NOVEMBER 2015 UPDATE

THE QUÉBEC ECONOMIC PLAN

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Finances Québec

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The Québec Economic Plan – November 2015 Update

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THE QUÉBEC ECONOMIC PLAN – NOVEMBER 2015 UPDATE

HIGHLIGHTS

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The November 2015 update of the Québec Economic Plan is an opportunity to report on the implementation of the government's economic and budgetary policy directions. It also updates the March 2015 financial framework, reflecting the latest information on the economic situation and on the government's revenue and expenditure.[1]

The Québec Economic Plan provides for the return to sound, balanced public finances and the establishment of conditions favourable to economic growth and job creation. More specifically, the government's budgetary policy directions provide for:

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

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

— adequate funding of public services, including an additional investment in education as of 2015-2016;

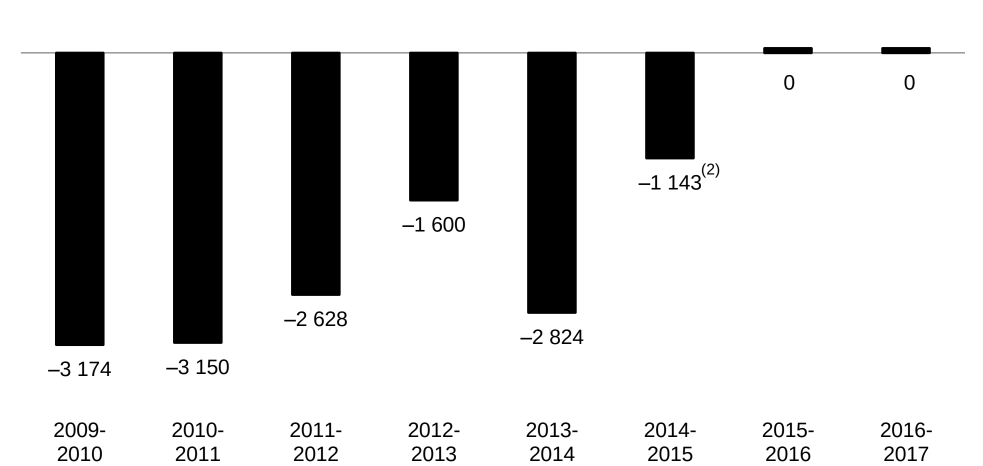
— maintenance of a high level of public capital investments;

— ongoing debt reduction;

— the reduction of the tax burden on taxpayers.

CHART 1

Budgetary balance,[(1)] 2009-2010 to 2016-2017
(millions of dollars)



(1) Budgetary balance within the meaning of the *Balanced Budget Act*.
(2) Budgetary balance excluding the impact of accounting changes. The budgetary balance including accounting changes totalling $418 million is a deficit of $725 million.

1 Unless otherwise indicated, this document is based on the data available as at November 1, 2015, with the exception of the economic statistics concerning Québec and Canada, which reflect the historical data from Statistics Canada's provincial economic accounts published on November 10, 2015. Economic forecasts are based on the quarterly economic accounts previously published by the Institut de la statistique du Québec and Statistics Canada.

A BALANCED BUDGET: A STRONGER FINANCIAL SITUATION

The November 2015 update of the Québec Economic Plan is an opportunity to present the Public Accounts 2014 2015 results and confirm the government's budgetary objectives for 2015-2016 and subsequent years.

❑ 2014-2015: a deficit less than half the forecast figure

The Public Accounts 2014-2015 results show that the government attained its budgetary objectives. The budget deficit is less than half the forecast figure.

— In 2014-2015, the budgetary deficit stood at $1 143 million, that is, $1 207 million below the target of $2 350 million initially forecast.

TABLE 1

Adjustments for 2014-2015 compared with Budget 2015-2016
(millions of dollars)

	2014-2015		
	Budget 2015-2016	**Adjustment**	**Actual results**
Consolidated revenue			
Own-source revenue	72 027	35	72 062
Government enterprises	5 266	70	5 336
Federal transfers	18 720	−181	18 539
Total – Consolidated revenue	**96 013**	**−76**	**95 937**
% change	***3.0***	***−0.1***	***2.9***
Consolidated expenditure			
Program spending	−65 704	362	−65 342
% change	*2.1*		*1.6*
Other consolidated expenditure(1)	−21 073	884	−20 189
Subtotal	**−86 777**	**1 246**	**−85 531**
Debt service	−10 333	63	−10 270
Total – Consolidated expenditure	**−97 110**	**1 309**	**−95 801**
% change	***2.3***	***−1.4***	***0.9***
SURPLUS (DEFICIT)	**−1 097**	**1 233**	**136**
BALANCED BUDGET ACT			
Deposits of dedicated revenues in the Generations Fund	−1 253	−26	−1 279
BUDGETARY BALANCE(2)	**−2 350**	**1 207**	**−1 143(3)**
As a % of GDP	***−0.6***	***0.3***	***−0.3***

(1) Including consolidation adjustments.
(2) Budgetary balance within the meaning of the *Balanced Budget Act*.
(3) Budgetary balance excluding the impact of accounting changes. The budgetary balance including accounting changes totalling $418 million is a deficit of $725 million.

❑ 2015-2016: a balanced budget

The November 2015 update of the Québec Economic Plan still forecasts a return to a balanced budget as of 2015 2016.

In order to balance the budget, spending growth will be kept below revenue growth.

— Consolidated expenditure will grow by 2.7% in 2015-2016 and 2.2% in 2016-2017. For the same two years, consolidated revenue will grow by 4.1% and 3.3%, respectively.

The government will keep the budget balanced every year while continuing to make deposits of dedicated revenues in the Generations Fund.

— Those deposits will total $1 496 million in 2015-2016 and $2 158 million in 2016-2017.

TABLE 2

Consolidated summary financial framework – November 2015 Update
(millions of dollars)

	2015-2016	2016-2017	2017-2018
Own-source revenue	80 513	82 989	85 001
% change	*4.0*	*3.1*	*2.4*
Federal transfers	19 351	20 130	20 612
% change	*4.4*	*4.0*	*2.4*
Consolidated revenue	**99 864**	**103 119**	**105 613**
% change	***4.1***	***3.3***	***2.4***
Expenditure	−88 091	−89 860	−91 738
% change	*3.0*	*2.0*	*2.1*
Debt service	−10 277	−10 701	−10 814
% change	*0.1*	*4.1*	*1.1*
Consolidated expenditure	**−98 368**	**−100 561**	**−102 552**
% change	***2.7***	***2.2***	***2.0***
Contingency reserve	—	−400	−400
SURPLUS (DEFICIT)	**1 496**	**2 158**	**2 661**
BALANCED BUDGET ACT			
Deposits of dedicated revenues in the Generations Fund	−1 496	−2 158	−2 661
BUDGETARY BALANCE[1]	**—**	**—**	**—**

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

❑ Academic success: a priority in education

Through efficient spending management, the government is able to raise investments in education, prioritizing academic success.

In order to improve academic success, the government is investing additional amounts to increase teaching staff and professional and technical resources, in particular in underprivileged and devitalized communities.

Another $80 million will be added annually to the education budget. By the end of 2015-2016, this additional investment represents $20 million.

TABLE 3

Program spending from 2014-2015 to 2016-2017
(millions of dollars)

	2014-2015	2015-2016(1)			2016-2017		
	Actual results	Budget 2015-2016	Change	November 2015	Budget 2015-2016	Change	November 2015
Total spending program	**65 342**	**66 460**	**—**	**66 460**	**67 889**	**80**	**67 969**
% change		***1.2***		***1.7***	***2.2***		***2.3***
Including :							
Éducation, Enseignement supérieur et Recherche	16 792	16 926	20	16 946	17 196	80	17 276
% change		*0.2*		*0.9*	*1.6*		*1.9*

(1) For fiscal 2015-2016, the additional budget of $20 million for education is financed by assets made available elsewhere in the government's program spending.

❑ Continued spending control

In 2014-2015, spending growth was reduced to 1.4%, a level below that seen in recent years, bringing it more in line with taxpayers' ability to pay.

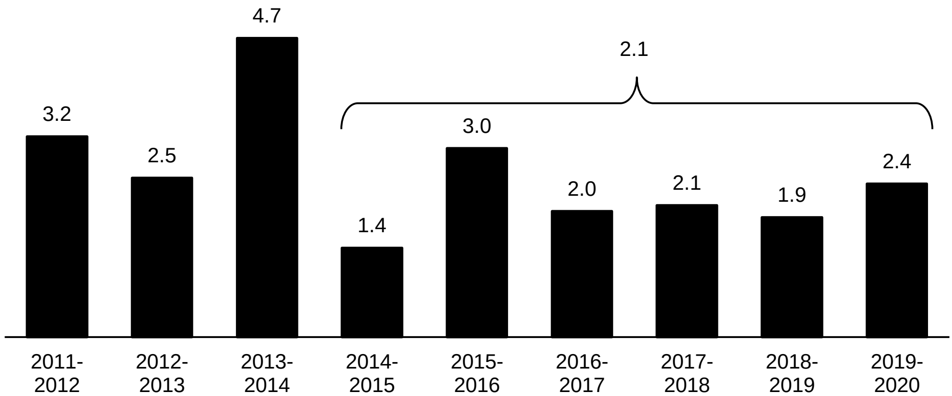
Consolidated expenditure excluding debt service will rise by an average of 2.1% a year from 2014-2015 to 2019-2020, inclusively.

— For 2015-2016, spending growth should stand at 3.0%.

— Starting in 2016-2017, continued spending control will enable the government to reduce Quebecers' tax burden and continue taking steps to reduce the debt burden. Thus, as provided for in the Québec Economic Plan of March 2015, the progressive health contribution will be gradually eliminated as of January 1, 2017.

CHART 2

Consolidated expenditure growth excluding debt service
(per cent)



ECONOMIC GROWTH IS CONTINUING IN QUÉBEC

Economic growth is continuing in Québec. A rate of 1.5% growth is expected in 2015, the same as in 2014, despite a slowdown in the Canadian and global economies.

In 2015, real GDP growth is driven mainly by household consumption and strong export performance.

— Household consumption is expected to rise by 1.9% in real terms, with consumers benefiting from, among other things, employment growth and the positive effects of lower fuel prices.

— International exports of goods continue to register robust growth, increasing by 6.4% in the first eight months of 2015 after gaining 10.9% in 2014.

The pace of economic growth in Québec will accelerate to 1.7% in 2016.

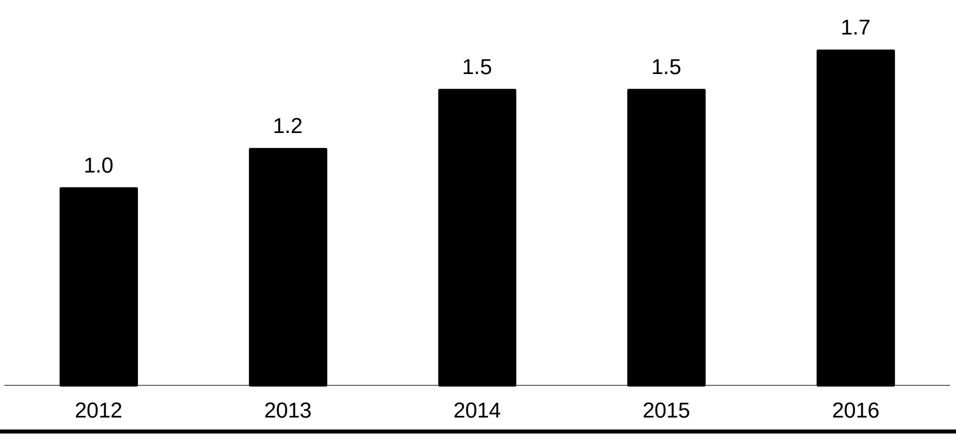
— Next year, job creation will continue to drive household consumption. In addition, growth in exports will be fuelled by the strengthening U.S. economy and low Canadian dollar.

— In addition, non-residential business investment is expected to make a greater contribution to economic expansion.

  — Sustained growth in exports and household consumption will spur businesses to spend more to increase their production capacities.

CHART 3

Economic growth in Québec
(real GDP, percentage change)



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

THE QUÉBEC ECONOMIC PLAN: ACTIONS ALREADY TAKEN TO FOSTER ECONOMIC RECOVERY

In the Québec Economic Plan, the government announced actions it intends to take over the coming years to meet the challenges of economic growth.

— Taken together, the measures in the Québec Economic Plan represent close to $22 billion in support for the economy.

Several of the planned initiatives are currently under way to:

— reduce Quebecers' tax burden;

— provide tax relief for corporations;

— foster economic development in Québec.

❑ Reduction of $2 billion in the tax burden on Quebecers

Over the next four years, Quebecers will see a reduction of $2 billion in their tax burden.

As of January 1, 2016, the first tax relief initiatives for individuals, such as the introduction of a tax shield and the enhancement of work incentives for experienced workers, will take effect.

❑ Tax relief for corporations

Since June 2014, as part of the Québec Economic Plan, the government has announced several measures of general application to ease the tax burden on corporations in addition to improving the overall competitiveness of the corporate tax system.

Of the 11 initiatives of general application announced, five have already been implemented by the government. These initiatives to foster economic growth represent an easing of the tax burden of almost $140 million as of 2015-2016.

Taking into account the measures applicable as of 2017, roughly 200 000 businesses in all sectors and in all regions of Québec will receive tax relief.

❑ Concrete actions to develop the Québec economy

The Québec Economic Plan provides for actions to boost key factors in economic growth, such as private investment.

Major initiatives have already been implemented in that regard, more specifically Québec's Maritime Strategy and the Plan Nord, along with, in particular, the Québec Aluminum Development Strategy and the government's social economy action plan.

Moreover, the government intervenes financially to stimulate the economy primarily through tax incentives and Investissement Québec. For example:

- the Ministère des Finances has issued ten qualification certificates relating to the enhanced tax holiday for large investment projects since it was introduced. These ten projects represent potential investments totalling $5.4 billion;
- since April 1, 2014, Investissement Québec has carried out financial transactions relating to economic development totalling over $3 billion.

CONTINUATION OF EFFORTS TO REDUCE THE DEBT

Reducing the debt burden is a priority for the government. The government is maintaining its debt reduction objectives and continuing the related efforts by making deposits of dedicated revenues in the Generations Fund.

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.

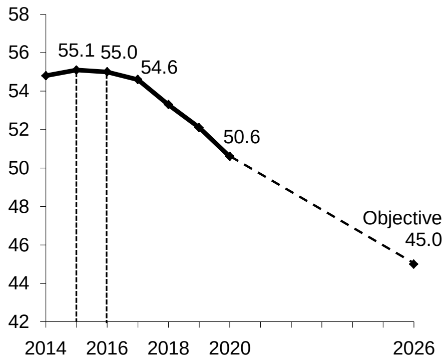
As of the current fiscal year, the gross debt burden will decline. As at March 31, 2016, it will be 55.0% of GDP, a 0.1-percentage-point decrease over March 31, 2015.

As at March 31, 2016, the debt representing accumulated deficits will stand at 31.6% of GDP, also a decrease over March 31, 2015.

CHART 4

Gross debt as at March 31

(as a percentage of GDP)

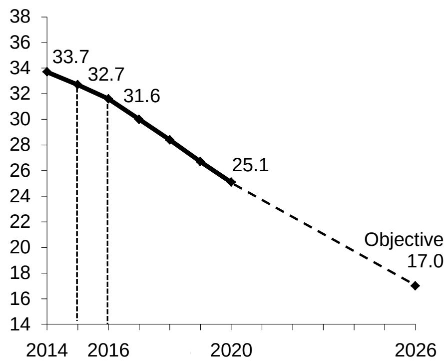


Note: The gross debt excludes pre-financing and takes into account the sums accumulated in the Generations Fund.

CHART 5

Debt representing accumulated deficits as at March 31

(as a percentage of GDP)



A HIGH LEVEL OF PUBLIC CAPITAL INVESTMENTS

To meet Québec's significant needs for quality public infrastructure, the government will maintain a high level of public capital investments under the Québec Infrastructure Plan (QIP).

