\$1\ 000\ 000}$$

Where the percentage rate determined by the above formula has more than two decimals, only the first two are to be used and the second decimal must be increased by one unit if the third is greater than 4.

The table below shows all of the Health Services Fund contribution rates that will apply as of 2015.

TABLE G.1

Health Services Fund contribution rates
(per cent)

Type of employer	**Rate**
Eligible specified employer whose total payroll is $1 million or less	1.6
Specified employer, other than an eligible specified employer, whose total payroll is $1 million or less	2.7
Eligible specified employer whose total payroll is over $1 million, but under $5 million	1.6 to 4.26
Specified employer, other than an eligible specified employer, whose total payroll is over $1 million, but under $5 million	2.7 to 4.26
All other employers	4.26

Moreover, to bolster Québec SMEs' capacity to innovate, while fostering the creation of specialized jobs, a temporary reduction in the contribution to the Health Services Fund was implemented in the budget speech of June 4, 2014 for full-time jobs created in the natural and applied sciences sector.[6]

Briefly, this reduction, applicable until 2020, is granted regarding the increase in payroll attributable to the hiring of specialized employees by an employer whose total payroll is less than $5 million.

6 MINISTÈRE DES FINANCES DU QUÉBEC, Budget 2014-2015 – Additional Information on the Fiscal Measures of the Budget, June 4, 2014, pp. 8-14.

Currently, to determine the amount of the reduction to which an employer may be entitled for a year, the reduction rate to be used is 2.7%, where the employer's total payroll for the year is $1 million or less; otherwise, the rate determined using a formula based on the employer's Health Services Fund contribution rate for the year must be used.

To take into account the decrease from 2.7% to 1.6% as of 2015 in the Health Services Fund contribution rate of an eligible specified employer whose total payroll for a year is $1 million or less, the *Act respecting the Régie de l'assurance maladie du Québec* will be amended to stipulate that, for the purposes of calculating, for a year subsequent to 2014, the temporary reduction of the Health Services Fund contribution of an employer whose total payroll is $1 million or less, the rate of reduction will be equal to:

— 1.6%, in the case of eligible specified employers;

— 2.7%, in other cases.

1.2 Increase in the additional deduction for transportation costs of remote manufacturing SMEs

As part of the June 4, 2014 budget speech, an additional deduction for transportation costs of remote manufacturing small and medium-sized enterprises (SMEs)[7] was introduced.[8]

The additional deduction is intended to improve the competitiveness of remote manufacturing SMEs. These corporations may claim an additional deduction in the calculation of their net income to reflect the higher transportation costs attributable to the distance of certain regions from Québec's major urban centres.

Briefly, the amount of the additional deduction a corporation may claim for a taxation year depends on a number of parameters, that is, the region where it carries out its manufacturing activities, the level of its manufacturing activities, the size of the corporation, its gross income for the taxation year and the regional cap applicable to it.

The amount of the additional deduction for a taxation year may reach 6% of gross income for the taxation year.

To provide additional assistance to all manufacturing SMEs, certain parameters used to determine the amount of the additional deduction a corporation may claim will be reviewed, and the additional deduction will apply to all regions of Québec.

7 Canadian-controlled private corporations whose paid-up capital is less than $15 million.

8 MINISTÈRE DES FINANCES DU QUÉBEC, Budget 2014-2015 – Additional Information on the Fiscal Measures of the Budget, June 4, 2014, pp. 3-7.

As part of this increase, an integrity rule for sharing regional limits will be incorporated.

❑ Determination of the rate of the additional deduction

The rate of the additional deduction applicable to an eligible corporation for a taxation year depends, on the one hand, on the rate associated with the region in Québec where it carries out its manufacturing activities (the “base rate”) and, on the other, on the level of its manufacturing activities.

Consequently, the rate of the additional deduction is equal to the rate determined using the following formula:

$$\text{Rate allowed} = \text{Base rate} \times \frac{(\text{PMPA - 25\%})^{9}}{25\%}$$

In this formula, PMPA stands for the proportion of activities attributable to manufacturing and processing activities.[10]

■ Increase in the rates applicable by region and addition of a fourth zone

The base rate applicable to a corporation for a taxation year depends on the region where its manufacturing activities are carried out.

9 This ratio is limited to 1 so taht the rate allowed cannot exceed the base rate.

10 The notion of “proportion of manufacturing and processing activities” is the one used for the purposes of the reduction of the tax rate for manufacturing SMEs. For more information, see MINISTÈRE DES FINANCES DU QUÉBEC, Budget 2014-2015 – Additional Information on the Fiscal Measures of the Budget, June 4, 2014, pp. 1-3.

Currently, rates of 2%, 4% and 6% apply to the “intermediate zone,”[11] the “remote zone”[12] and the “special remote zone” respectively.[13]

The rate applicable to other regions, in Québec or elsewhere, is zero.

In general, the rate of the additional deduction applicable to a corporation for a taxation year is the one applicable to the zone in which the “manufacturing and processing capital cost” (MPCC) is the highest for the taxation year.

The aforementioned rates will therefore be raised by one percentage point, with the result that rates of 3%, 5% and 7% will apply to the “intermediate zone”, the “remote zone” and the “special remote zone” respectively, and a rate of 1% will apply to “central zones.”

- **Central zones**

Central zones will consist of the Québec territories not included in the other three zones. Essentially, this means Gatineau and the Montréal and Québec census metropolitan areas.

- **Combination rule**

Where the MPCC attributable to a zone with a higher base rate prevents a manufacturing SME from qualifying for the higher rate, the MPCC attributable to the zone may be combined with that of another zone with a lower base rate. The combination rule thus enables the manufacturing SME to enjoy a more advantageous base rate in certain cases.

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11 The intermediate zone consists of the territories included in the following administrative regions, regional county municipalities (RCMs), urban agglomerations or municipalities: Capitale-Nationale, except for the municipalities included in the Québec City metropolitan census region (MCR) and the Charlevoix-Est RCM; Chaudière-Appalaches, except for the municipalities included in the Québec City MCR; Lanaudière, except for the municipalities included in the Montréal MCR; Laurentides, except for the municipalities included in the Montréal MCR; Montérégie, except for the municipalities included in the Montréal MCR; Centre du Québec; the western portion of Estrie, including the Ville de Sherbrooke and the Memphrémagog, Val-Saint-François, des Sources and Coaticook RCMs; the southern portion of Mauricie, including the cities of Trois-Rivières and Shawinigan as well as the Chenaux and Maskinongé RCMs; Papineau RCM (Outaouais).