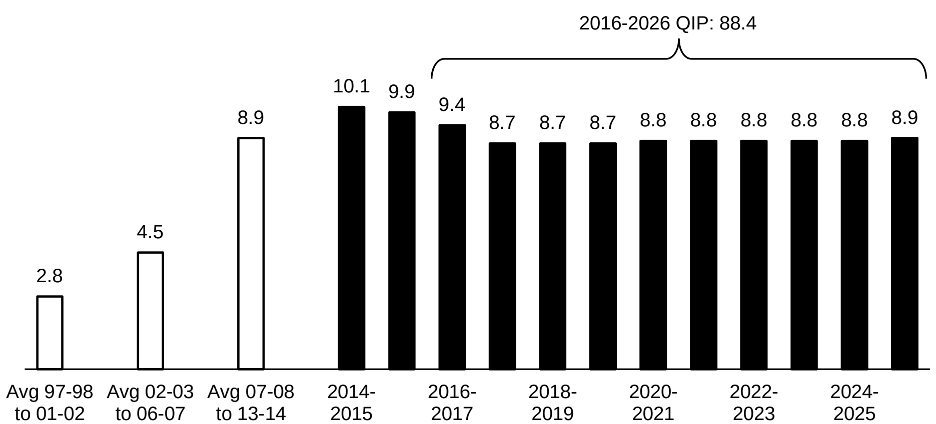
— Accordingly, investments under the 2016-2026 QIP will total $88.4 billion, the same level as under the 2015-2025 QIP.

— Capital investments for 2016-2017 are expected to reach $9.4 billion.

The high level of public investment planned for the coming years will provide significant support for economic activity and job creation in every region of Québec.

CHART 6

Investments under the 2016-2026 Québec Infrastructure Plan
(billions of dollars)



Section A

QUÉBEC'S FINANCIAL SITUATION

INTRODUCTION

As soon as it took power in April 2014, the government established two central policy directions to guide its action:

- the return to sound and balanced public finances;
- the creation of favourable conditions for economic growth.

The November 2015 update of the Québec Economic Plan confirms that the government is on track to balance the budget and has taken significant steps to support economic growth.

This section provides an overview of Québec's financial situation.[1] It shows:

- recent change in the economic and budgetary situation;
  - Economic growth is continuing in Québec, primarily driven by household consumption and strong export performance.
  - The efforts made since June 2014 have enabled the government to solidify Québec's financial situation.
    - The actual results for 2014-2015 are better than anticipated, with a budgetary deficit of $1.1 billion, which is half the forecast deficit.
    - The government expects to balance the budget in 2015-2016, after six consecutive years of deficit.
- the outlook for the coming years.
  - A balanced budget will be maintained in the years thereafter through spending control that respects changes in revenue.
  - Capital investments are being maintained at high levels while continuing efforts to reduce the debt.

[1] The budgetary data presented throughout this section for 2015-2016 and subsequent years are forecasts.

1. RECENT CHANGE IN THE ECONOMIC AND BUDGETARY SITUATION

The November 2015 update of the Québec Economic Plan is an opportunity for the government to follow up on the economic and fiscal policy directions set out last March, namely:

- implementation of an economic plan to foster growth in the economy and employment;
- return to a balanced budget as of this year, that is, 2015-2016;
- alignment of spending growth with taxpayers' ability to pay;
- adequate funding of public services, including an additional investment in education as of 2015-2016;
- maintenance of a high level of public capital investments;
- ongoing debt reduction, a commitment to future generations;
- reduction of the tax burden on taxpayers.

1.1 Economic growth is continuing in Québec

Economic growth is continuing in Québec. A rate of 1.5% growth is expected in 2015, the same as in 2014, despite a slowdown in the Canadian and global economies.

In 2015, real GDP growth is driven mainly by household consumption and strong export performance.

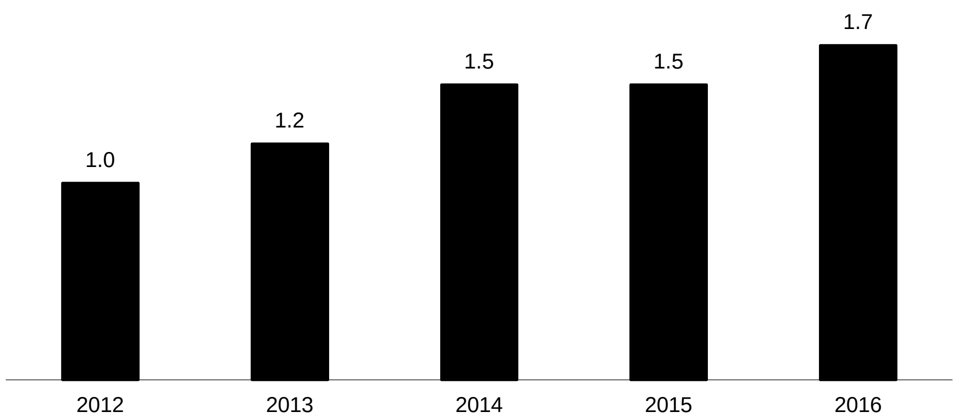
- Household consumption is expected to rise by 1.9% in real terms, with consumers benefiting from, among other things, wages as a result of employment growth and the positive effects of lower fuel prices.
- International exports of goods continue to register robust growth, increasing by 6.4% in the first eight months of 2015 after gaining 10.9% in 2014.

The pace of economic growth in Québec will accelerate to 1.7% in 2016.

- Next year, job creation will continue to drive household consumption. In addition, growth in exports will be fuelled by the strengthening U.S. economy and low Canadian dollar.
- These conditions will create a favourable climate for investment. As a result, non-residential business investment is expected to make a greater contribution to economic expansion.
  - Sustained growth in exports and household consumption will spur businesses to spend more to increase their production capacities.

CHART A.1

Economic growth in Québec
(real GDP, percentage change)



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

In Québec, economic growth in 2015 is expected to be similar to that of 2014, i.e. 1.5%, whereas it is expected to decelerate in most other jurisdictions, with the notable exception of the United States.

Moreover, the economic outlook for 2015 and 2016 has been revised downward for all jurisdictions.

Compared with the March 2015 budget, real GDP growth in Québec has been adjusted downward by 0.5 percentage point for 2015, to 1.5%. Growth is expected to accelerate in 2016 to 1.7%, 0.3 percentage point less than forecast last March. Similar adjustments have been made to the growth forecasts for the United States, Canada, Ontario and elsewhere in the world.

TABLE A.1

Economic growth outlook
(real GDP, percentage change and percentage point adjustment)

	2014	2015	2016
Québec			
– November 2015 Update	1.5	1.5	1.7
– Budget 2015-2016		2.0	2.0
– *Adjustment*		*−0.5*	*−0.3*
Canada			
– November 2015 Update	2.5	1.2	1.8
– Budget 2015-2016		2.0	2.2
– *Adjustment*		*−0.8*	*−0.4*
Ontario			
– Private sector(1)	2.7	2.0	2.4
– Ontario budget 2015-2016		2.7	2.4
– *Adjustment*		*−0.7*	*0.0*
United States			
– November 2015 Update	2.4	2.4	2.6
– Budget 2015-2016		2.9	2.7
– *Adjustment*		*−0.5*	*−0.1*
World			
– November 2015 Update	3.4	3.0	3.3
– Budget 2015-2016		3.4	3.6
– *Adjustment*		*−0.4*	*−0.3*

(1) Ministère des Finances du Québec summary as of November 10, 2015, which includes the forecasts of 9 private sector institutions.

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

1.2 Balanced budget projected for 2015-2016 and the years thereafter

The November 2015 update of the Québec Economic Plan still projects the return to a balanced budget as of 2015-2016.

❑ A balanced budget in 2015-2016

In order to balance the budget, spending growth will be kept below revenue growth.

— Consolidated expenditure will grow by 2.7% in 2015-2016 and 2.2% in 2016-2017. For the same two years, consolidated revenue will grow by 4.1% and 3.3%, respectively.

The government will keep the budget balanced every year while continuing to make deposits of dedicated revenues in the Generations Fund.

— Those deposits will total $1 496 million in 2015-2016 and $2 158 million in 2016-2017.

TABLE A.2

Consolidated summary financial framework – November 2015 Update
(millions of dollars)

	2015-2016	2016-2017	2017-2018
Own-source revenue	80 513	82 989	85 001
% change	*4.0*	*3.1*	*2.4*
Federal transfers	19 351	20 130	20 612
% change	*4.4*	*4.0*	*2.4*
Consolidated revenue	**99 864**	**103 119**	**105 613**
% change	***4.1***	***3.3***	***2.4***
Expenditure	−88 091	−89 860	−91 738
% change	*3.0*	*2.0*	*2.1*
Debt service	−10 277	−10 701	−10 814
% change	*0.1*	*4.1*	*1.1*
Consolidated expenditure	**−98 368**	**−100 561**	**−102 552**
% change	***2.7***	***2.2***	***2.0***
Contingency reserve	—	−400	−400
SURPLUS (DEFICIT)	**1 496**	**2 158**	**2 661**
BALANCED BUDGET ACT			
Deposits of dedicated revenues in the Generations Fund	−1 496	−2 158	−2 661
BUDGETARY BALANCE(1)	**—**	**—**	**—**

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

Actions to balance the budget in 2015-2016

In its June 2014 budget, the government evaluated the extent of the measures needed to restore fiscal balance. Without measures to put it on the right path, the deficit would have reached $7 274 million in 2015-2016.

- Budget 2014-2015 identified 50% of the effort, which essentially focused on controlling government spending, including spending by government departments and bodies, controlling staff levels and tightening tax expenditures.
- While still focusing efforts on spending control and reduction of tax expenditures, the December 2014 *Update on Québec's Economic and Financial Situation* identified additional measures representing 34% of the required effort.
- Expenditure Budget 2015-2016 set out the remainder of the efforts required, totalling $1 187 million.

Actions to balance the budget in 2015-2016
(millions of dollars)

BUDGETARY BALANCE BEFORE MEASURES	**−7 274**	**Share of identified effort**
MEASURES – BUDGET 2014-2015		
Control of government spending	3 078	
Reduction of tex expenditures	348	
Use of the contingency reserve	200	
Total measures – Budget 2014-2015	**3 626**	**50%**
MEASURES – 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 measures – December 2014	**2 461**	**34%**
MEASURES – EXPENDITURE BUDGET 2015-2016	**1 187**	**16%**
BUDGETARY BALANCE – BUDGET 2015-2016	**—**	**100%**

Sources: Secrétariat du Conseil du trésor and Ministère des Finances du Québec.

1.2.1 Deficit for 2014-2015 less than half the forecast figure

The results published in the Public Accounts 2014-2015 show a budgetary deficit of $1 143 million for fiscal 2014-2015 after deposits were made in the Generations Fund.

— That figure is $1 207 million lower than the $2 350-million deficit forecast in the March 2015 budget. The decrease is primarily the result of lower-than-expected spending.

Compared with the set targets, the results show a $362-million reduction in program spending and an $884-million decrease in spending by special funds and government bodies.

Consolidated revenue has been adjusted downward by $76 million. A $181-million downward adjustment to revenue from federal transfers used primarily to fund municipal infrastructure work[2] was partially offset by an increase in own-source revenue and revenue from government enterprises.

TABLE A.3

Adjustments for 2014-2015 compared with Budget 2015-2016
(millions of dollars)

	2014-2015		
	Budget 2015-2016	**Adjustment**	**Actual results**
Consolidated revenue			
Own-source revenue	72 027	35	72 062
Government enterprises	5 266	70	5 336
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% change	***2.3***	***−1.4***	***0.9***
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BALANCED BUDGET ACT			
Deposits of dedicated revenues in the Generations Fund	−1 253	−26	−1 279
BUDGETARY BALANCE(2)	**−2 350**	**1 207**	**−1 143(3)**
As a % of GDP	***−0.6***	***0.3***	***−0.3***

(1) Including consolidation adjustments.
(2) Budgetary balance within the meaning of the *Balanced Budget Act*.
(3) Budgetary balance excluding the impact of accounting changes. Including accounting changes totalling $418 million, the budgetary balance is a deficit of $725 million.

2 The decline in revenue from federal transfers is the result of delays in infrastructure projects and is accompanied by an equivalent reduction in other consolidated expenditure.

Evolution of budgetary balances in Canada, 2014-2015

Québec is among the provinces whose situation has improved over the last budget forecasts for 2014-2015.

Like Québec, British Columbia and the federal government ended fiscal year 2014-2015 with a better-than-expected budgetary balance.

Seven Canadian jurisdictions (six provinces plus the federal government) saw an improvement in their budgetary balances relative to budget forecasts.

Other provinces saw a deterioration in their budgetary balance relative to the figures projected in their 2015-2016 budget.

Budgetary balance for fiscal year 2014-2015
(millions of dollars)

		Adjustment		
	Budget forecast	$ millions	% of total consolidated revenue	Public Accounts 2014-2015
Alberta	248	867	1.8	1 115
British Columbia	879	804	1.7	1 683
Federal government	−2 000	3 911	1.4	1 911
Québec(1)	**−2 350**	**1 207**	**1.3**	**−1 143(2)**
Prince Edward Island	−35	14	0.8	−20
Ontario	−10 933	618	0.5	−10 315
Saskatchewan	41	21	0.2	62
Manitoba	−424	−28	−0.2	−452
Nova Scotia	−102	−42	−0.4	−144
New Brunswick	−255	−133	−1.6	−389

Note: Newfoundland and Labrador has not tabled its public accounts 2014-2015 yet.
(1) Budgetary balance within the meaning of the *Balanced Budget Act*.
(2) Budgetary balance excluding the impact of accounting changes. Including accounting changes totalling $418 million, the budgetary balance is a deficit of $725 million.

1.2.2 Summary of adjustments to the financial framework

Overall, the November 2015 update of the Québec Economic Plan shows that few adjustments have been made to the financial framework since the March 2015 budget.

Adjustments to revenue and expenditure offset each other and leave the budgetary balance in the financial framework unchanged.

- For 2015-2016, downward adjustments to the economic outlook reduce own-source revenue, revenue from government enterprises and federal transfers.
  - The adjustments to revenue from government enterprises are largely attributable to the decrease in Hydro-Québec's results after accounting for the assessed impact of its compliance with IFRS[3] accounting standards.
  - These adjustments are offset by a decrease in the government's debt service and tight control of consolidated entities expenditure.
- As of 2016-2017, the negative adjustments to own-source revenue and revenue from government enterprises are offset by a decrease in the government's debt service and a projected increase in revenue from federal transfers due to updating of data used for their calculation.
- In order to improve academic success, the government is investing additional amounts to increase teaching staff and professional and technical resources, in particular in underprivileged and devitalized communities. The additional resources are equivalent to $80 million annually.

TABLE A.4

Adjustments to the financial framework since Budget 2015-2016
(millions of dollars)

	2015-2016	2016-2017	2017-2018
BUDGETARY BALANCE – BUDGET 2015-2016	**—**	**—**	**—**
ADJUSTMENTS RELATED TO THE ECONOMY			
Own-source revenue	−29	−170	−127
Government enterprises	−46	−103	−198
Federal transfers	−131	142	176
Debt service	175	142	180
SUBTOTAL – ADJUSTMENTS RELATED TO THE ECONOMY	**−31**	**11**	**31**
Additional investment in education	—(1)	−80	−80
Consolidated entities and other adjustments	31	69	49
BUDGETARY BALANCE – NOVEMBER 2015	**—**	**—**	**—**

(1) For fiscal 2015-2016, the additional budget of $20 million for education is financed by assets made available elsewhere in the government's program spending.

3 International Financial Reporting Standards (IFRS).

2. ECONOMIC AND FISCAL OUTLOOKS

This section presents the government's economic and fiscal outlooks for fiscal years 2015-2016 to 2019-2020.

2.1 The government's five-year financial framework

The financial framework contained in the November 2015 update of the Québec Economic Plan provides for a balanced budget as of 2015-2016.