The list of municipalities included in the MCRs of Québec is given in: STATISTICS CANADA, Standard Geographical Classification (SGC), Volume 1, The Classification, 2011, no. 12-571-X in the catalogue, pp. 107-127. It can be viewed on Statistics Canada’s website, at **www.statcan.gc.ca/pub/12-571-x/12-571-x2011001-eng.pdf**.

12 The remote zone consists of the territories included in the following administrative regions, RCMs, urban agglomerations or municipalities: Bas-Saint-Laurent; Saguenay–Lac-Saint-Jean; Abitibi-Témiscamingue; Côte-Nord, except for the municipality of L’Île-d’Anticosti and the Golfe-du-Saint-Laurent RCM; Nord-du-Québec, excluding the Kativik Regional Government; Gaspésie, including the Avignon, Bonaventure, Côte-de-Gaspé, La Haute-Gaspésie and Rocher-Percé RCMs; the eastern portion of Estrie, including the Granit and Haut-Saint-François RCMs; Antoine-Labelle RCM (Laurentides); La Tuque urban agglomeration and Mékinac RCM (Mauricie); Pontiac and La Vallée-de-la-Gatineau RCMs (Outaouais); Charlevoix-Est RCM (Capitale-Nationale).

13 The special remote zone consists of the territories included in the following RCMs, urban agglomerations, municipalities or regional government: municipality of L’Île-d’Anticosti (Côte-Nord); Îles-de-la-Madeleine urban agglomeration; Golfe-du-Saint-Laurent RCM (Côte-Nord); Kativik Regional Government (Nord-du-Québec).

This principle will not be affected by the addition of a fourth zone.

Take the example of a manufacturing SME whose MPCC allocation among the various zones is 30% in the special remote zone (7% rate), 15% in the remote zone (5% rate), 10% in the intermediate zone (3% rate), 35% in the central zones (1% rate) and 10% outside Québec (0% rate).

Under the combination rule, this manufacturing SME can claim the base rate of 5% applicable to the remote zone, by adding the 30% MPCC allocation of the special remote zone with the 7% rate to the 15% allocation of the remote zone with the 5% rate. Under the combination rule, the remote zone becomes the zone in which the MPCC is the highest for the taxation year, with the combined rate of 45%.

■ Rate of the additional deduction depending on the level of manufacturing activities

The additional deduction rate applicable to a manufacturing SME for a particular taxation year varies depending on the level of the SME's manufacturing activities for the taxation year. The rules applicable in this respect will remain unchanged.

❑ Determination of the additional deduction cap

The amount of the additional deduction a corporation may claim for a taxation year is capped, on the one hand, according to its gross income for the taxation year and the regional limit applicable to it for the taxation year and, on the other, acording to the corporation's size.

■ Limit based on gross income and on the regional cap

The additional deduction is currently limited to a percentage of the manufacturing SME's gross income for the taxation year. At present, the percentage is the additional deduction rate applicable to the manufacturing SME for the taxation year.[14]

The additional deduction thus obtained is, however, subject to a regional cap for manufacturing SMEs with a base rate of 4% and 2%, that is, those that carry out the largest share of their manufacturing activities in the remote zone or the intermediate zone. These caps are $250 000 and $100 000 respectively.

The additional deduction will always be limited to a percentage of the manufacturing SME's gross income for the taxation year. This percentage will be the new additional deduction rate applicable to the manufacturing SME for the taxation year, that is, the new rates of 7%, 5%, 3% and 1%.

The additional deduction thus obtained will now be limited to a new regional cap for manufacturing SMEs with a base deduction rate of 5%, 3% and 1%, namely, those that carry out the largest share of their manufacturing activities in the remote zone, the intermediate zone or the central zones. These new caps will be $350 000, $150 000 and $50 000 respectively.

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14 By applying thereto the reduction relating to a taxation year including June 4, 2014, if applicable.

When a manufacturing SME's taxation year has fewer than 365 days, the new caps of $350 000, $150 000 and $50 000 will be reduced in proportion to the number of days of the taxation year compared to 365.

For greater clarity, the rule that no regional cap applies to manufacturing SMEs that carry out the largest share of their manufacturing activities in the special remote zone will be maintained.

■ **Reduction of the cap depending on the size of the corporation**

The additional deduction calculated according to the rules set out above is reduced based on the corporation's size. The rules applicable in this respect will remain unchanged.

■ **Sharing of regional caps between associated corporations**

Under the existing rules, only the size of a group of associated corporations has an impact on the additional deduction a corporation may claim.

An additional rule will provide that corporations that are members of a group of associated corporations must share the use of the regional cap on a percentage basis.

Accordingly, corporations that are members of a group of corporations will be required to agree on a sharing arrangement based on the same rules that currently apply to the sharing of the $500 000-business limit enabling a corporation to obtain a lower tax rate.

Since the application of a regional cap to a corporation is determined at the level of the corporation, associated corporations may have different regional caps.

In this context, corporations that are members of a group of associated corporations will be required to share regional caps on a percentage basis. A rate of 0% will be allocated by default to a corporation to which the rate for a special remote zone applies, because no regional cap is applicable to such a corporation.

❑ Application date

These changes will apply to a manufacturing SME's taxation year that begins after December 31, 2014.

1.3 Increase from $800 000 to $1 million in the limited capital gains exemption on farm property and fishing property

An $800 000 lifetime capital gains exemption applies to gains realized on the disposition of qualified farm property. Only gains that exceed cumulative net investment losses sustained after 1987 give entitlement to the exemption.[15]

15 The $800 000 exemption that may be claimed by an individual is comprised of the former $100 000 exemption, the exemption for qualified farm property, the exemption for small business corporation shares and the exemption for qualified fishing property, as applicable.

Because of the 50% capital gains inclusion rate in the calculation of income, the resulting taxable capital gains exemption can be up to $400 000. For taxation years subsequent to 2014, the exemption must be indexed to inflation.

For the purposes of this measure, qualified farm property may be a share of the capital stock of a family farm corporation, an interest in a family farm partnership, or an immovable or incorporeal capital property used principally in the course of carrying on a business of farming in Canada.

The purpose of this measure is to encourage risk taking and investment in farming businesses, and to create a climate more conducive to helping these businesses raise capital. The measure is also intended to foster the emergence of new businesses and facilitate the expansion of small businesses, while acknowleging the special situation of farmers.

An $800 000 lifetime capital gains exemption also applies to gains realized on the disposition of qualified fishing property. In this case as well, only gains that exceed cumulative net investment losses sustained after 1987 give entitlement to the exemption.[16]

For the purposes of this measure, qualified fishing property may be incorporeal capital property, such as a fishing licence or a quota, an immovable or a fishing boat used principally in the course of carrying on a fishing business in Canada, shares of the capital stock of a family fishing corporation or an interest in a family fishing partnership.

The purpose of this measure is to encourage young people to choose the fishing industry, while acknowledging the special situation of fishers.

Since 2014, the capital gains exemption has applied not only to property used principally in the course of carrying on a farming or fishing business, but also to property used principally in the course of carrying on a combination of farming and fishing activities.

An $800 000 lifetime capital gains exemption also applies to gains realized on the disposition of qualified small business corporation shares. For taxation years subsequent to 2014, this exemption, too, must be indexed to inflation.

❑ Increase to $1 million

To further encourage risk taking and investment in farming or fishing businesses and to further encourage young people to choose these industries, while acknowledging the special situation of these two activity sectors, the $800 000 lifetime capital gains exemption applicable to gains on the disposition of qualified farm property or qualified fishing property or a combination of the two will be raised to $1 million.

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16 See the preceding note.

■ Indexation of the exemption to inflation

The exemption's indexation to inflation, which will be applied for taxation years subsequent to 2014 to the three types of property that currently give rise to an $800 000 lifetime capital gains exemption, will be temporarily suspended in regard to farm and fishing property.

The amount of the exemption for such property will be maintained at $1 million until the lifetime capital gains exemption applicable to gains realized on the disposition of qualified small business corporation shares exceeds the $1 million amount. At that time, the same maximum lifetime capital gains exemption will once again apply to the three types of property.

❑ Application date

The increase to $1 million will apply to dispositions made subsequent to December 31, 2014. It will also apply to the inclusion, in a taxation year subsequent to 2014, of a capital gains reserve attributable to the disposition of farming and fishing property after the date of publication of this information bulletin.

1.4 Introduction of a temporary refundable tax credit for interest payable on financing obtained through La Financière agricole du Québec's seller-lender formula

La Financière agricole du Québec (FADQ) offers a program called the "seller-lender formula," intended to facilitate transfers of farming businesses.

Under the formula, a seller can lend to a buyer, with the FADQ guaranteeing the loan and the buyer receiving an advantageous interest rate.

To further facilitate transfers of farming businesses on a temporary basis, the refundable tax credit respecting the seller-lender formula will be introduced.

❑ Determination of the refundable tax credit

The refundable tax credit amount a taxpayer (corporation or individual) may claim for a taxation year with respect to interest will correspond to 40% of the interest payable by a buyer to a seller on a loan under the FADQ's seller-lender formula, and to 40% of the taxpayer's share of such interest payable by a partnership of which the taxpayer is a member.

Lastly, the interest must have been paid at time the taxpayer applies for the refundable tax credit.

❑ Application date

The refundable tax credit respecting the seller-lender formula will apply to interest attributable to a period beginning after December 31, 2014 and ending ten years after the conclusion of a financing agreement under the FADQ's seller-lender formula. In addition, interest will be payable relative to a financing agreement initially enter into under the FADQ's seller-lender formula after the date of publication of this information bulletin and before January 1, 2020.

1.5 Temporary increase of the refundable tax credit for Québec film and television production

In general, the refundable tax credit for Québec film and television production (the “basic tax credit”) is equal to 36% or 28% of the qualified labour expenditure incurred by a qualified corporation to produce a Québec film. However, the labour expenditure giving rise to the tax credit may not exceed 50% of the film’s production costs.

The 36% rate applies to the qualified labour expenditure related to the production of certain feature-length, medium or short films, certain broadcasts intended for young people and certain documentaries, provided they are in French; this also applies for giant-screen films, regardless of the language.

The 28% rate applies to the other categories of eligible films.

Lastly, certain increases are available to qualified corporations and are calculated on the qualified expenditure related to the carrying out of computer animation and special effects, on the qualified expenditure related to services provided in Québec, outside the Montréal area, or on the qualified labour expenditure respecting a production that does not receive financial assistance from a public body.

However, while waiting to receive payment of tax assistance, qualified corporations generally receive interim funding from the Société de développement des entreprises culturelles (SODEC) or a financial institution, occasioning additional costs for them.

Consequently, the tax legislation will be amended to take these additional costs into account in the calculation of the basic tax credit.

Accordingly, the basic tax credit, at the rate of 36% or 28%, will be calculated on an “increased expenditure” equal to the aggregate of the amount of the qualified labour expenditure and an amount equal to 2% of the amount of the qualified labour expenditure.

❑ Application date

These changes will apply regarding a film or television production for which an application for an advance ruling, or an application for a certificate, if an application for an advance ruling was not filed earlier, is submitted to SODEC after the day of publication of this information bulletin and before January 1, 2017.

2. MEASURES TO ACHIEVE AND MAINTAIN A BALANCED BUDGET

2.1 Increase in the temporary contribution relative to the compensation tax for financial institutions

Originally, the compensation tax for financial institutions was based on three tax bases, namely, paid-up capital, amounts paid as wages, and payable or taxable insurance premiums, as applicable (including amounts established in respect of insurance funds).

Until December 31, 2012, the rates of compensation tax applicable to the various tax bases consisted, on the one hand, of the base rate reflecting the cost for the government of granting input tax refunds (ITRs) to suppliers of financial services in the Québec sales tax (QST) system and, on the other, of a temporary contribution announced in the March 30, 2010 budget speech and applicable to two of the three components of the compensation tax.[17]

On January 1, 2013, given the exemption of financial services in the QST system, the portion of the compensation tax for financial institutions that was attributable to the impact on public finances of granting ITRs to suppliers of financial services was eliminated.[18]

More specifically, since January 1, 2013, the compensation tax for financial institutions has not applied to paid-up capital and has consisted solely of the temporary contribution applicable to amounts paid as wages and to payable or taxable insurance premiums.