— In order to balance the budget in 2015-2016, consolidated revenue growth stands at 4.1%, whereas growth in consolidated expenditure is projected to be below that, at 2.7%.

— Once fiscal balance has been restored, revenue growth will slightly exceed expenditure growth for the period covered by the financial framework, enabling the government to continue making deposits of dedicated revenues in the Generations Fund.

  — Those deposits will total \$1 496 million in 2015-2016 and \$2 158 million in 2016-2017.

The financial framework also provides for a contingency reserve of \$400 million a year starting in 2016-2017.

TABLE A.5

Consolidated financial framework for 2014-2015 to 2019-2020

(millions of dollars)

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
Consolidated revenue						
Personal income tax	27 547	28 251	29 474	30 532	31 666	32 799
Contributions for health services	6 397	6 462	6 529	6 298	6 264	6 232
Corporate taxes	5 837	6 432	6 703	6 935	7 141	7 231
School property tax	1 954	2 044	2 137	2 206	2 271	2 335
Consumption taxes	17 557	18 610	18 688	19 084	19 342	19 525
Duties and permits	2 521	2 805	2 805	2 705	2 652	2 696
Miscellaneous revenue	8 970	9 602	9 803	10 005	10 251	10 559
Government enterprises	5 336	4 811	4 692	4 575	4 518	4 719
Generations Fund revenue	1 279	1 496	2 158	2 661	3 025	3 386
Own-source revenue	**77 398**	**80 513**	**82 989**	**85 001**	**87 130**	**89 482**
% change	***3.6***	***4.0***	***3.1***	***2.4***	***2.5***	***2.7***
Federal transfers	18 539	19 351	20 130	20 612	20 852	21 424
% change	*−0.1*	*4.4*	*4.0*	*2.4*	*1.2*	*2.7*
Total consolidated revenue	**95 937**	**99 864**	**103 119**	**105 613**	**107 982**	**110 906**
% change	***2.9***	***4.1***	***3.3***	***2.4***	***2.2***	***2.7***
Consolidated expenditure						
Expenditure	−85 531	−88 091	−89 860	−91 738	−93 514	−95 788
% change	*1.4*	*3.0*	*2.0*	*2.1*	*1.9*	*2.4*
Debt service	−10 270	−10 277	−10 701	−10 814	−11 043	−11 332
% change	*−3.1*	*0.1*	*4.1*	*1.1*	*2.1*	*2.6*
Total consolidated expenditure	**−95 801**	**−98 368**	**−100 561**	**−102 552**	**−104 557**	**−107 120**
% change	***0.9***	***2.7***	***2.2***	***2.0***	***2.0***	***2.5***
Contingency reserve	—	—	−400	−400	−400	−400
SURPLUS (DEFICIT)	**136**	**1 496**	**2 158**	**2 661**	**3 025**	**3 386**
BALANCED BUDGET ACT						
Deposits of dedicated revenues in the Generations Fund	−1 279	−1 496	−2 158	−2 661	−3 025	−3 386
BUDGETARY BALANCE(1)	**−1 143(2)**	**—**	**—**	**—**	**—**	**—**

(1) Budgetary balance within the meaning of the *Balanced Budget Act*.
(2) Budgetary balance excluding the impact of accounting changes. The budgetary balance including accounting changes totalling $418 million is a deficit of $725 million.

Financial framework for the general fund and consolidated entities

Financial framework for the general fund and consolidated entities from 2014-2015 to 2019-2020
(millions of dollars)

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
GENERAL FUND						
Revenue						
Own-source revenue excluding government enterprises	49 375	52 250	54 070	55 731	57 349	58 762
% change	*2.8*	*5.8*	*3.5*	*3.1*	*2.9*	*2.5*
Government enterprises	5 336	4 811	4 692	4 575	4 518	4 719
% change	*1.8*	*−9.8*	*−2.5*	*−2.5*	*−1.2*	*4.4*
Federal transfers	16 830	17 191	18 143	18 729	19 129	19 775
% change	*1.8*	*2.1*	*5.5*	*3.2*	*2.1*	*3.4*
Total revenue	**71 541**	**74 252**	**76 905**	**79 035**	**80 996**	**83 256**
% change	***2.5***	***3.8***	***3.6***	***2.8***	***2.5***	***2.8***
Expenditure						
Program spending	−65 342	−66 460	−67 969	−69 868	−71 802	−73 802
% change	*1.6*	*1.7*	*2.3*	*2.8*	*2.8*	*2.8*
Debt service	−8 150	−8 156	−8 473	−8 386	−8 252	−8 242
% change	*−3.4*	*0.1*	*3.9*	*−1.0*	*−1.6*	*−0.1*
Total expenditure	**−73 492**	**−74 616**	**−76 442**	**−78 254**	**−80 054**	**−82 044**
% change	***1.0***	***1.5***	***2.4***	***2.4***	***2.3***	***2.5***
NET RESULTS OF CONSOLIDATED ENTITIES						
Non-budget-funded bodies and special funds(1)	870	396	28	−5	6	−70
Reduction in the tax burden(2)	—	—	−81	−376	−548	−742
Health and social services and education networks	−62	−32	−10	—	—	—
Generations Fund	1 279	1 496	2 158	2 661	3 025	3 386
Total consolidated entities	**2 087**	**1 860**	**2 095**	**2 280**	**2 483**	**2 574**
Contingency reserve	—	—	−400	−400	−400	−400
SURPLUS (DEFICIT)	**136**	**1 496**	**2 158**	**2 661**	**3 025**	**3 386**
BALANCED BUDGET ACT						
Deposits of dedicated revenues in the Generations Fund	−1 279	−1 496	−2 158	−2 661	−3 025	−3 386
BUDGETARY BALANCE (3)	**−1 143(4)**	**—**	**—**	**—**	**—**	**—**

Note: Changes in the revenue of the general fund are presented in detail on page D.24 of Section D of this document.
(1) Including consolidation adjustments.
(2) Decrease in revenue stemming from the phasing out of the progressive health contribution.
(3) Budgetary balance within the meaning of the *Balanced Budget Act*.
(4) Budgetary balance excluding the impact of accounting changes. Including accounting changes totalling $418 million, the budgetary balance is a deficit of $725 million.

❑ Change in revenue and expenditure in the economy

The economic weights of government revenue and expenditure generally follow similar paths. A surplus occurs when revenue outweighs expenditure. A deficit occurs when expenditure outweighs revenue.

In Québec, between 2007-2008 and 2013-2014:

— the weight of consolidated revenue in the economy rose from 25.1% to 25.8%;

— the weight of consolidated expenditure increased from 24.4% to a high of 26.3%.

During the same period, expenditure outstripped revenue.

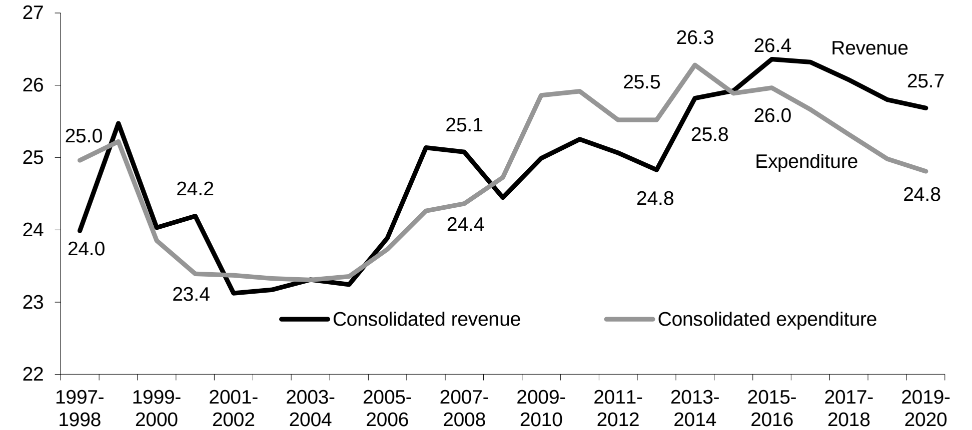
Once fiscal balance has been restored, the reduction in the tax burden announced in the Québec Economic Plan of March 2015 will help gradually return total revenue as a share of the economy to 25.7% in 2019-2020, a level close to that of 2007-2008, i.e. before the 2009 recession.

The weight of expenditure in the economy will gradually return to 24.8% in 2019-2020, a similar level to that prior to the recession.

— Revenue will continue to outweigh expenditure so that deposits can be made in the Generations Fund. Those deposits are necessary to reduce the debt and ensure intergenerational equity.

CHART A.2

Change in consolidated revenue and expenditure in the economy
(as a percentage of GDP)



Source: Ministère des Finances du Québec.

2.2 Change in revenue

❑ Revenue growth in line with economic growth

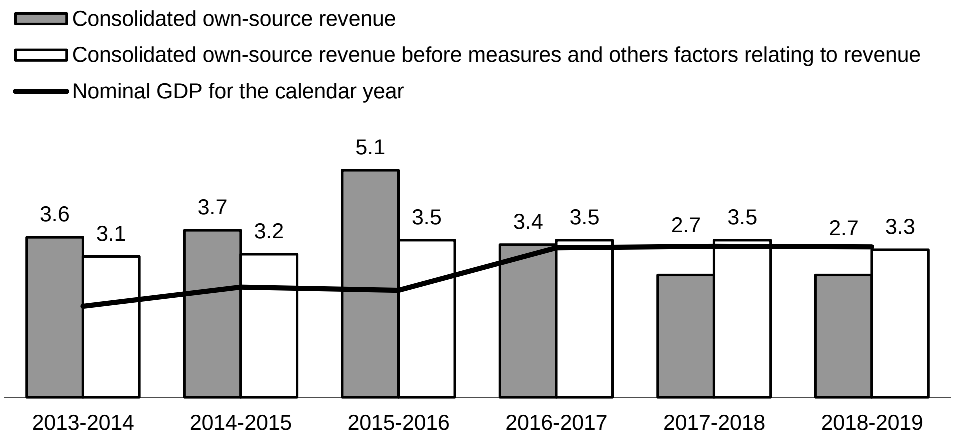
Own-source revenue excluding government enterprises consists chiefly of tax revenue. Its growth generally reflects the changes in economic activity and the effects of measures put in place to spur revenue growth.

In 2015-2016, growth in consolidated own-source revenue excluding government enterprises will stand at 5.1%, a more sustained growth rate than in 2014-2015, when revenue rose by 3.7%.

The growth in revenue in 2015-2016 is primarily a reflection of the government's revenue-raising measures, including those announced in the December 2014 *Update on Québec's Economic and Financial Situation*. Had it not been for those measures, forecast growth in consolidated own-source revenue would be 3.5%, closer to the growth in nominal GDP.

CHART A.3

Growth in consolidated own-source revenue excluding government enterprises
(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	74 723	77 398	80 513	82 989	85 001	87 130
% change	*3.5*	*3.6*	*4.0*	*3.1*	*2.4*	*2.5*
Government enterprises	5 242	5 336	4 811	4 692	4 575	4 518
Own-source revenue excluding government enterprises	**69 481**	**72 062**	**75 702**	**78 297**	**80 426**	**82 612**
% change	***3.6***	***3.7***	***5.1***	***3.4***	***2.7***	***2.7***
Measures and other factors affecting revenue growth(1)						
Budget 2015-2016						
– Phasing out of the health contribution beginning January 1, 2017	—	—	—	−81	−376	−548
– Other measures	—	—	1	−17	−70	−139
December 2014 Update	—	120	626	685	563	569
Budget 2014-2015	—	333	304	278	259	247
Other measures(2) and adjustments	370	297	929	1 019	1 019	1 079
Elimination of restrictions on input tax refunds for large businesses(3)	—	—	—	—	−55	−275
Subtotal	**370**	**749**	**1 859**	**1 883**	**1 341**	**933**
Own-source revenue excluding government enterprises before measures	**69 111**	**71 313**	**73 843**	**76 414**	**79 085**	**81 679**
% change	***3.1***	***3.2***	***3.5***	***3.5***	***3.5***	***3.3***
Nominal GDP growth	***2.0***	***2.5***	***2.4***	***3.3***	***3.4***	***3.3***

Note: Totals may not add due to rounding.
(1) Main measures affecting consolidated revenue growth.
(2) Primarily the measures in budgets 2012-2013 and 2013-2014.
(3) Businesses with taxable sales of over $10 million.

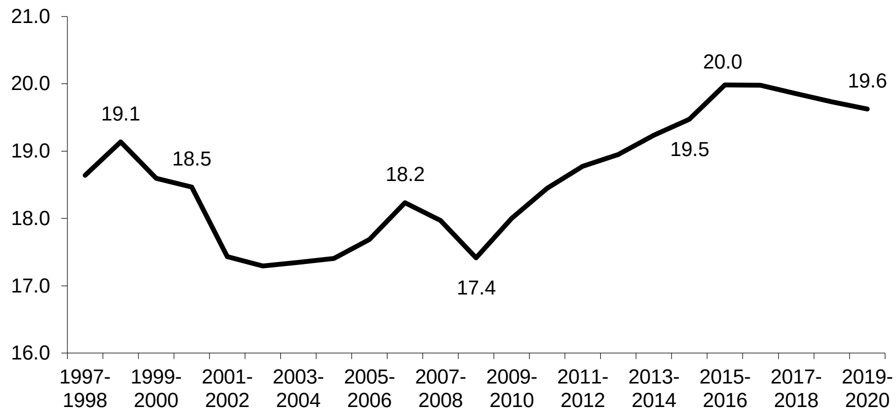
Change in consolidated own-source revenue as a percentage of nominal GDP

In 2015-2016, consolidated own-source revenue excluding revenue from government enterprises will represent 20.0% of Québec's nominal GDP, a higher share than in 2014-2015 (19.5%).

The increase reflects the measures implemented to balance the budget in 2015-2016, in particular those announced in the December 2014 *Update on Québec's Economic and Financial Situation*.

The measures announced in the March 2015 budget, especially the phasing out of the health contribution beginning in January 2017, will gradually reduce the share of own-source revenue in the economy to 19.6% in 2019-2020.

Change in consolidated own-source revenue excluding government enterprises in the economy
(as a percentage of nominal GDP)



Source: Ministère des Finances du Québec.

2.3 Change in expenditure

In 2014-2015, spending growth was reduced to below the rate seen in recent years, bringing it more in line with taxpayers' ability to pay.

Government efforts since the June 2014 budget will rein in spending growth and keep it slightly below revenue growth.

Starting in 2016-2017, continued spending control will enable the government to gradually reduce the tax burden on taxpayers and continue taking steps to reduce the debt burden.

❑ 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.

The Public Accounts 2014-2015 put consolidated expenditure excluding debt service at $85 531 million, which is $1 246 million less than forecast in the March 2015 budget.

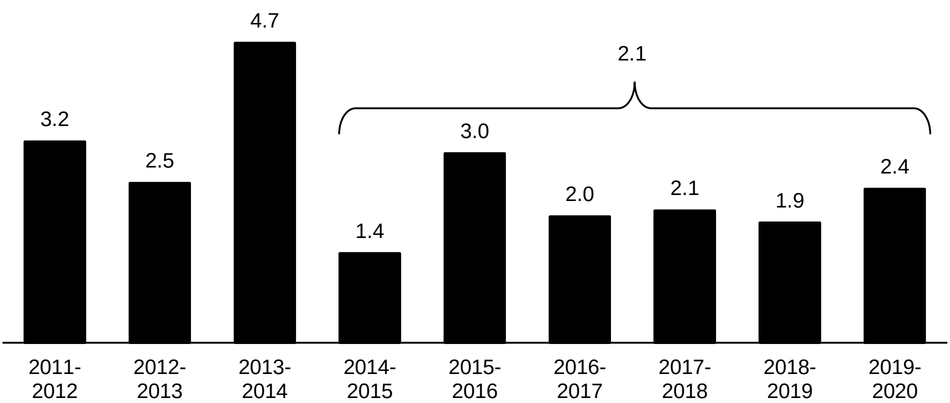
— Consequently, the growth rate for 2014-2015 has been adjusted downward by 1.5 percentage points, from 2.9% in March 2015 to 1.4% in November.