Thus, for the period from March 31, 2010 to December 31, 2012, the rates applicable to each tax base of the compensation tax for financial institutions were:

- for paid-up capital, 0.25%;
- for amounts paid as wages:
  - in the case of a bank, a loan corporation, a trust corporation or a corporation trading in securities, 3.9%, which consisted of a 2% base rate and a 1.9% temporary contribution,
  - in the case of a savings and credit union, 3.8%, which consisted of a 2.5% base rate and a 1.3% temporary contribution,

17 MINISTÈRE DES FINANCES DU QUÉBEC, Budget 2010-2011 – Additional Information on the Budgetary Measures, March 30, 2010, pp. A.102-A.104.

18 MINISTÈRE DES FINANCES DU QUÉBEC, Information Bulletin 2012-4, May 31, 2012, pp 12-14.

- — in the case of any other person,[19] 1.5%, which consisted of a 1% base rate and a 0.5% temporary contribution;

- for insurance premiums and amounts established in respect of an insurance fund, 0.55%, which consisted of a 35% base rate and a 0.2% temporary contribution.

Moreover, the November 20, 2012 budget speech annonced that the temporary contribution rates of 1.9%, 1.3%, 0.5% and 0.2% would be raised as of January 1, 2013 and that the application period that was initially to end on March 31, 2014 was extended to March 31, 2019.[20] Consequently, since January 1, 2013, the temporary contribution rates of financial institutions have been:

- for amounts paid as wages :
  - in the case of a bank, a loan corporation, a trust corporation or a corporation trading in securities, 2.8%,
  - in the case of a savings and credit union, 2.2%,
  - in the case of any other person, 0.9%;
- for insurance premiums and amounts established in respect of an insurance fund, 0.3%.

❑ Increase in the temporary contribution rates

To ensure that a balanced budget is achieved and maintained, the temporary contribution rates will be increased for the period from the day following the day of publication of this information bulletin to March 31, 2017.

More specifically, the temporary contribution rates for that period will be:

- for amounts paid as wages:
  - in the case of a bank, a loan corporation, a trust corporation or a corporation trading in securities, 4.48%,
  - in the case of a savings and credit union, 3.52%,
  - in the case of any other person, 1.44%;
- for insurance premiums and amounts established in respect of an insurance fund, 0.48%.

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19 For the purposes of this measure, the phrase "any other person" excludes an insurance corporation and a professional association that has set up an insurance fund under section 86.1 of the *Professional Code* (CQLR, chapter C-26).

In addition, a financial institution that has not made the joint election provided for in section 150 of the *Excise Tax Act* (R.S.C. 1985, c. E-15) is no longer subject to the temporary contribution, as of January 1, 2013 (MINISTÈRE DES FINANCES ET DE L'ÉCONOMIE DU QUÉBEC, Information Bulletin 2013-7, July 11, 2013, pp. 12-13).

20 MINISTÈRE DES FINANCES ET DE L'ÉCONOMIE DU QUÉBEC, Budget 2013-2014 – Budget Plan, November 20, 2012, pp. H.43-H.46.

It is understood that the current temporary contribution rates—2.8%, 2.2%, 0.9% and 0.3%—will be reinstated with regard to their respective tax bases for the period from April 1, 2017 to March 31, 2019.

The following table shows the various rates of the compensation tax for financial institutions applicable according to the period concerned; the compensation tax has consisted solely of the temporary contribution since January 1, 2013.

TABLE G.2

Rates of the compensation tax for financial institutions
(per cent)

	March 31, 2010 to December 31, 2012[1]	January 1, 2013 to the day of publication of this information bulletin	From the day of publication of this information bulletin to March 31, 2017	April 1, 2017 to March 31, 2019
Paid-up capital	0.25	n/a	n/a	n/a
Amounts paid as wages				
– Bank, loan corporation, trust corporation or corporation trading in securities	3.90	2.80	4.48	2.80
– Credit and savings union	3.80	2.20	3.52	2.20
– Any other person[2]	1.50	0.90	1.44	0.90
Insurance premiums and amounts established in respect of an insurance fund	0.55	0.30	0.48	0.30

(1) The tax payable on paid-up capital consisted solely of a base rate, while, in other cases, the temporary contribution rates of 1.9%, 1.3%, 0.5% and 0.2% were combined with the base rates of 2%, 2.5%, 1% and 0.35%.
(2) Excluding an insurance corporation and a professional association that has set up an insurance fund under section 86.1 of the *Professional Code*. In addition, a financial corporation that has not made the joint election provided for in section 150 of the *Excise Tax Act* is no longer subject to the temporary contribution, as of January 1, 2013.

❑ Application dates

Subject to the following clarifications:

- the increases in the temporary contribution rates will apply to a taxation year ending after the day of publication of this information bulletin and beginning before April 1, 2017;

- the existing temporary contribution rates will be reinstated with respect to a taxation year ending after March 31, 2017 and beginning before April 1, 2019.

■ Period from the day following the day of publication of this information bulletin to March 31, 2017

Where the taxation year of a person that is a financial institution at a particular time in the year straddles the day of publication of this information bulletin, the following rules will apply:

— the rates applicable to amounts paid as wages will be:

  — in the case of a bank, a loan corporation, a trust corporation or a corporation trading in securities, 2.8% regarding amounts paid as wages during the portion or portions of the person's taxation year, preceding the day following publication of this information bulletin, during which it is a financial institution, and 4.48% regarding the amounts paid as wages during the portion or portions of the person's taxation year, following the day of publication of this information bulletin, during which it is a financial institution,

  — in the case of a savings and credit union, 2.2% regarding amounts paid as wages during the portion or portions of the person's taxation year, preceding the day following publication of this information bulletin, during which it is a financial institution, and 3.52% regarding amounts paid as wages during the portion or portions of the person's taxation year, following the day of publication of this information bulletin, during which it is a financial institution,

  — in the case of any other person, 0.9% regarding amounts paid as wages paid during the portion or portions of the person's taxation year, preceding the day following publication of this information bulletin, during which it is a financial institution, and 1.44% regarding amounts paid as wages during the portion or portions of the person's taxation year, following the day of publication of this information bulletin, during which it is a financial institution;

— the rate applicable to insurance premiums and amounts established in respect of insurance funds will correspond to the aggregate of 0.3%, multiplied by the fraction obtained by dividing the number of days of the person's taxation year, preceding the day following the day of publication of this information bulletin, during which it is a financial institution by the number of days of its taxation year during which it is a financial institution, and 0.48%, multiplied by the fraction obtained by dividing the number of days of the person's taxation year, following the day of publication of this information bulletin, during which it is a financial institution by the number of days of its taxation year during which it is a financial institution.

■ Period from April 1, 2017 to March 31, 2019

Where the taxation year of a person that is a financial institution at a particular time in the year straddles March 31, 2017, the following rules will apply:

- the rates applicable to amounts paid as wages will be:
  - in the case of a bank, a loan corporation, a trust corporation or a corporation trading in securities, 4.48% regarding amounts paid as wages during the portion or portions of the person's taxation year, preceding April 1, 2017, during which it is a financial institution, and 2.8% regarding amounts paid as wages during the portion or portions of the person's taxation year, following March 31, 2017, during which it is a financial institution,
  - in the case of a savings and credit union, 3.52% regarding amounts paid as wages during the portion or portions of the person's taxation year, preceding April 1, 2017, during which it is a financial institution, and 2.2% regarding amounts paid as wages during the portion or portions of the person's taxation year, following March 31, 2017, during which it is a financial institution,
  - in the case of any other person, 1.44% regarding amounts paid as wages during the portion or portions of the person's taxation year, preceding April 1, 2017, during which it is a financial institution, and 0.9% regarding amounts paid as wages during the portion or portions of the person's taxation year, following March 31, 2017, during which it is a financial institution;
- the rate applicable to insurance premiums and amounts established in respect of insurance funds will correspond to the aggregate of 0.48%, multiplied by the fraction obtained by dividing the number of days of the person's taxation year, preceding April 1, 2017, during which it is a financial institution by the number of days of its taxation year during which it is a financial institution, and 0.3%, multiplied by the fraction obtained by dividing the number of days of the person's taxation year, following March 31, 2017, during which it is a financial institution by the number of days of its taxation year during which it is a financial institution.

These rules will apply, with the necessary adaptations, for the calculation of the temporary contribution, where the taxation year of a person that is a financial institution at a particular time in the year straddles April 1, 2019.

❑ Instalment payments

The instalment payments of a corporation and the amounts payable each month by a financial institution that is not a corporation will have to be adjusted, as necessary, according to the usual rules, in order to take into account the changes to the temporary contribution rates.

2.2 Increase in the tax on capital for insurance corporations

In general, an insurance corporation[21] carrying on business in Québec is required to pay as tax on capital, for each period of 12 months, on every premium payable to the corporation or its agent with respect to its business in Québec other than an annuity contract, a tax equal:

— in the case of insurance relating to the life, health or physical well-being of the insured, to 2% of the premium payable;

— in all other cases, to 3% of the premium payable.

Moreover, an insurance corporation carrying on business in Québec is required to pay as tax on capital, for each taxation year, a tax equal to 2% on every taxable premium paid to the corporation or its agent in the year as part of an uninsured employee benefit plan respecting a person who is resident in Québec at the time of the payment.

An uninsured employee benefit plan means a plan which gives protection against a risk that could otherwise be obtained by taking out a policy of personal insurance, whether the benefits are partly insured or not.

To ensure a balanced budget is achieved and maintained, the 2% tax on capital rate that an insurance corporation is required to pay on every premium payable to the corporation or its agent relating to the life, health or physical well-being of the insured or that the insurance corporation is required to pay on a taxable premium paid to the corporation or its agent as part of an uninsured employee benefit plan will be raised to 3%.

The 3% rate will apply to a 12-month period or a taxation year, as applicable, ending after the day of publication of this information bulletin and, where the 12-month period or the taxation year straddles that day, the new rate will apply proportionately to the number of days in the 12-month period or taxation year following that day.

❑ Instalment payments

Instalment payments will have to be adjusted, as necessary, according to the usual rules, in order to take into account the increase in the rate of the tax on capital for insurance corporations.

21 An insurance corporation means an insurer, within the meaning given to that expression by the *Act respecting insurance* (CQLR, chapter A-31), and includes any person, trust, association or group of persons administering an uninsured employee benefit plan or paying any amount into a fund of an uninsured employee benefit plan.

2.3 Changes to the refundable R&D tax credits and the tax credit for investments relating to manufacturing and processing equipment

The refundable tax credits for scientific research and experimental development (R&D) are tax incentive measures for businesses and represent the government's biggest tax expenditure.

Consequently, in this time of fiscal restraint, amendments will be made to the legislation to decrease the level of tax assistance for expenditures relating to R&D activities.

In addition, amendments will be made to the tax legislation to reduce the amount of tax assistance a qualified corporation may claim for the purposes of the tax credit for investments relating to manufacturing and processing equipment (the "tax credit for investments").

2.3.1 Standardization of the rate of the refundable R&D tax credits

A person who carries on a business in Canada and who undertakes R&D in Québec, or causes R&D to be undertaken in Québec on the person's behalf as part of a research contract, may claim various refundable tax credits.

The first refundable tax credit, commonly known as "R&D wages," applies to, among other things, the wages paid by a person to the person's employees, where the person carries out R&D work in Québec, or to one-half of the amount of the research contract, where the R&D work is awarded to a subcontractor dealing at arm's length with the person. The rate of this refundable tax credit is 14%, but it can vary from 14% to 30% in the case of a Canadian-controlled corporation.[22]

The second refundable tax credit, commonly known as "university R&D," applies to, among other things, 80% of the amount of a research contract, where the R&D work is subcontracted to an eligible university entity, an eligible public research centre or an eligible research consortium to which the person awarding the R&D subcontract is not related. The rate of this tax credit is 28%.

The third refundable tax credit concerns private partnership precompetitive research. This refundable tax credit applies to R&D work that a number of persons agree to undertake jointly in Québec or cause to have undertaken in Québec on their behalf under a research contract. The rate of this tax credit is 28%.

The fourth refundable tax credit concerns fees paid to an eligible research consortium. Essentially, this refundable tax credit applies to the fees a person pays to an eligible research consortium and that may reasonably be considered to relate to the R&D work done by the consortium in relation to a business of the person. The rate of this tax credit is 28%.

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22 Briefly, this is a Canadian-controlled corporation with assets, taking into account the assets of associated corporations, of less than $75 million for the preceding fiscal period. More specifically, where the assets are $50 million or less, the rate is 30%, reducing linearly to 14% where the assets vary from $50 million to $75 million. The higher rate concerns only the first $3 million in eligible R&D expenditures.