— Consolidated expenditure for 2015-2016 is unchanged, standing at $88 091 million. However, the drop in expenditure recorded in 2014-2015 raises the 1.5% growth forecast in the March 2015 budget to 3.0% in November 2015 for 2015-2016.

Consolidated expenditure will grow at an average annual rate of 2.1% from 2014-2015 to 2019-2020 inclusively.

CHART A.4

Consolidated expenditure growth excluding debt service
(per cent)



Reduction of the weight of spending in the economy to its pre-recession level

Between 2007-2008 and 2013-2014, the economic weight of spending on government missions, i.e. consolidated expenditure excluding debt service as a percentage of GDP, rose from 21.5% to 23.3%.

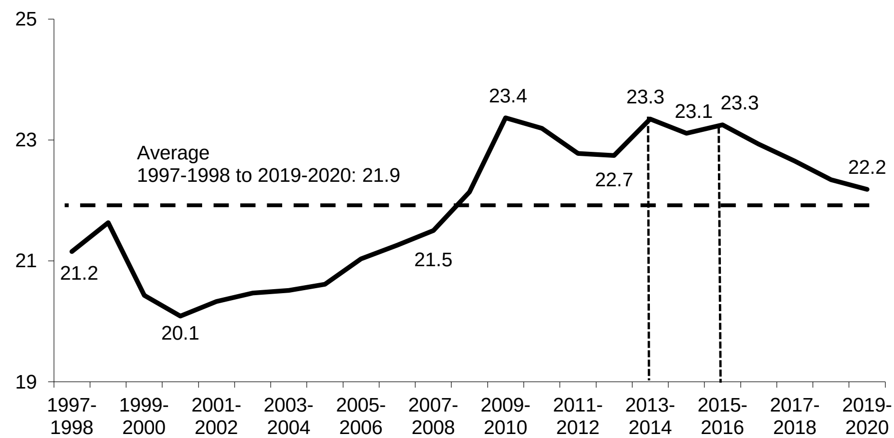
The government adopted disciplined spending management to restore fiscal balance in 2015-2016.

Without jeopardizing economic growth, spending will be controlled so as to gradually lower the share of spending on government missions to 22.2% by 2019-2020. This is equivalent to the level prior to the 2009 recession and is more sustainable.

Lower spending levels will:

- 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;
- provide the government with the capacity, during difficult economic times, to once again finance an expansionary policy to boost the economy where necessary.

Change in consolidated expenditure excluding debt service in the economy
(as a percentage of GDP)



Source: Ministère des Finances du Québec.

❑ Program spending

Program spending consists of spending by government departments and is mainly tax-funded.

■ Lower-than-forecast spending growth in 2014-2015

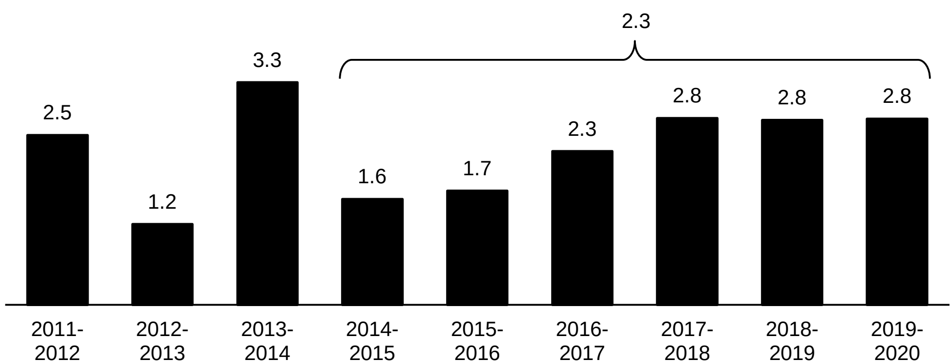
The Public Accounts 2014 2015 show program spending to be $65 342 million, which is $362 million less than forecast in March. Consequently, spending growth in 2014-2015 has been adjusted downward by 0.5 percentage point from 2.1% in March 2015 to 1.6% in November 2015.

The program spending target is unchanged for 2015-2016, that is, $66 460 million. Owing to the lower spending recorded in 2014-2015, growth for 2015-2016 now stands at 1.7%, compared with the 1.2% growth forecast in March.

Taking into account the additional investment in education, growth stands at 2.3% in 2016-2017 and 2.8% for subsequent years.

CHART A.5

Program spending growth
(per cent)



❑ Academic success: a priority in education

Through efficient spending management, the government is able to raise investments in education, prioritizing academic success.

In order to improve academic success, the government is investing additional amounts to increase teaching staff and professional and technical resources, in particular in underprivileged and devitalized communities.

Another $80 million will be added annually to the education budget. By the end of 2015-2016, this additional investment represents $20 million.

TABLE A.6

Program spending in education from 2014-2015 to 2016-2017
(millions of dollars)

	2014-2015	2015-2016[1]			2016-2017		
	Actual results	**Budget 2015-2016**	**Change**	**November 2015**	**Budget 2015-2016**	**Change**	**November 2015**
Total spending program	**65 342**	**66 460**	**—**	**66 460**	**67 889**	**80**	**67 969**
% change		***1.2***		***1.7***	***2.2***		***2.3***
Including :							
Éducation, Enseignement supérieur et Recherche	16 792	16 926	20	16 946	17 196	80	17 276
% change		*0.2*		*0.9*	*1.6*		*1.9*

(1) For fiscal 2015-2016, the additional budget of $20 million for education is financed by assets made available elsewhere in the government's program spending.

A comparative look at spending

The forecast spending growth in Québec is similar to the growth trend elsewhere in Canada.

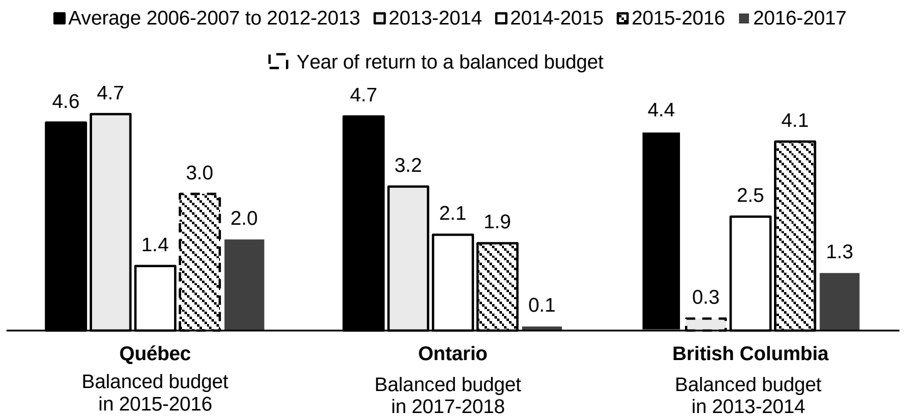
To ensure the return to a balanced budget in 2015-2016, Québec is slowing growth in its consolidated expenditure excluding debt service to 3.0% in 2015-2016 and 2.0% in 2016-2017, below the average growth rate of 4.6% registered from 2006-2007 to 2012-2013.

Ontario, which expects to balance its budget in 2017-2018, also expects to reduce spending growth to rates of 1.9% in 2015-2016 and 0.1% in 2016-2017.

British Columbia has already balanced its budget. In 2013-2014, the year fiscal balance was restored, spending rose just 0.3%.

- British Columbia forecasts spending growth rates of 4.1% in 2015-2016 and 1.3% in 2016-2017. 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: Department of Finance Canada and Ministère des Finances du Québec.

2.4 Reduction of the debt burden

Reducing the debt burden is a priority for the government. The government is maintaining its debt reduction objectives and continuing the related efforts by making deposits of dedicated revenues in the Generations Fund.

The *Act to reduce the debt and establish the Generations Fund*, passed unanimously by the National Assembly, 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.

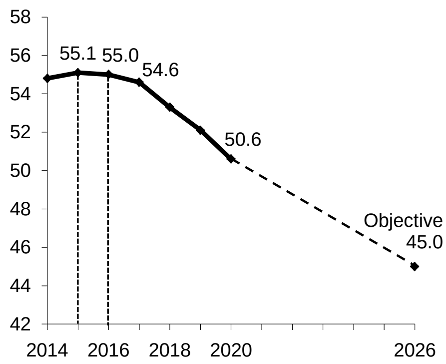
As of the current fiscal year, the gross debt burden will decline. As at March 31, 2016, it will be 55.0% of GDP, a 0.1-percentage-point decrease over March 31, 2015.

As at March 31, 2016, the debt representing accumulated deficits will stand at 31.6% of GDP, also a decrease over March 31, 2015.

CHART A.6

Gross debt as at March 31

(as a percentage of GDP)

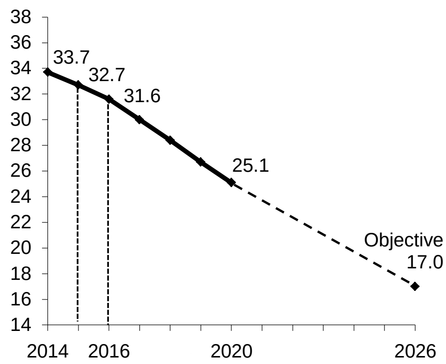


Note: The gross debt excludes pre-financing and takes into account the sums accumulated in the Generations Fund.

CHART A.7

Debt representing accumulated deficits as at March 31

(as a percentage of GDP)



2.5 Public capital investments

To meet Québec's significant needs for quality public infrastructure, the government will maintain a high level of public capital investments under the Québec Infrastructure Plan (QIP).

— Accordingly, investments under the 2016-2026 QIP will total $88.4 billion, the same level as under the 2015-2025 QIP.

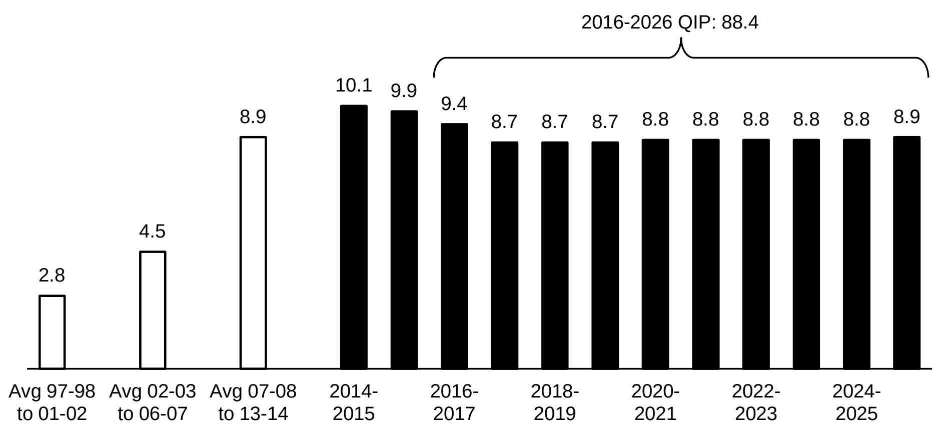
— Capital investments of $9.4 billion are expected in 2016-2017.

The high levels of investment in the coming years will be carried out giving priority to the replacement of outdated infrastructure and economic development projects.

The government is thus confirming that capital investment levels will remain high in order to meet Québec's needs while remaining within taxpayers' ability to pay and achieving the debt reduction objectives.

CHART A.8

Investments under the 2016-2026 Québec Infrastructure Plan
(billions of dollars)



Furthermore, in addition to the government's investments under the QIP, government enterprises also make substantial infrastructure investments.

In 2016-2017, investments by government enterprises are projected to be $4.1 billion. Added to the $9.4 billion under the QIP, this makes for a total of $13.5 billion in projected public capital investment in 2016-2017.

Section B

THE QUÉBEC ECONOMIC PLAN: ACTIONS ALREADY TAKEN TO FOSTER ECONOMIC RECOVERY

1. A PLAN TO MEET THE CHALLENGES OF ECONOMIC GROWTH

In the Québec Economic Plan, the government announced the actions it plans to take in the coming years to meet the challenges of economic growth.

While putting forward the means to restore public finances and achieve budget balance in 2015-2016, the government implemented measures to ease the tax burden on individuals and corporations in order to raise Quebecers' standard of living and stimulate private investment.

In addition, to act on the key determinants of economic growth, namely, increased employment and improved productivity, the Québec Economic Plan implements actions to:

— foster labour market performance through greater workforce participation in the job market and a better alignment between training and the needs of the labour market;

— stimulate private investment by easing the tax burden on corporations, fostering the development of strategic sectors of the economy and developing Québec's assets, in particular through implementation of the Maritime Strategy and deployment of the Plan Nord;

— ensure that all communities develop economically and socially, in particular through adequate funding of public infrastructure;

— support the development of Québec's cultural sector.

Main initiatives implemented under the Québec Economic Plan

Since Budget 2014-2015, over 150 initiatives have been announced to foster Québec's economic growth, in particular to improve the tax system, foster labour market performance and stimulate private investment.

Tax relief for individuals

- The first initiatives to ease the tax burden on individuals are scheduled to take effect as of January 1, 2016, namely:
  - the introduction of a tax shield;
  - the enhancement of the tax credit for experienced workers.
- In addition, the phasing out of the health contribution will begin on January 1, 2017.

Tax relief for businesses

- Reduction of the income tax rate of manufacturing SMBs from 8% to 4% as of April 1, 2015.
- Introduction of an additional deduction for transportation costs of manufacturing SMBs on June 5, 2014, and enhancement of the deduction as of January 1, 2015.
- Implementation of a holiday from the Health Services Fund (HSF) contribution until the end of 2020 to encourage the hiring of specialized workers.
- Reduction of the HSF contribution rate for SMBs in the primary and manufacturing sectors as of January 1, 2015.

New initiatives to foster labour market performance

- Increase in the threshold for mandatory participation in skills development under the *Act to promote workforce skills development and recognition* (1% law), from a total payroll of $1 million to $2 million, as of 2015.
- Increase in the tax credit for on-the-job training periods to encourage employers to hire interns more regularly.

Main initiatives implemented under the Québec Economic Plan (cont.)

New initiatives to stimulate private investment

- Introduction of the LogiRénov home renovation tax credit, for work carried out under an agreement entered into between April 24, 2014 and July 1, 2015.
- Creation, in November 2014, of Teralys Capital Innovation Fund, with $279 million, to invest in growing tech companies.
- Capitalization of the Anges Québec Capital fund in Budget 2014-2015 to support Québec entrepreneurship.
- Introduction, in Budget 2014-2015, of the Créativité Québec program, with an envelope of $150 million over three years.
- Introduction, on February 10, 2015, of an enhanced tax holiday for large investment projects of $100 million or more ($75 million in the regions).
- Announcement, in May 2015, of the new action plan for the social economy providing for investments of more than $100 million over the next five years.
- Launching of the second phase of the PME 2.0 program.
- Increased support for innovation (implementation of the Premier emploi en recherche, Premier brevet and Passeport innovation programs).
- Investment of $15 million to develop Québec intellectual property in the video game field.
- Contribution to participation in internships under the Mitacs Accelerate and Mitacs Elevate programs of the Stages d'innovation en entreprise 2015-2016 measure.
- Launching of the Québec Aluminum Industry Development Strategy in June 2015.

Support for the forest industry

- Broadening of the Fonds Valorisation Bois, with $170 million in capital, to include new investments in the pulp and paper sector.
- Measures to cut operating costs for 2015-2016 in the Côte-Nord region's forest industry.
- Creation, in May 2015, of the Fonds Biomasse Énergie I, with an envelope of $20.2 million, to accelerate the development of the residual forest biomass cluster in Québec.

Deployment of the Plan Nord

- Creation of the Société du Plan Nord, a new government corporation mandated to coordinate the relaunching of the Plan Nord, which began operations on April 1, 2015.
- Investment of nearly $45 million out of the $100 million provided for in Budget 2014-2015 to train Aboriginal peoples.

Main initiatives implemented under the Québec Economic Plan (cont.)