The tax legislation will be amended to standardize the rates applicable to the refundable R&D tax credits. More specifically, the rates applicable to the refundable tax credit for R&D wages will be the only ones to apply from now on and will replace those of the other refundable R&D tax credits.

For greater clarity, only the rates will be adjusted. The $3-million limit applicable to the higher rate for a Canadian-controlled corporation will apply separately to each of the refundable R&D credits, and all of the conditions otherwise applicable to these tax credits will remain unchanged.

In the case of the refundable university R&D tax credit, this change will apply to R&D expenditures incurred after the day of publication of this information bulletin, relative to a research contract entered into after that day.

In the case of the refundable tax credit for private partnership precompetitive research, the change will apply to R&D expenditures incurred after the day of publication of this information bulletin relative to a partnership agreement reached after that day and to the renewal or extension of a partnership agreement after that day.

Lastly, in the case of the refundable tax credit for fees paid to an eligible research consortium, the change will apply to R&D expenditures incurred by a taxpayer[23] or partnership for a taxation year or fiscal period, as applicable, beginning after the day of publication of this information bulletin.

2.3.2 Introduction of an excluded expenditure amount for the purposes of the R&D tax credits

Given the current budgetary context, amendments will be made to the legislation to exclude, from tax assistance in the form of R&D tax credits, the first dollars spent annually by a taxpayer below an exclusion threshold.

❑ Subtraction of the expenditure amount below an exclusion threshold

A taxpayer or partnership will be required, for its taxation year or fiscal period, as applicable, to subtract the excluded expenditure amount from its expenditures that qualify as wages and consideration for the purposes of the R&D wages tax credit,[24] or that are qualified expenditures for the purposes of the university R&D tax credit,[25] eligible fees for the purposes of the tax credit for fees paid to an eligible research consortium[26] or qualified expenditures for private partnership precompetitive research[27] for the taxation year or fiscal period.

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23 The term “taxpayer” refers to a natural person, a trust or a corporation, as applicable, who would otherwise be eligible for the purposes of a R&D tax credit.

24 *Taxation Act* (CQLR, chapter I-3), s. 1029.7, third para. and s. 1029.8, third para.

25 *Taxation Act,* s. 1029.8.1, para. *d*.1.

26 *Taxation Act*, s. 1029.8.9.0.2, first para., definitions of the terms “eligible fee” and “eligible fee balance”. Expenditures representing an eligible fee balance for the purposes of this tax credit will also be contemplated.

27 *Taxation Act*, s. 1029.8.16.1.1, first para., definition of the term “qualified expenditure.”

A Canadian-controlled corporation's excluded expenditure amount for a taxation year will first reduce the portion of the corporation's expenditure amount giving entitlement to an R&D tax credit at a higher rate, taking into account the amendments to be made to the tax legislation with respect to the rates that will apply to the various R&D tax credits, as mentioned previously.

■ Excluded expenditures

The excluded expenditures of a taxpayer or partnership for a taxation year or fiscal period, as applicable, will mean the expenditures incurred in the year or period and that qualify as wages and consideration for the purposes of the R&D wages tax credit, or that are qualified expenditures for the purposes of the university R&D tax credit, eligible fees for the purposes of the tax credit for fees paid to an eligible research consortium or qualified expenditures for the tax credit for private partnership precompetitive research.

These expenditures will be referred to collectively herein as "excluded expenditures".

However, excluded expenditures will not include expenditures incurred after the day of publication of this information bulletin, relative to a research contract or partnership agreement entered into not later than that day.

■ Determination of the excluded expenditure amount

The excluded expenditure amount of a taxpayer or partnership for a taxation year or fiscal period, as applicable, will correspond to the lesser of the exclusion threshold applicable to the taxpayer or partnership for the taxation year or fiscal period and the total of excluded expenditures incurred in the year or period.

For greater clarity, all or part, as applicable, of the excluded expenditure amount of a taxpayer or partnership will be taken into account only once with respect to expenditures otherwise eligible for the purposes of an R&D tax credit of the taxpayer or partnership for a taxation year or fiscal period.

Moreover, where the total excluded expenditures of a taxpayer or partnership are higher than the exclusion threshold amount for a taxation year or fiscal period, as applicable, the portion of the exclusion threshold amount applicable to a particular R&D tax credit will correspond to the fraction obtained by dividing the expenditures otherwise eligible for the particular R&D tax credit by the total excluded expenditures.

■ Determination of the exclusion threshold amount

The exclusion threshold amount of a taxpayer or partnership for a taxation year or fiscal period, as applicable, will correspond to $50 000 annually, determined according to the usual rules.

However, the exclusion threshold amount of a taxpayer or partnership may reach $225 000 annually, where the taxpayer's or partnership's assets shown in the financial statements for the previous taxation year or fiscal period, as applicable, are over $50 million.

More specifically, the exclusion threshold amount will increase linearly to $225 000, where the assets vary between $50 million and $75 million, and will be $225 000, where the assets are $75 million or more.[28]

The table below illustrates the change in the exclusion threshold amount, based on different asset amounts.

TABLE G.3

Change in the exclusion threshold amount

Assets (millions of dollars)	**Exclusion threshold amount**[(1)] (dollars)
50.0 or less	50 000
55.0	85 000
60.0	120 000
62.5	137 500
65.0	155 000
70.0	190 000
75.0 or over	225 000

(1) Threshold = $50 000 + [$175 000 x (assets – $50 million)/$25 million]. In this formula, the quotient (assets – $50 million)/$25 million may not be less than 0 or more than 1.

❑ Application date

These changes will apply to excluded expenditures incurred by a taxpayer or partnership for a taxation year or fiscal period, as applicable, beginning after the day of publication of this information bulletin, respecting R&D work carried out after that day.

2.3.3 Introduction of an excluded expense amount in respect of a qualified property for the purposes of the tax credit for investments

Briefly, a qualified corporation for a taxation year that acquires a qualified property may claim the tax credit for investments[29] for the eligible expenses it incurred.

28 A taxpayer's or partnership's assets will be calculated according to rules similar to those currently stipulated respecting the increase in the R&D wages tax credit for a Canadian-controlled corporation, without taking into account, however, the assets of any associated corporations (*Taxation Act*, s. 1029.7.2).

29 A qualified corporation that is a member of a qualified partnership that acquires a qualified property may claim the tax credit for investments in proportion to its share of the partnership's income or loss.