- Launching of the study relating to the development of a new rail line to improve access to the Labrador Trough.
- Continuation of the Tamaani project, which will maintain and improve satellite Internet services in Nunavik over the next five years.
- Commencement of the work to upgrade James Bay Road.

Launching of the Maritime Strategy

- Introduction, in Budget 2014-2015, of an additional capital cost allowance of 50% for construction or renovation work on vessels in Québec.
- Announcement, in Budget 2014-2015, of the creation of a tax-free reserve for Québec shipowners to fund maintenance, renovation or construction work carried out on vessels in a Québec shipyard.
- Support for marine tourism-related projects, including at the Parc national du Bic and the Parc de la Chute-Montmorency.
- Extension to December 31, 2020 of the tax credit for the Gaspésie and certain maritime regions of Québec, and enhancement of the credit for Îles-de-la-Madeleine.

Support for the aerospace sector

- Launch, on October 14, 2015, of a call for proposals for the second phase of the green aircraft catalyst project, providing for total investments of $80 million.
- Holding of preliminary consultations on the future Québec aerospace strategy in the fall of 2015.
- Announcement, on October 29, 2015, of a strategic investment of $1.3 billion in a new limited partnership to complete Bombardier's C Series program.

Development of the gas sector

- Announcement, on September 30, 2014, of an equity interest in Gaz Métro GNL to increase the capacity of its liquefaction plant in East-End Montréal.
- Investment of $5 million to finance an oil exploration program carried out by Junex for the Galt project.
- An investment of $3.8 million for natural gas exploration work by Pétrolia for the Bourque project.
- Investment of $17.5 million to carry out the project to extend the natural gas distribution network from Lévis to Sainte-Claire in the regional county municipality of Bellechasse.

1.1 Investments of over $3 billion currently under way

As part of the Québec Economic Plan of March 2015, the government provided for the injection of an additional $3.4 billion in the economy over the next five years, including $2.5 billion in the form of tax relief for individuals and corporations.

Several of the planned initiatives are currently under way. Actions have been taken to stimulate private investment, for example, in conjunction with the Maritime Strategy and the Plan Nord.

In addition, the first tax relief initiatives for individuals, such as the creation of a tax shield and the enhancement of the work incentives for experienced workers, will take effect as of January 1, 2016.

The November 2015 update of the Québec Economic Plan is a progress report on the initiatives currently under way.

TABLE B.1

Financial impact of the measures in the Québec Economic Plan of March 2015
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
Tax relief for individuals	—	−141.5	−446.0	−627.0	−800.5	−2 015.0
Tax relief for corporations	−10.9	−68.5	−80.0	−129.1	−215.7	−504.2
Subtotal	**−10.9**	**−210.0**	**−526.0**	**−756.1**	**−1 016.2**	**−2 519.2**
New initiatives to foster labour market performance	−25.6	−37.5	−33,9	−34.5	−34.6	−166.1
New initiatives to stimulate private investment	−42.6	−65.9	−106.3	−92.9	−98.6	−406.3
New initiatives for communities and culture	−41.9	−47.7	−42.1	−48.7	−128.8	−309.2
Subtotal	**−110.1**	**−151.1**	**−182.3**	**−176.1**	**−262.0**	**−881.6**
TOTAL	**−121.0**	**−361.1**	**−708.3**	**−932.2**	**−1 278.2**	**−3 400.8**

1.2 A significant impact on the Québec economy

Overall, the Québec Economic Plan, which aims to create an environment favourable to wealth creation and quality jobs, includes a number of measures announced as part of Budget 2014-2015, the 2014 Fall Update on Québec's Economic and Financial Situation, and the Québec Economic Plan of March 2015.

Taken together, the measures in the Québec Economic Plan will support investments of close to $22 billion in the economy, that is:

- $13.9 billion under the measures announced as part of the Québec Economic Plan of March 2015;
- $7.9 billion announced as part of Budget 2014-2015 and the 2014 Fall Update on Québec's Economic and Financial Situation.

The actions in the Québec Economic Plan of March 2015 alone will support the creation of an average of 20 000 jobs a year by 2019-2020. In addition, the investments generated by these actions are expected to result in additional nominal GDP growth averaging $1.7 billion a year.

- On average, these initiatives will represent annual support for economic growth equivalent to 0.4% of nominal GDP.

TABLE B.2

Support for the economy under the Québec Economic Plan measures
(millions of dollars)

	Investments supported
Québec Economic Plan of March 2015(1)	13 928
Budget 2014-2015 and *Update on Québec's Economic and Financial Situation – Fall 2014*	7 904
TOTAL	**21 832**

(1) Including the government's $1.3-billion investment in a new limited partnership for the continuation of Bombardier's C Series program.

1.3 Economic growth will be based on employment and productivity

The forecast for real GDP growth for Québec in 2015 and 2016 is 1.5% and 1.7%, respectively. The main drivers of economic growth, as measured by the increase in real GDP, are as follows:

— demographic growth, indicated by an increase in the population aged 15 to 64, who constitute the pool of potential workers;

— employment growth, reflected in an increased rate of employment, or, in other words, an increase in the proportion of the working-age population that is employed;

— improved productivity, that is, increased production per worker.

As the following table illustrates, before 2014 the increase in GDP was based more or less equally on the three factors listed above. However, the pool of potential workers recently stopped growing.

A higher employment rate and productivity growth are the main factors that will sustain economic growth going forward. To ensure that growth continues, the contribution made by these factors must be increased.

— In this context, the Québec Economic Plan seeks, among other things, to strengthen the contribution of employment and productivity to economic growth.

TABLE B.3

Economic growth factors in Québec
(average annual percentage change, and contribution in percentage points)

	Historical			Forecast			
	1982-2007	**2008-2013**	**2014**	**2015**	**2016**	**2017**	**2018-2020**
Real GDP (percentage change)	2.1	1.2	1.5	1.5	1.7	1.7	1.5
Growth factors (contribution):							
– Pool of potential workers(1)	0.6	0.6	−0.1	−0.1	−0.1	−0.1	−0.2
– Employment rate(2)	0.6	0.4	0.0	1.1	0.8	0.9	0.8
– Productivity(3)	0.8	0.3	1.6	0.5	1.0	0.9	0.9

Note: Totals may not add due to rounding.
(1) Population aged 15 to 64.
(2) Total number of workers among population aged 15 to 64.
(3) Real GDP by employment.
Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

2. TAX RELIEF FOR INDIVIDUALS AND CORPORATIONS

The Québec Economic Plan provides for major actions to ease the tax burden on taxpayers with funds made available by economic growth and disciplined management of public finances.

2.1 Reduction of $2 billion in the tax burden on Quebecers

The Québec Economic Plan of March 2015 provides for a series of measures to ease the tax burden on ndividuals. Thus, over the next four years, Quebecers will see a reduction of $2 billion in their tax burden, that is:

- $208 million through the introduction of a tax shield as of January 1, 2016;
- $60 million through the enhancement of the tax credit for experienced workers as of January 1, 2016;
- $1.7 billion from the gradual elimination of the health contribution as of January 1, 2017.

TABLE B.4

Change in the tax burden on individuals
(millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020	Total
Introduction of a tax shield as of January 1, 2016	−52.0	−52.1	−52.1	−52.3	**−208.5**
New enhancement of the tax credit for experienced workers as of January 1, 2016	−26.8	−56.4	−83.5	−83.2	**−249.9**
– Gradual increase in the age of eligibility for the tax credit with respect to age	18.0	38.0	57.0	77.0	**190.0**
Net impact: experienced workers	*−8.8*	*−18.4*	*−26.5*	*−6.2*	***−59.9***
Gradual elimination of the health contribution as of January 1, 2017	−80.7	−375.5	−548.4	−742.0	**−1 746.6**
REDUCTION IN THE TAX BURDEN	**−141.5**	**−446.0**	**−627.0**	**−800.5**	**−2 015.0**

2.1.1 **Tax shield**

Certain households are faced with a significant loss in tax benefits when they seek to increase their work income. The situation can become problematic if such a loss discourages members of a household from working more.

To increase the incentive to work, the Québec government announced that a tax shield would be put in place on January 1, 2016.

Thus, beginning on January 1, 2016, nearly 400 000 households will benefit from an additional $52 million in tax assistance a year.

Tax shield with respect to workers

The tax shield will be determined on the basis of the increase in a household's work income, up to a maximum of $2 500 ($5 000 for a couple).

Tax assistance will be offered to households in respect of the work premium and the tax credit for childcare expenses following an increase in work income.

Thus, an eligible household will receive tax assistance enabling it to recover up to 75% of the reduction in the work premium and the tax credit for childcare expenses.

Illustration of the impact of the tax shield for a couple with one child and a family income that increases from $40 000 to $45 000 – 2016
(dollars)

	Without the tax shield	With the tax shield	Gain with the tax shield
1. **Increase in work income**	**+5 000**	**+5 000**	**—**
2. Income tax payable	−800	−800	—
3. Mandatory contributions(1)	−953	−953	—
4. Socio-fiscal transfers			
– Work premium	−500	−125	375
– Tax credit for childcare expenses	−260	−65	195
– Other transfers(2)	−300	−300	—
5. **Increase in the tax burden (2 + 3 + 4)**	**−2 813**	**−2 243**	**570**
6. **Additional disposable income (1 + 5)**	**2 187**	**2 757**	**570**

(1) The contributions include prescription drug insurance, the contribution to the Health Services Fund, the health contribution, the contribution to the Québec parental insurance plan and the contribution to the Québec Pension Plan.
(2) The other transfers include child support, the solidarity tax credit, the shelter allowance program and the refundable tax credit for medical expenses.

❑ New tax benefit to encourage an additional work effort

The tax shield benefit will depend on a household's family situation (person living alone or family), the increase in the household's work income, the number of children in non-subsidized childcare and the level of family income.

For example, two parents with one child and a family income of $40 000 whose work income increases by $5 000 in 2016 will receive $570 in assistance, that is:

— $375 in respect of the work premium;

— $195 in respect of the tax credit for childcare expenses.

Following an increase in work income of $10 000 over three years, the tax shield will result in a total gain for the family of $1 075, that is:

— $570 in 2016;

— $290 in 2017;

— $215 in 2018.

TABLE B.5

Tax shield benefit for a couple with one child(1) and a family income that increases from $40 000 to $50 000 over three years
(dollars)

	2016	2017	2018	Total over three years
Increase in work income	**+$5 000**	**+$3 000**	**+$2 000**	**+$10 000**
Component associated with the work premium	375	225	150	**750**
Component associated with the tax credit for childcare expenses	195	65	65	**325**
TAX SHIELD	**570**	**290**	**215**	**1 075**

(1) A couple with one, three-year-old child in non-subsidized private childcare and two equal incomes.

A household with a family income of $140 000 will obtain a gain of $390 following a $5 000 increase in work income in 2016.

For a $10 000 increase in work income over three years, the household's total gain will reach $650, that is:

— $390 in 2016;

— $130 in 2017;

— $130 in 2018.

Compensation is lower than in the previous example, because of this household's higher income rendering it ineligible for the work premium.

TABLE B.6

Tax shield benefit for a couple with one child(1) and a family income that increases from $140 000 to $150 000 over three years
(dollars)

	2016	2017	2018	Total over three years
Increase in work income	**+$5 000**	**+$3 000**	**+$2 000**	**+$10 000**
Component associated with the work premium	—	—	—	**—**
Component associated with the tax credit for childcare expenses	390	130	130	**650**
TAX SHIELD	**390**	**130**	**130**	**650**

(1) A couple with one, three-year-old child in non-subsidized private childcare and two equal incomes.

2.1.2 Enhancement of the tax credit for experienced workers

The tax credit for experienced workers will be gradually increased as of January 1, 2016 as an added inducement to remain in the labour market.

❑ Additional tax assistance for experienced workers

As of January 1, 2016, workers 65 or over will see their maximum tax credit amount increase by $300 a year, from $602 in 2015 to $1 504 in 2018.

— Workers 64 years of age will receive new tax assistance of $602 as of 2016, which will reach $1 203 in 2018.

— Workers 63 years of age will become eligible in 2017, at which time they will receive tax assistance of $602, which will increase to $902 in 2018.

Once the enhancement is fully implemented, nearly 130 000 experienced workers will receive $83 million in additional tax assistance, for an average gain of $638 a year.

TABLE B.7

Maximum tax assistance under the tax credit for experienced workers, according to age and taxation year
(dollars)

	Currently	Maximum tax assistance		
	2015	**2016**	**2017**	**2018**
63 years	—	—	602	902
64 years	—	602	902	1 203
65 years or over	602	902	1 203	1 504

Income-based reduction of the tax assistance

To target the tax assistance to lower-income households, the tax credit will be reduced, at a certain income level,[1] to a rate of 5% for each additional dollar of work income.

However, workers who already receive the tax credit, namely, workers 65 or over in 2015, will not be affected by the reduction and will receive a tax credit at least equal to their current tax assistance.

1 The reduction threshold will be $33 505 for the 2016 taxation year.

2.1.3 **Gradual elimination of the health contribution**

The Québec Economic Plan of March 2015 provides for the gradual elimination of the health contribution over a three-year period beginning in 2017.

— Taxpayers who currently pay a health contribution of $100 will see their health contribution eliminated in 2017.

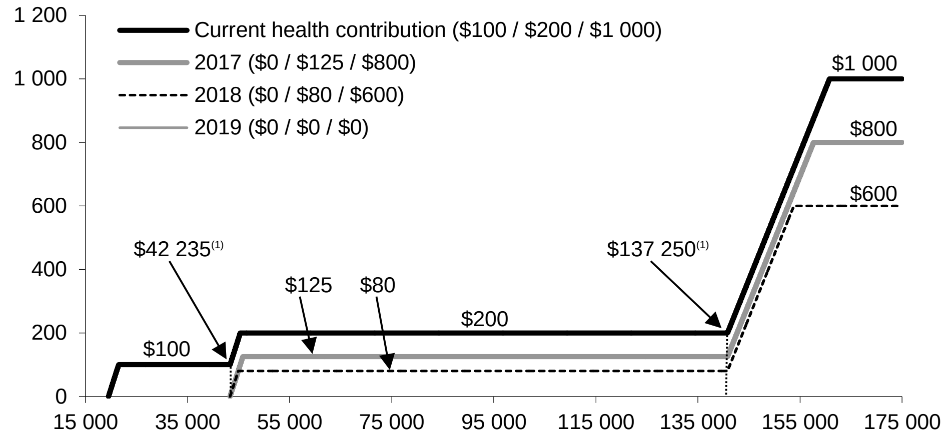
— Those who currently pay $200 will see their health contribution reduced to $125 in 2017 and to $80 in 2018.

— High-income taxpayers will see the amount of their health contribution reduced from $1 000 to $800 in 2017 and to $600 in 2018.

Thus, the health contribution will be eliminated for all Quebecers in 2019.

CHART B.1

Illustration of the gradual elimination of the health contribution
(dollars)



(1) Thresholds forecast for 2017.

The phasing out of the health contribution over three years will result in:

— full exemption from the contribution for another 2.1 million taxpayers in 2017;

— a gradual reduction of the contribution for 2.3 million taxpayers in 2017 and 2018;

— the elimination of the contribution in 2019 for the 4.5 million taxpayers targeted.

2.2 Tax relief for corporations

Since June 2014, as part of the Québec Economic Plan, the government has announced several corporate tax measures of general application designed to:

- ease the tax burden on corporations, particularly SMBs;
- make the tax system more favourable to investment.

The government is focusing on measures of general application so that as many businesses as possible benefit from a competitive tax system enabling them to take advantage of the best opportunities for growth.

Overall, when fully implemented, the measures of general application announced since June 2014 will ease the tax burden by close to $350 million a year, including $210 million for SMBs.

Moreover, the government reviewed its support for strategic sectors of the Québec economy, such as the new economy and culture, to improve the effectiveness of the measures for businesses and ensure an attractive tax environment.