The base rate of the tax credit for investments is 4%. This rate can be increased to 32% in respect of a qualified property acquired for use primarily in a remote zone,[30] 24% in respect of a qualified property acquired for use primarily in the eastern portion of the Bas-Saint-Laurent administrative region[31] and 16% in respect of a qualified property acquired for use primarily in an intermediate zone.[32] The rate can be increased to 8% in other cases.

The tax credit for investments to which a qualified corporation is entitled for a taxation year may be deducted from its total taxes[33] for the taxation year. The portion of the tax credit for investments relative to a taxation year that cannot be used to reduce the corporation's total taxes for the taxation year may be refunded, in whole or in part, or carried over.

So that a qualified corporation can take full advantage of a higher rate and the refundable nature of the tax credit for investments for a taxation year, its paid-up capital[34] for the previous taxation year must not exceed $250 million. The increase in the tax credit rate and the refundable portion of the tax credit decrease linearly for paid-up capital between $250 million and $500 million. A corporation whose paid-up capital reaches $500 million may claim only the 4% base rate, and no portion of the tax credit is refundable.

In addition, a qualified corporation may take advantage of a higher rate and the refundable nature of the tax credit for investments for a taxation year only in regard to the eligible expenses it incurred that do not exceed a cumulative limit of $75 million.[35]

30 Remote zones consist of the following administrative regions: Abitibi-Témiscamingue, Côte-Nord, Nord-du-Québec and Gaspésie–Îles-de-la-Madeleine.

31 The eastern portion of the Bas-Saint-Laurent administrative region consists of the following regional county municipalities (RCMs): La Matapédia, La Mitis and La Matanie.

32 Intermediate zones consist of the following administrative regions and RCMs: the Saguenay–Lac-Saint-Jean administrative region, the Mauricie administrative region, the Antoine-Labelle RCM, the Kamouraska RCM, the La Vallée-de-la-Gatineau RCM, the Les Basques RCM, the Pontiac RCM, the Rimouski-Neigette RCM, the Rivière-du-Loup RCM and the Témiscouata RCM.

33 *Taxation Act*, s. 1029.8.36.166.40.

34 Where the qualified corporation is a member of an associated group in the taxation year, the rate of the tax credit and its refundable nature are determined by taking into account the corporation's paid-up capital and that of each member of the associated group, according to the usual rules (*Taxation Act*, ss. 737.18.24 and 1029.8.36.166.41).

35 A $75-million cumulative limit also applies to eligible expenses of a qualified partnership enabling a qualified corporation that is a member of the partnership to take advantage of a higher rate and the refundable nature of the tax credit for investments (*Taxation Act*, ss. 1029.8.36.166.40.1, 1029.8.36.166.40.3 and 1029.8.36.166.40.4).

A qualified property, for the purposes of the tax credit for investments, is a property included in Class 29 of Schedule B to the *Regulation respecting the Taxation Act*,[36] Class 43 to the schedule, Class 50 or Class 52 to the schedule that is used primarily in the manufacturing or processing of goods for sale or lease, or property acquired after March 20, 2012 to be used primarily in the course of ore smelting, refining or hydrometallurgy activities, other than ore from a gold or silver mine, extracted from a mineral resource located in Canada. It must, in particular, have been acquired before January 1, 2018 and, prior to its acquisition, it must not have been used for any purpose nor acquired to be used or leased for any purpose whatsoever.

Like the refundable R&D tax credits, the tax legislation will be amended so that the first dollars of expenses eligible for the tax credit for investments incurred by a qualified corporation or qualified partnership in respect of a qualified property cannot give entitlement to the tax credit.

❑ Subtraction of the excluded expense amount relative to a qualified property for the purposes of determining the tax credit for investments

To determine its tax credit for investments relative to a qualified property for a taxation year, a qualified corporation must subtract its excluded expense amount in respect of the property for the taxation year from its eligible expenses in respect of the property for the taxation year.

The corporation's excluded expense amount in respect of a qualified property for the taxation year will first reduce the portion of its eligible expenses, in respect of the property, for which the higher rate of the tax credit for investments applies to the corporation for the taxation year. The balance of the excluded expense amount in respect of the property for the taxation year will reduce the portion of the corporation's eligible expenses, in respect of the property for the taxation year, for which the 4% base rate applies to the corporation.

Similarly, a qualified corporation that is a member of a quailfied partnership at the end of the partnership's fiscal period ending in a taxation year will be required, for the purposes of determining its tax credit for investments for the taxation year in respect of the qualified property of the partnership, to subtract its share of the excluded expense amount in respect of the property of the partnership for the fiscal period from its share of the partnership's eligible expenses in respect of the property for the fiscal period.

The corporation's share of the excluded expense amount in respect of a qualified property of the partnership for a fiscal period will first reduce the corporation's share of the portion of eligible expenses, in respect the property for the fiscal period, for which the higher rate of the tax credit for investments applies to the corporation for the taxation year in which the fiscal period ends. The balance of its share of the excluded expense amount in respect of the property for the fiscal period will reduce the corporation's share of the portion of eligible expenses, in respect of the property for the fiscal period, for which the 4% base rate applies to the corporation for the taxation year in which the fiscal period ends.

36 CQLR, chapter A-13.3, r. 1.

■ Determination of the excluded expense amount in respect of qualified property

The excluded expense amount in respect of a qualified property of a qualified corporation for a taxation year will be equal to the lesser of the following amounts:

— an amount corresponding to the corporation's eligible expenses in respect of the property for the taxation year;

— an amount corresponding to the amount by which the exclusion threshold in respect of the qualified property exceeds the total excluded expense amount in respect of the corporation's property for each previous taxation year.

The excluded expense amount in respect of a qualified property of a qualified partnership for a fiscal period will be equal to the lesser of the following amounts:

— an amount corresponding to the partnership's eligible expenses in respect of the property for the fiscal period;

— an amount corresponding to the amount by which the exclusion threshold in respect of the qualified property exceeds the total excluded expense amount in respect of the partnership's property for each previous fiscal period.

■ Exclusion threshold in respect of a qualified property

The exclusion threshold in respect of a qualified property will be $12 500.

However, if a qualified property is acquired as part of a joint venture, the exclusion threshold in respect of the qualified property that will apply to a corporation or partnership holding a share in the qualified property as part of the joint venture will correspond to the amount obtained by multiplying $12 500 by the proportion represented by the share of the corporation or partnership, as applicable, in the qualified property.