TABLE B.8

Financial impact of the corporate tax measures of general application announced in the Québec Economic Plan
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
Initiatives already in effect	−138.7	−158.1	−175.1	−187.2	−202.9
Initiatives in effect as of 2017	—	−6.8	−10.8	−56.7	−140.2
TOTAL	**−138.7**	**−164.9**	**−185.9**	**−243.9**	**−343.1**

Concrete actions on behalf of Québec SMBs

SMBs are the main driver of growth in the Québec economy. They make up 99% of all businesses in Québec and generate two-thirds of all jobs.

Recognizing the importance of SMBs to the Québec economy, the government implemented measures for SMBs in all regions of Québec in order to provide them with a competitive tax system conducive to growth, investment and job creation.

For example, the government:

- reduced the Health Services Fund (HSF) contribution rate for SMBs in all sectors of the economy, financing the reduction in part through a refocusing of the small business deduction (SBD);
- introduced a holiday from the HSF contribution for hiring specialized workers in SMBs;
- reduced the tax rate from 8% to 4% for SMBs in the primary and manufacturing sectors;
- introduced an additional deduction for transportation costs of manufacturing SMBs.

These actions will improve the tax system for SMBs and represent, when fully implemented, an annual reduction of $210 million in their tax burden.

- For 2015−2016, these initiatives represent an easing of the tax burden of close to $140 million.

Measures to ease the tax burden on SMBs announced since Budget 2014-2015
(millions of dollars)

	2015-2016	2016-2017	Annual amount on full implementation
Reduction of the HSF contribution rate for SMBs in all sectors	71	88	275
Refocusing of the SBD on SMBs that create jobs	—	−17	−208
Subtotal	**71**	**71**	**67**
Holiday from the HSF contribution for hiring specialized workers in SMBs	20	33	56
Reduction of the tax rate for SMBs in the manufacturing sector	34	36	39
Reduction of the tax rate for SMBs in the primary sector	—	2	28
Additional deduction for transportation costs of manufacturing SMBs	13	16	20
TOTAL	**139**	**158**	**210**

Note: Totals may not add due to rounding.

Illustration of the improved competitiveness of the Québec taxation system with respect to SMBs in the primary and manufacturing sectors

For example, for a small forestry company that reports taxable income of $500 000 and a total payroll of $1 million, the reduction of its tax rate from 8% to 4% and the decrease in the Health Services Fund (HSF) contribution rate from 2.7% to 1.6% will substantially ease the company's tax burden.

As of 2017, the company's tax burden will decrease by $31 000, compared to the amount deducted before January 1, 2015, for a decline of 46%.

Illustration of the tax burden on an SMB in Québec's forestry sector
(dollars, unless otherwise indicated)

	Before January 1, 2015	As of January 1, 2017	Difference
Corporate income tax			
Taxable income	500 000	500 000	—
Tax rate	8%	4%	−4%
Income tax payable	*40 000*	*20 000*	*−20 000*
HSF contribution			
Total company payroll	1 000 000	1 000 000	—
Contribution rate	2.7%	1.6%	−1.1%
Contribution payable(1)	*27 000*	*16 000*	*−11 000*
TOTAL TAX BURDEN	**67 000**	**36 000**	**−31 000**

(1) Excluding the effect of deductibility from corporate income tax.

2.2.1 Tax relief for 200 000 businesses in Québec

Of the 11 initiatives of general application announced with respect to the corporate tax system to foster economic growth, five have already been implemented by the government:

- the reduction of the tax rate for manufacturing SMBs from 8% to 4%;
- the reduction of the Health Services Fund (HSF) contribution rate from 2.7% to 1.6% for the primary and manufacturing sectors;
- the holiday from the HSF contribution for hiring specialized workers in SMBs;
- the enhanced tax holiday for large investment projects;
- the additional deduction for transportation costs of manufacturing SMBs.

These initiatives, which are aimed at improving the overall competitiveness of the corporate tax system, represent an easing of the tax burden of almost $140 million in 2015-2016 and of $200 million a year when fully implemented.

TABLE B.9

Financial impact of the measures of general application with respect to the corporate tax system that have already been implemented
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
Reduction of the tax rate for manufacturing SMBs	−34.1	−35.5	−36.9	−38.1	−39.3
Reduction of the HSF contribution rate for the primary and manuracturing sectors	−71.4	−73,6	−76.0	−78.5	−81.1
Holiday from the HSF contribution for hiring specialized workers in SMBs	−20.3	−33.1	−43.7	−50.0	−56.4
Enhanced tax holiday for large investment projects	—	—	−1.1	−2.1	−6.6
Additional deduction for transportation costs of manufacturing SMBs	−12.9	−15.9	−17.4	−18.5	−19.5
TOTAL	**−138.7**	**−158.1**	**−175.1**	**−187.2**	**−202.9**

❑ Additional initiatives applicable as of 2017

In the Québec Economic Plan, the government announced initiatives relating to its long-term policy directions for the corporate tax system.

- Taking into account these initiatives, roughly 200 000 corporations in all sectors and in all regions of Québec will receive tax relief.

Thus, as of 2017 when the budget has been balanced, Québec corporations will be able to take advantage in particular of:

- the reduction of the tax rate for SMBs in the primary sector from 8% to 4%;
- the gradual reduction of the HSF contribution rate over three years from 2.7% to 2.25% in the services sector, financed in part by a refocusing of the small business deduction (SBD) on SMBs that create jobs;
- the gradual reduction of the general corporate tax rate over four years from 11.9% to 11.5%;
- the maintenance and extension of the regional investment tax credit.

Moreover, to encourage the transfer of family businesses, the government will introduce in 2017 tax relief for business transfers between persons not dealing at arm's length in the primary and manufacturing sectors.

2.2.2 **Maintenance of a stable corporate tax system**

As part of the Québec Economic Plan of March 2015, the government announced its policy directions for the stability of the corporate tax system.

As part of the November 2015 update of the Québec Economic Plan, the government reiterates its commitment to ongoing improvement of the corporate tax system, so as to provide Québec businesses with a tax environment favourable to investment, their growth and the hiring of qualified workers.

To that end, the government will ensure stability in investment conditions in the coming years by fostering measures of general application available to a greater number of Québec businesses.

3. CONCRETE ACTIONS TO DEVELOP THE QUÉBEC ECONOMY

The Québec economy is going through a period of transition attributable to demographic change. It is expected that, over the next 15 years, Québec will no longer be able to rely on a natural increase in the number of workers to stimulate economic growth.

In this context, the Québec Economic Plan provides for actions to boost two key factors in economic growth:

- labour market participation, by facilitating:
  - the integration of more people into employment,
  - an increase in work effort;
- productivity, by supporting:
  - the carrying out of private investment projects,
  - the development of several strategic sectors.

Since it took office, the government has taken action on many fronts to support economic growth.

3.1 Significant support for investment projects

To support Québec's economic development, the government intervenes financially in the economy primarily through:

- tax incentives, such as the enhanced tax holiday for large investment projects;
- Investissement Québec, including its subsidiaries, such as Ressources Québec, whose budget envelopes for financial transactions are drawn in particular from:
  - its own funds;
  - funds that it is responsible for managing, as the government's mandatary, such as the Economic Development Fund (EDF) and the Mining and Hydrocarbon Capital Fund.

❑ Enhanced tax holiday for large investment projects

The enhanced tax holiday for large investment projects is intended to foster investment throughout Québec.

Under this measure, a corporation can obtain, for an eligible project, a 15-year tax holiday for large investment projects of up to 15% of the amount of its investment.

- The tax holiday applies to corporate income tax and the Health Services Fund (HSF) contribution.
- Activity sectors that can take advantage of the holiday are the manufacturing sector, wholesale trade, storage, and data processing and hosting.
- Businesses have until November 20, 2017 to submit their investment project.

By encouraging private investment, the enhanced tax holiday for large investment projects stimulates the growth of the Québec economy.

Since the implementation of this measure, the Ministère des Finances has issued ten qualification certificates relating to the enhanced tax holiday for large investment projects. These ten projects represent investments totalling $5.4 billion.

If the projects are carried out, together they are expected to create nearly 30 000 jobs in the construction and equipment purchase phases.

Once the projects have been fully implemented, the operating activities stemming from the projects will lead to the creation of over 6 000 direct jobs and approximately 4 500 indirect jobs, and to an annual contribution of $1.6 billion to GDP.

The economic impacts of these projects will generate net tax benefits of $1.9 billion.

❑ Financial transactions by Investissement Québec

Investissement Québec is a government corporation whose mission is to contribute to the economic development of Québec, in compliance with the government's economic policy. It seeks to stimulate investment growth and support employment in all regions of Québec.

Since April 1, 2014, Investissement Québec has carried out financial transactions relating to economic development, using its own funds and EDF funds in particular, totalling $3 077 million:

— $1 162 million for the period from April 1, 2014 to March 31, 2015;

— $1 915 million for the period from April 1, 2015 to September 30, 2015.

These financial transactions, in the form of, for example, loans, loan guarantees and acquisitions of equity interests, made it possible to support projects worth $13 618 million that will contribute to the creation or retention of 19 621 jobs.

TABLE B.10

Financial transactions through Investissement Québec – April 1, 2014 to September 30, 2015
(millions of dollars, unless otherwise indicated)

	Transactions		Projects(1)	Jobs(1)
	Number	Value	Value	Number
April 1, 2014 to March 31, 2015(2)	1 363	1 162	7 849	11 563
April 1, 2015 to September 30, 2015(2),(3)	672	1 915	5 770	8 058
TOTAL	**2 035**	**3 077**	**13 618**	**19 621**

(1) Projects were carried out and jobs were created over a three-year period; jobs were protected for a maximum of two years.
(2) These data include equity interests acquired through the EDF in the mining and hydrocarbon sector before the creation of the Mining and Hydrocarbon Capital Fund. The value of the financing of the government's EDF-enabled interests in investment fund capital is excluded from these data.
(3) Including the government's $1.3-billion investment in Bombardier for the continuation of the C Series program.
Sources: Ministère de l'Économie, de l'Innovation et des Exportations and Investissement Québec.

Examples of projects supported by the government

Bombardier

The government undertook to invest $1.3 billion, in the form of an equity participation in a new limited partnership, in order to see Bombardier's C Series program through to completion. The investment will enable the retention of 1 700 existing jobs, the creation of 800 jobs and the maintenance of Montréal's position as a centre of excellence in the field of aeronautics.

Kruger

The government announced an investment of $190 million to support the relaunching and diversification of Kruger's containerboard and packaging operations. The project will consolidate more than 600 jobs in Québec, including 270 at the Trois-Rivières plant.

Uniboard Canada

The government announced $5.1 million in financial support for Uniboard Canada to modernize its reconstituted wood panel manufacturing plant located in Sayabec. The company currently employs 380 people at the plant.

Forex

The government announced a financial contribution of $18 million to Forex's project to reopen the Temlam plant and build an oriented strand board manufacturing plant. The project seeks to create 350 jobs in Amos.

Agnico Eagle Mines

Ressources Québec invested $65 million in Agnico Eagle Mines, a mining company with high growth potential. The investment will be used to expand and optimize mines currently in operation and carry out new mining projects in Québec.

Hydrocarbon exploration in the Gaspésie region

Ressources Québec invested $5 million to finance an oil exploration program carried out by Junex for the Galt project in the Gaspésie region.

The government invested $3.8 million in the execution of the first phase of natural gas exploration work carried out by Pétrolia for the Bourque project in the Gaspésie region.

The projects will consolidate jobs in Québec.

Gaz Métro GNL

As part of the deployment of the Plan Nord, the government invested $50 million in the capital stock of Gaz Métro GNL. The investment will increase the company's production of liquefied natural gas, in particular for the purpose of supplying natural gas to Northern Québec businesses at competitive prices.

Examples of projects supported by the government (cont.)

Groupe Soucy

The government announced financial support of $17.8 million for Groupe Soucy, in particular for a project to acquire specialized equipment to manufacture rubber track systems for the agricultural and defence sectors. The project will create 162 jobs in Québec.

Medicago

The government announced the granting of a $60-million loan to Medicago. The investment project, evaluated at $245 million over three years, will focus in particular on the production of quadrivalent vaccines and will create more than 200 jobs by 2019 in the Capitale-Nationale region.

Coveo

Investissement Québec invested $24 million in the capital stock of Coveo, a company working in the field of massive database intelligent search technologies and information solutions. The company employs 200 people, including 130 at its head office in the city of Québec.

Hibernum Creations

Investissement Québec acquired a $5-million stake in Hibernum Creations, a company specialized in video game development and the creation of animations and visual effects. The project is expected to create more than 150 new jobs in Québec by 2016.

Serres Toundra

The government announced financial support of $25 million for Serres Toundra, a company with a project to build a new greenhouse in Saint-Félicien for the production of fruit and vegetables. When fully implemented, the project will generate 400 jobs over four years, including 100 the first year.

SigmaDek

The government announced financial support of $1.5 million for SigmaDek, a company in the aluminum processing sector, for the establishment of a new plant in Saguenay that will manufacture aluminum decks. The project will create some 40 jobs in Québec.

3.2 Initiatives for key sectors

The Québec Economic Plan enabled a number of initiatives to be implemented in key sectors of the economy. The initiatives include:

— the Maritime Strategy;

— the deployment of the Plan Nord;

— the development strategy for the aerospace sector;

— the Québec Aluminum Development Strategy;

— the government's social economy action plan.

Initiatives for key sectors

Québec Aluminum Development Strategy

On June 19, 2015, Premier Philippe Couillard announced the introduction of the Québec Aluminum Development Strategy to foster the growth of this industrial cluster in Québec and raise its international profile.

The Québec government will invest $32.5 million over the next three years to implement the strategy, which will be rolled out over a ten-year period (2015-2025) and will focus on three areas:

- creating an environment favourable to aluminum processing;
- strengthening the Québec cluster as a whole;
- ensuring businesses in the cluster are competitive.

The government's social economy action plan

On May 29, 2015, Minister of the Economy, Innovation and Exports Jacques Daoust released the government's 2015-2020 action plan for the social economy. The plan includes, among other things, financial tools tailored to the needs of social economy businesses and their reality.

The government's social economy action plan for 2015-2020 provides for investments of more than $100 million over the next five years to give new impetus to Québec's social economy businesses. The measures to be implemented will help create or retain 30 000 jobs and will generate total investments of more than $500 million by 2020.

3.2.1 The Maritime Strategy

On June 29, 2015, all of the actions in the Maritime Strategy, one of the pillars of the Québec Economic Plan, were unveiled.

The Maritime Strategy, which will be rolled out over the next 15 years, will have a budget envelope of over $1.5 billion to implement the 2015-2020 Action Plan.

Through the proposed measures, it will be possible to take full and lasting advantage of Québec's maritime potential and establish Québec as the gateway to large markets in northeastern North America.

The measures put forward in the Maritime Strategy include:

- strengthening of the logistics chain;
- creation of industrial port areas;
- strengthening of the fishing and aquaculture industries;
- development of maritime tourism;
- development of scientific knowledge in the maritime sector;
- designation of marine protected areas.

It is anticipated that, by 2030, the Maritime Strategy will generate approximately $9 billion in investments and lead to the creation of 30 000 direct jobs in all regions of Québec.

The Maritime Strategy by the year 2030

The groundwork of the Maritime Strategy, unveiled on June 29, 2015, has already been laid, with the implementation of initiatives such as:

- financial support for certain projects in the tourism section, including:
  - $2 million for the Parc national du Bic,
  - $8 million for the Parc de la Chute-Montmorency;
- the extension of the refundable tax credit for the Gaspésie and certain maritime regions of Québec, and enhancement of the credit for Îles-de-la-Madeleine;
- ongoing studies on the feasibility of, and opportunities for, investments in logistics hubs to be developed along the St. Lawrence River;
- a partnership agreement between Québec (Institut des sciences de la mer de Rimouski, of the Université du Québec à Rimouski) and Belgium (Institut flamand de la mer) in the field of scientific research.

During the summer of 2015, two large-scale projects were announced in connection with the Maritime Strategy:

- the expansion of the Port de Québec;
- the establishment of a multifunctional terminal in Trois-Rivières.