■ Impact of the excluded expense amount in respect of a qualified property in the calculation of the cumulative eligible expense limit

The subtraction of an excluded expense amount in respect of qualified property in the calculation of the tax credit for investments of a qualified corporation or a qualified corporation that is a member of a qualified partnership in respect of the property will not have an impact on the calculation of the cumulative eligible expense limit of the corporation, the partnership or a joint venture to which the corporation or partnership is a party.

❑ Application date

These changes will apply in respect of a qualified property acquired after the day of publication of this information bulletin.

However, the changes will not apply in respect of a qualified property acquired after that day if:

- the qualified property is acquired in accordance with a written obligation entered into not later than the day of publication of this information bulletin;

- the qualified property is a property whose construction by the qualified corporation, or by the qualified partnership, or on its behalf, was under way on the day of publication of this information bulletin.

2.4 Application of the general tax rate for insurance premiums to all automobile insurance premiums

The tax on insurance premiums, the general rate of which is 9%, applies to most amounts payable to obtain for oneself or another a benefit on the occurrence of a risk, including contributions payable to the Société de l'assurance automobile du Québec to fund the public automobile insurance plan applicable to bodily injury. However, on an exceptional basis, the 9% rate is reduced to 5% for premiums payable under an automobile insurance policy covering essentially material damage.

As part of the government's efforts to restore sound public finances with a view to achieving and maintaining a balanced budget, this reduction in the rate of the tax on insurance premiums will be abolished as of January 1, 2015. Accordingly, the 9% general rate will apply to all automobile insurance premiums paid after December 31, 2014.

To facilitate the transition for persons required to collect the tax who have a monthly reporting period, they will have until March 31, 2015 to remit to Revenu Québec the amounts of tax to be collected on automobile insurance premiums in January 2015. Persons who have a quarterly reporting period ending on January 31, 2015 will also have until March 31, 2015 to remit the amounts of tax to be collected on automobile insurance premiums paid during that reporting period.

2.5 Reduction of the rate of the tax credits for union, professional or other dues

An individual who pays eligible dues or an eligible contribution to a recognized professional association, a union or a similar group, depending on whether the individual is an employee or a self-employed worker, may generally claim a non-refundable tax credit equal to 20% of the total of the amounts thus paid that are related to, as applicable, the office or employment held by the individual or the business carried on by the individual.

Given the current budgetary context, the rate at which eligible dues or contributions are converted to a tax credit will be reduced from 20% to 10% as of the 2015 taxation year.

2.6 Tightening of the eligibility conditions for refundable tax credits to increase the incentive to work

To support and value work effort and encourage people to give up last resort financial assistance to enter the labour market, the tax system grants tax assistance to low-income households.

This tax assistance, in the form of a work premium, is adjusted depending on whether or not the household has a severely limited capacity for employment. In addition, a supplement for long-term recipients giving up last resort financial assistance or the Youth Alternative Program can be combined with it.

In general, the work premium is for any individual who is resident in Québec at the end of a year, provided the individual has recognized status (such as Canadian citizenship or permanent resident status) at that time and is a person of full age, an emancipated minor within the meaning of the *Civil Code of Québec*, the spouse of another individual, or the father or mother of a child with whom the individual resides.

However, where, at the end of a year, an individual was confined to a prison or a similar institution for one or more periods totalling more than six months during the year, the individual is not eligible for a work premium. The same applies to an individual in respect of whom another person received certain tax relief for the year, such as the transfer of the recognized parental contribution.

The maximum work premium is obtained by applying the rate determined on the basis of the composition of the household to the amount by which the lesser of the household's work income and the reduction threshold exceeds the excluded work income. However, so that the work premium targets only low-income households, it is reduced when a household's total income exceeds a certain threshold.

To encourage the work effort of low-income households and mitigate the impact of the social assistance trap, the federal tax system also grants a benefit, called the working income tax benefit. For Québec residents, this benefit was restructured to harmonize it with the work premium, in order to bolster Quebecers' incentive to work.

While the application details of the work premium and the working income tax benefit are identical in many respects, there is, apart from the age criterion,[37] a significant difference in eligibility for these measures in regard to students.

Since the introduction of the working income tax benefit, it has not been granted to full-time students enrolled at a designated educational institution for a period of more than 13 weeks, unless such a student has a minor child with whom the student resides at the end of the year.

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37 As a rule, the working income tax benefit is not granted to individuals under 19 years of age, whereas the work premium can be granted to individuals who are 18 years of age.

To realign the work premium with its primary objectives, the tax legislation will be amended to provide that an individual who is a full-time student for a particular taxation year will no longer be considered an eligible individual for the purposes of the refundable tax credits to increase the incentive to work, unless, at the end of December 31 of that year or, as applicable, on the date of the individual's death, the individual is the father or the mother of a child with whom he or she lives.

An individual will be considered a full-time student for a particular taxation year if the individual began and completed in the year a term of study during which the individual was a full-time student enrolled in a recognized educational program at an educational institution designated by the Minister of Education, Recreation and Sports or the Minister of Higher Education, Research and Science for the purposes of the loans and bursaries program for full-time studies in vocational training at the secondary level and for full-time studies at the postsecondary level established under the *Act respecting financial assistance for education expenses*.[38]

To that end, a student will be deemed to be studying full time in a taxation year if the studient has a major functional disability within the meaning of the *Regulation respecting financial assistance*[39] and, as a result, is studying part time during the taxation year.

Inaddition, a recognized educational program will be an educational program that provides that each student taking the program spend not less than 9 hours per week on courses or work in the program or, if the student is deemed to be studying full time, that the student receive a minimum of 20 hours of instruction per month, provided the program consists in:

— if the educational institution is situated in Québec, an educational program recognized by the Minister of Education, Recreation and Sports or the Minister of Higher Education, Research and Science for the purposes of the loans and bursaries program for full-time studies in vocational training at the secondary level and for full-time studies at the postsecondary level established under the *Act respecting financial assistance for education expenses*;

— if the educational institution is situated outside Québec, an educational program at the college level or at the university level or the equivalent.

These changes will apply as of the 2015 taxation year.

38 CQLR, chapter A-13.3.

39 CQLR, chapter A-13.3, r. 1.

AN UPDATE THAT BUILDS ON THE DIRECTIONS IN BUDGET 2014-2015: SPURRING ECONOMIC RECOVERY AND RESTORING SOUND PUBLIC FINANCES IN QUÉBEC

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