3.2.2 Deployment of the Plan Nord

The implementation of the Plan Nord is also an important component of the Québec Economic Plan.

In recent months, the government has continued efforts to promote the development of Northern Québec and its resources. In fact, it created a new government corporation, the Société du Plan Nord, charged with coordinating the implementation of the government's policy directions relating to the Plan Nord.

— The Société du Plan Nord began operations on April 1, 2015. The government allocated to it a budget of nearly $80 million, drawn from the Northern Plan Fund, for its first year of operation.

On April 8, 2015, the government released *The Plan Nord: Toward 2035, the 2015-2020 Action Plan*, which sets guidelines for the activities of the Société du Plan Nord.

The document, which presents the government's detailed, long-term visioin for the deployment of the Plan Nord, sets forth:

— the policy directions underpinning the objectives and priority actions of the Société du Plan Nord and the government departments and bodies involved;

— the priority actions to be implemented over the next five years, namely, transportation infrastructures, energy access, telecommunications, scientific knowledge and promotion of the Plan Nord.

Since its creation, the Société du Plan Nord has continued to roll out the Plan Nord, for example, by:

— opening regional satellite offices;

— implementing forward-looking initiatives.

Achievements of the Société du Plan Nord

Opening of regional satellite offices

In the fall of 2015, the Société du Plan Nord inaugurated four regional satellite offices located in Sept-Îles, Roberval, Baie-Comeau and Chibougamau. Opening the offices enabled the Société to set up a structure for taking action adapted to territorial contexts and the requirements and scope of its mandates.

The satellite offices will enable the Société to ensure ongoing ties with the local and Aboriginal populations and facilitate cooperation with local partners.

Forward-looking initiatives

Since its creation, the Société du Plan Nord has supported several new, forward-looking initiatives to develop the territory, including:

- the creation of the Fonds d'initiatives du Plan Nord, with an annual budget envelope of $2 million, whose first actions included the following:
  - support for the development of innovative rare earth separation processes,
  - establishment of an environmental observatory at the Baie de Sept-Îles,
  - diversification of the economy in the municipality of Gros-Mécatina through northern agriculture projects;
- the continued implementation, representing $11.5 million, of the Tamaani project, which will maintain and improve satellite Internet service in Nunavik over the next five years. Totalling $35.5 million, the project is also financed by the federal government and the Kativik Regional Government;
- the upgrading of James Bay Road.

These forward-looking initiatives provide concrete support for infrastructure upgrades in, and the economic development of, local and Aboriginal communities in area covered by the Plan Nord.

3.2.3 Development strategy for the aerospace sector

The aerospace industry holds a strategic position in the Québec economy with sales of nearly $14 billion and 41 750 jobs.

As provided for in the Québec Economic Plan, the government has therefore brought forward in recent months actions to foster the development of the sector through:

- the commencement of work on a new Québec strategy for aerospace development;
- the launching of a call for proposals for the second phase of the green aircraft.

❑ Elaboration of a new Québec strategy for aerospace development

On August 6, 2015, the Minister of the Economy, Innovation and Exports launched consultations with a view to the elaboration of the Québec aerospace strategy in partnership with the sector.

Industry players were invited to submit their comments and propose courses of action regarding the key industry issues.

Meetings with individuals and groups are planned for the fall to discuss the issues identified and the courses of action proposed.

❑ Implementation of the second phase of the green aircraft

On October 14, 2015, the government launched a call for proposals for the second phase of the green aircraft catalyst project (SA^2GE).

The intitiative is intended to increase cooperation in the Québec aerospace sector with regard to innovation, while contributing to the effort to reduce greenhouse gas emissions.

- Financial assistance of $40 million over the next four years is planned to carry out the second phase of the project known as SA^2GE.
- An equivalent contribution from the private sector is expected, bringing new investments to $80 million.

Partnership with Bombardier respecting the completion of the C Series program

On October 29, 2015, the Québec government announced the establishment of a partnership with Bombarder to complete the C Series program.

The Québec government's $1.3-billion investment will give Québec a 49.5% equity participation in a new limited partnership.

The investment will mean the retention of 1 700 existing jobs and the creation of 800 jobs.

C Series program

The C Series planes are the reference in the 100- to 150-seat market segment. They offer multiple advantages, in particular with regard to:

- fuel burn;
- payload;
- range;
- airfield performance.

They are also the quietest jet airplanes on the market.

The C Series is on track for final certification. The company has already received 600 signed commitments and firm orders.

4. PUBLIC CAPITAL INVESTMENTS

To meet Québec's significant needs for quality public infrastructure, the government will maintain a high level of public capital investments under the Québec Infrastructure Plan (QIP).

— Accordingly, investments under the 2016-2026 QIP will total $88.4 billion, the same level as under the 2015-2025 QIP.

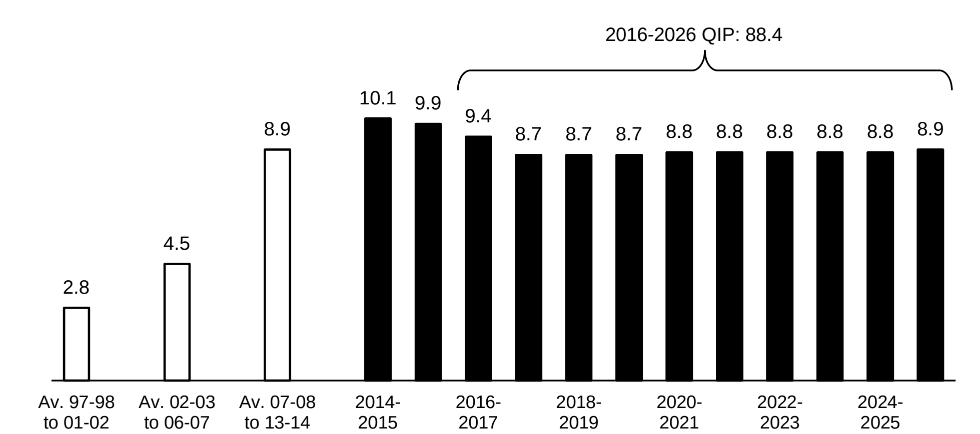
— Capital investments for 2016-2017 are expected to reach $9.4 billion.

The high level of investment in the coming years will be allocated on a priority basis to the replacement of outdated infrastructure and to projects fostering economic development.

The government therefore confirms that capital investment levels will remain high in order to meet Québec's needs, while remaining within taxpayers' ability to pay and achieving the debt reduction objectives.

CHART B.2

Investments under the 2016-2026 Québec Infrastructure Plan
(billions of dollars)



In addition to the government's investments under the QIP, substantial infrastructure investments are also made by government corporations.

For 2016-2017, government corporations will invest an anticipated $4.1 billion. Together with the $9.4 billion under the QIP, public capital investments for 2016-2017 are expected to total $13.5 billion.

Sectoral breakdown of investments under the 2015-2025 Québec Infrastructure Plan

Over the ten-year period of the 2015-2025 QIP, 19% of the $88.4 billion in investments will be dedicated to the road network, 16% to the health and social services sector, 10% to the education sector and 9% to municipal infrastructure.

Public transit will receive 8% of the investments under the 2015-2025 QIP, or nearly $7.3 billion, including $950 million for 2015-2016.

Investments under the 2015-2016 Québec Infrastructure Plan, by sector
(millions of dollars)

	2015-2016		2015-2025	
	$ millions	**Share in %**	**$ millions**	**Share in %**
Road network	2 342.7	24%	16 655.3	19%
Health and social services	1 460.8	15%	14 436.8	16%
Education	1 381.0	14%	8 772.9	10%
Municipal, sport, community and recreation infrastructure	918.0	9%	8 214.1	9%
Public transit	948.1	10%	7 247.7	8%
Higher education and research	509.9	5%	6 529,6	7%
Information resources	464.4	5%	3 313.2	4%
Government buildings	386.1	4%	2 441.1	3%
Marine, air, rail and other modes of transport	365.3	4%	2 164,7	2%
Social and community housing	285,1	3%	2 013.5	2%
Culture	227.7	2%	1 650.2	2%
Other sectors	561.2	6%	4 310.4	5%
Core funding(1)	61.1	1%	10 650.8	12%
2015-2025 QIP	**9 911.5**	**100%**	**88 400.0**	**100%**

(1) Funding reserved for projects currently under study and future projects not yet identified.

❑ Heightened importance of public capital stock in the economy

Over the next ten years, the level of Québec government investments will average nearly $9 billion a year, thus remaining above pre-2008 levels.

These investments reached 3.0% of GDP in 2014-2015 and should remain at 2.9% in 2015-2016. Over the next ten years, they are expected to average 2.4% of GDP annually. Investment targets of this level reflect the importance the government places on public infrastructure.

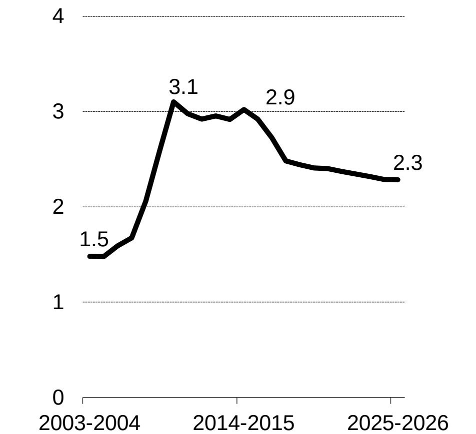
The Quebec Infrastructure Plan contributes directly to the increase in public capital stock in the economy. Public capital stock is a key determinant of productivity and economic growth.

— Public capital stock increased from 22.0% of real GDP in 2000 to 29.4% in 2014, and will reach 29.6% in 2016.

— This growth will lift public capital stock to the same level it was at in the early 1980s. Public capital stock helps improve business productivity as well as the standard of living in Québec.

CHART B.3

Annual public capital investments of the Québec government
(as a percentage of GDP)

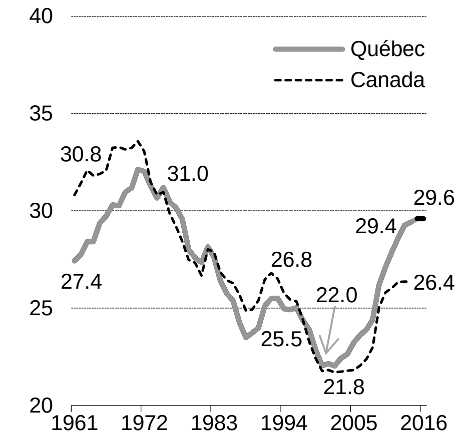


Sources: Institut de la statistique du Québec, Secrétariat du Conseil du trésor and Ministère des Finances du Québec.

CHART B.4

Change in public capital stock

(as a percentage of GDP, in real terms)



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

APPENDIX: FINANCIAL IMPACT OF THE QUÉBEC ECONOMIC PLAN MEASURES

TABLE B.11

Financial impact of the measures in the Québec Economic Plan of March 2015
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
Tax relief for Quebecers						
– Gradual elimination of the health contribution	—	−80.7	−375.5	−548.4	−742.0	−1 746.6
– Introduction of a tax shield	—	−52.0	−52.1	−52.1	−52.3	−208.5
– Enhancement of the work incentive for experienced workers	—	−26.8	−56.4	−83.5	−83.2	−249.9
– Adaptation of the tax credit with respect to age to the reality of seniors	—	18.0	38.0	57.0	77.0	190.0
Subtotal	**—**	**−141.5**	**−446.0**	**−627.0**	**−800.5**	**−2 015.0**
Tax relief for corporations						
– Easing the tax burden on SMBs						
▪ Reduction of the HSF contribution rate for services sector SMBs and reduction of the tax rate for primary sector SMBs	—	−17.1	−147.9	−215.6	−222.2	−602.8
▪ Refocusing of the small business deduction on SMBs that create jobs	—	16.9	145.1	201.9	207.5	571.4
Subtotal	**—**	**−0.2**	**−2.8**	**−13.7**	**−14.7**	**−31.4**
– Making the tax system more favourable to investment						
▪ Gradual reduction of the general corporate tax rate from 11.9% to 11.5%	—	−6.6	−36.0	−83.0	−122.3	−247.9
▪ Adjustments to the investment tax credit	—	—	28.0	40.0	−3.2	64.8
Subtotal	**—**	**−6.6**	**−8.0**	**−43.0**	**−125.5**	**−183.1**
– Ensuring the effectiveness of sector-based tax assistance	−4.6	−57.2	−69.2	−72.4	−75.5	−278.9
– Supporting the activities of tax-advantaged funds	−6.3	−4.5	—	—	—	−10.8
Subtotal	**−10.9**	**−68.5**	**−80.0**	**−129.1**	**−215.7**	**−504.2**

TABLE B.11

Financial impact of the measures in the Québec Economic Plan of March 2015 (cont.)

(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Total
New initiatives to foster labour market performance						
– Improving the alignment between training and the needs of businesses	−20.1	−29.0	−25.4	−24.5	−24.6	−123.6
– Strengthening the contribution of immigrants to the labour market	−5.5	−8.5	−8.5	−10.0	−10.0	−42.5
Subtotal	**−25.6**	**−37.5**	**−33.9**	**−34.5**	**−34.6**	**−166.1**
New initiatives to stimulate private investment						
– Promoting the development of key economic sectors	−19.7	−40.4	−46.4	−27.1	−25.2	−158.8
– Investment of more than $1.5 billion by 2020 under the Maritime Strategy	−13.8	−17.8	−37.2	−48.5	−53.4	−170.7
– Fostering the next generation of entrepreneurs	−2.0	−2.0	−17.0	−15.0	−15.0	−51.0
– Development of our natural resources	−7.1	−5.7	−5.7	−2.3	−5.0	−25.8
Subtotal	**−42.6**	**−65.9**	**−106.3**	**−92.9**	**−98.6**	**−406.3**
New initiatives for communities and culture						
– New initiatives for communities and culture	−41.9	−47.7	−42.1	−48.7	−128.8	−309.2
Subtotal	**−41.9**	**−47.7**	**−42.1**	**−48.7**	**−128.8**	**−309.2**
TOTAL	**−121.0**	**−361.1**	**−708.3**	**−932.2**	**−1 278.2**	**−3 400.8**

Note: A negative amount indicates a cost for the government.

Section C

THE QUÉBEC ECONOMY: RECENT DEVELOPMENT AND OUTLOOK FOR 2015 AND 2016

1. THE ECONOMIC SITUATION IN QUÉBEC

Economic growth continued in Québec in 2015 at the same rate as in 2014, despite a slowdown in the Canadian and global economies. Following a 1.5% increase in real GDP in 2014, the November 2015 update of the Québec Economic Plan foresees real GDP growth of 1.5% in 2015 and 1.7% in 2016.[1]

In 2015, economic activity will be driven primarily by household consumption and exports.

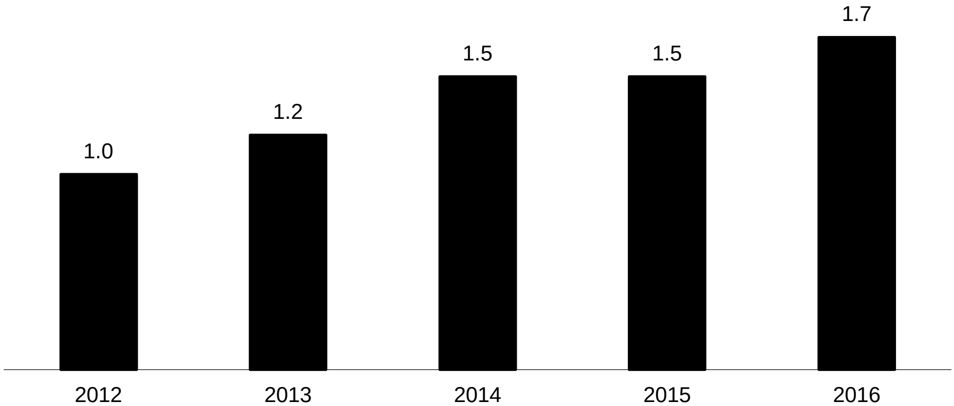
- Households will benefit from employment growth and the positive impact of lower fuel prices.
- In addition, a weak Canadian dollar and continuing economic growth in the United States should strengthen exports.

In 2016, real GDP growth will accelerate to 1.7%.

- Exports will continue to benefit from an acceleration in economic activity in the United States and Canada as well as from the depreciation of the Canadian dollar.
- Consumer spending will remain robust due to employment gains and low energy prices.
- In addition, business investment is expected to rise, due to sustained growth in exports and household consumption.

CHART C.1

Economic growth in Québec
(real GDP, percentage change)



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

1 The information in this section is based on statistics available on November 10, 2015.

1.1 Downward adjustments to the global outlook

Compared with Budget 2015-2016, the growth forecasts in the November 2015 update to the Québec Economic Plan have been adjusted downward for most countries and regions of the world.

— In Québec, economic growth is expected to remain at 1.5% in 2015, the same pace of growth as in 2014, and accelerate to 1.7% in 2016. These adjustments to the forecast are in line with those made for our main economic partners.

TABLE C.1

Economic growth outlook
(real GDP, percentage change and percentage point adjustment)

	2014	2015	2016
Québec			
– November 2015 Update	1.5	1.5	1.7
– Budget 2015-2016		2.0	2.0
– *Adjustment*		*−0.5*	*−0.3*
Ontario			
– Private sector(1)	2.7	2.0	2.4
– Ontario budget 2015-2016		2.7	2.4
– *Adjustment*		*−0.7*	*0.0*
Canada			
– November 2015 Update	2.5	1.2	1.8
– Budget 2015-2016		2.0	2.2
– *Adjustment*		*−0.8*	*−0.4*
United States			
– November 2015 Update	2.4	2.4	2.6
– Budget 2015-2016		2.9	2.7
– *Adjustment*		*−0.5*	*−0.1*
World			
– November 2015 Update	3.4	3.0	3.3
– Budget 2015-2016		3.4	3.6
– *Adjustment*		*−0.4*	*−0.3*

(1) Ministère des Finances du Québec summary as of November 10, 2015, which includes the forecasts of 9 private sector institutions.
Sources: Institut de la statistique du Québec, Statistics Canada, IHS Global Insight, Ontario Ministry of Finance and Ministère des Finances du Québec.

- In Ontario, real GDP growth is expected to slow to 2.0% in 2015 and stand at 2.4% in 2016. This is a downward adjustment of 0.7 percentage point for 2015 compared with the Ontario Ministry of Finance's growth forecast in its April 2015 budget.

- In Canada, after expanding by 2.5% in 2014, real GDP growth is expected to fall to 1.2% in 2015 and then accelerate to 1.8% in 2016. These are downward adjustments of 0.8 percentage point and 0.4 percentage point for 2015 and 2016, respectively, compared with the budget forecasts.

1.2 Exports and household consumption are the main growth engines

The 1.5% growth in real GDP in 2015 and 1.7% growth in 2016 will be buoyed primarily by exports, which will continue to play a key role in economic expansion.

- International goods exports, in particular, are expected to continue expanding in 2015.
  - Strengthening economic activity in the United States and a weak Canadian dollar are positive factors for Québec's international exports.

In tandem with those factors, domestic demand's contribution to economic growth will be more robust in 2015 and 2016.

- Household consumption will increase by 1.9% annually in real terms. Consumers will benefit from sustained job creation and low oil prices.
- Robust growth in exports and household consumption will prompt businesses to increase their level of investment to meet increased demand. Moreover, non-residential business investment already rose in the second quarter of 2015.

TABLE C.2

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

	2014	2015	2016
Contribution of domestic demand	**−0.2**	**1.0**	**1.4**
Household consumption	1.5	1.9	1.9
Residential investment	−0.1	1.0	−0.1
Non-residential business investment	−11.0	−1.9	2.8
Government spending and investment	0.3	0.1	0.1
Contribution of the external sector	**1.9**	**0.4**	**0.5**
Total exports	4.5	2.3	3.0
– International goods exports	11.8	3.9	4.2
Total imports	0.3	1.3	1.6
Contribution of inventories	**−0.3**	**0.0**	**−0.2**
REAL GDP	**1.5**	**1.5**	**1.7**

Note: Totals may not add due to rounding.
Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

❑ Consumer price growth will be moderate in 2015 and pick up in 2016

Total inflation is being pushed down by lower energy prices. As a result, growth in the consumer price index (CPI) is expected to slow to 1.2% in 2015, after increasing by 1.4% in 2014.

— In 2015, the drop in oil prices led to lower prices at the pump. The decline was reflected in the energy component of the CPI, which is projected to fall by 9.3% in 2015.

— CPI growth excluding food and energy will accelerate from 1.1% in 2014 to 1.8% in 2015, primarily due to the lower Canadian dollar, which drives up the price of imported consumer products.

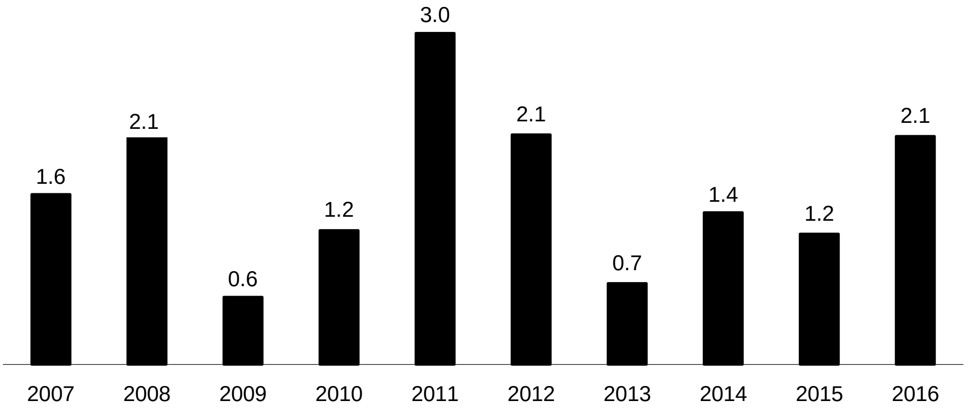
In 2016, the overall CPI is projected to increase by 2.1%.

— A low Canadian dollar coupled with faster economic growth should bring inflation back to around 2.0%.

— In addition, energy prices are expected to rise slightly while remaining favourable to consumers.

CHART C.2

Change in Québec consumer price index
(percentage change)



Sources: Statistics Canada and Ministère des Finances du Québec.

1.3 Change in nominal GDP

Nominal GDP, which measures the value of output taking the effect of prices into account, is expected to grow by 2.4% in 2015 and 3.3% in 2016.

— The growth will be the combined effect of:

  — real GDP increases of 1.5% in 2015 and 1.7% in 2016;

  — increases in the GDP deflator of 0.9% in 2015 and 1.6% in 2016.

The GDP deflator, the index that measures changes in GDP prices, is determined by domestic demand prices and the ratio between export prices and import prices, i.e. the terms of trade.

— In 2015, the GDP deflator is expected to see a modest increase. The drop in energy prices pushed down domestic demand prices.

— In 2016, more robust growth in domestic demand prices, owing in particular to a stabilization of oil prices and faster economic expansion, should result in firmer growth in GDP prices.

TABLE C.3

Economic growth in Québec
(percentage change)

	2014	2015	2016
Real GDP	1.5	1.5	1.7
Prices – GDP deflator	0.9	0.9	1.6
Nominal GDP	2.5	2.4	3.3

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

Effects of falling oil prices on the Québec economy

The drop in oil prices had positive impacts on the Québec economy. The protracted weakness in fuel prices is expected to continue contributing to economic growth.

- In 2015, the price of West Texas Intermediate (WTI) crude oil is expected to average US$49 per barrel, compared with US$93 in 2014. The lower oil prices contributed to depreciation in the Canadian dollar, which is projected to average 77.4 U.S. cents in 2015, compared with 90.2 U.S. cents in 2014.
- In 2016, the average price of WTI is expected to be US$50 per barrel.

Total savings of $4.2 billion on Québec's crude oil imports

In the first eight months of 2015, the value of Québec's crude oil imports was $4.2 billion lower than for the same period in 2014. The gain will be reflected in several components of the economy:

- a portion will enable businesses that use crude as an input to increase their profitability and lower the price of their consumer products;
- in addition, consumers are seeing a substantial reduction in their gas and fuel-oil bills.

Total savings of $1.3 billion for Québec consumers

The energy bill for Québec consumers is expected to reach $16.3 billion in 2015, compared with $17.6 billion in 2014. The $1.3-billion decrease is primarily attributable to the drop in fuel prices.

Effects that will continue to be reflected in Québec's economic growth

The positive effects of low crude oil prices should continue to be felt in 2016.

- Persistently low gasoline prices in the coming quarters should continue to drive up consumption.

1.4 Growth in household consumption expenditure is accelerating

Growth in household consumption expenditure is expected to accelerate to 1.9% in 2015 and 2016.

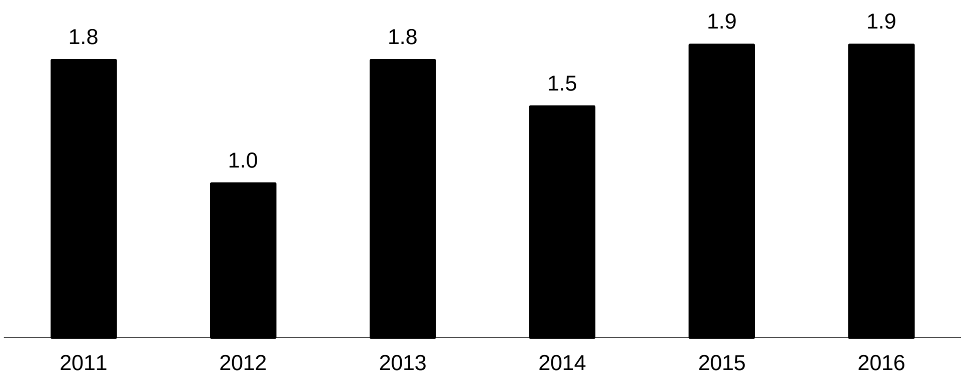
— The low energy prices and sustained job creation will help boost consumption.

— Higher household income will spur consumer spending.

  — After rising by 2.6% in 2014, household nominal income is projected to expand by 2.8% in 2015 and 3.1% in 2016.

CHART C.3

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



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

1.5 Sustained job creation

Québec's labour market saw a major turnaround in 2014. Since May 2014, 58 500 jobs have been created.

The upturn in employment will continue to be reflected in robust job creation in 2015 and 2016.

— In 2015, 38 000 new jobs should be created, an increase of 0.9%. The unemployment rate is expected to be 7.7%.

— In 2016, 30 300 new jobs should be added, for an increase of 0.7%. The unemployment rate is expected to be 7.5%.

■ Most of the new jobs are full-time and in the private sector

The majority of jobs created in 2015 were full-time positions and were concentrated in the private sector. Compared with the same period in 2014, in the first ten months of 2015:

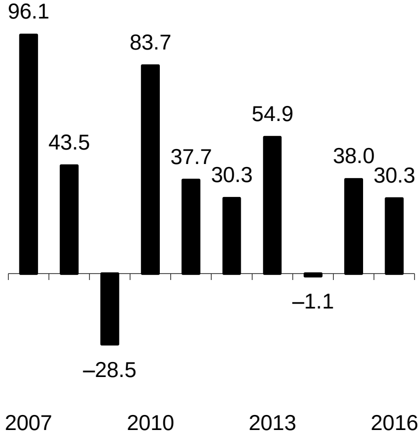
— full-time employment increased by 42 800 jobs, whereas the number of part-time jobs remained virtually unchanged;

— private payroll employment rose by 31 100 jobs, representing 43.1% of the 72 100 private wage-paying jobs created across Canada.

CHART C.4

Job creation in Québec

(thousands of jobs)

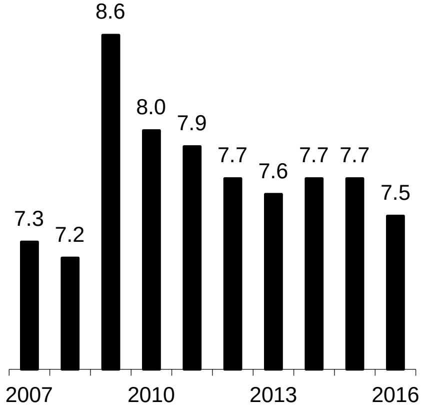


Sources: Statistics Canada and Ministère des Finances du Québec.

CHART C.5

Change in Québec's unemployment rate

(per cent)



Sources: Statistics Canada and Ministère des Finances du Québec.

Employment recovery since May 2014

Québec's labour market saw a major turnaround in 2014. According to Statistics Canada's monthly Labour Force Survey, in Québec:

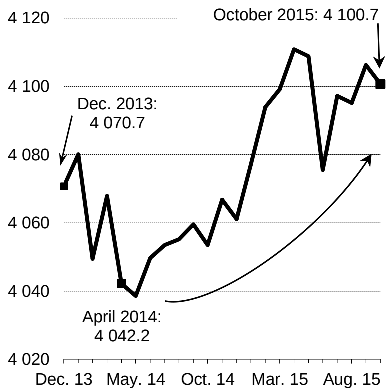
- 28 500 jobs were lost between January and April 2014;
- 58 500 jobs were created between May 2014 and October 2015.

Furthermore, the biggest increase in private payroll employment[1] in Canada since May 2014 was registered in Québec.

- Between May 2014 and October 2015, 59 800 private sector wage-paying jobs were created in Québec. This represents nearly 45% of the 135 400 private sector wage-paying jobs created in all of Canada.

Change in employment in Québec

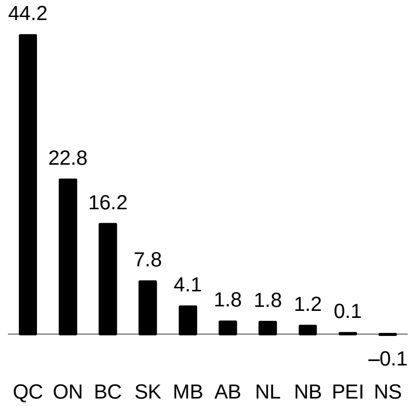
(thousands of jobs)



Source: Statistics Canada.

Share of private payroll employment created in Canada since May 2014

(per cent)



Source: Statistics Canada.

1 Private payroll employment excludes wage-paying jobs in the public sector and self-employed workers. Public payroll employment primarily includes jobs in municipal, provincial, territorial and federal governments and other government institutions such as schools (including universities), hospitals and public libraries.

1.6 Upswing in investment is materializing

❑ Revival in non-residential investment in 2015

Non-residential business investment in Québec is expected to return to growth in 2015, following a two-year downturn.

— Non-residential business investment was up 1.2% in real terms in the second quarter of 2015 over the previous quarter.

— The growth in non-residential business investment was sustained, in particular, by higher investment in machinery and equipment.

  — Investment in machinery and equipment rose by 1.5% in real terms in the second quarter of 2015.

❑ The upturn in non-residential business investment should continue

The upturn in non-residential business investment that began in the first half of 2015 is expected to continue.

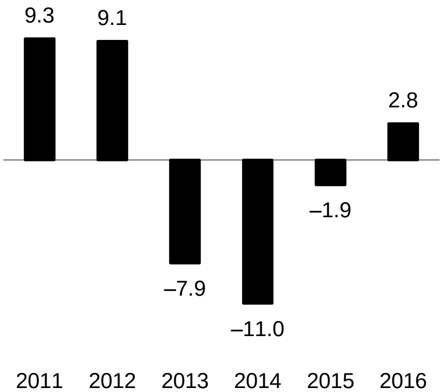
— In nominal terms, the value of non-residential business investment is expected to rise by 1.9% in 2015 after falling for two years in a row.

In 2016, non-residential business investment in real terms is expected to grow by 2.8%.

— In nominal terms, it should rise by 5.4%.

CHART C.6

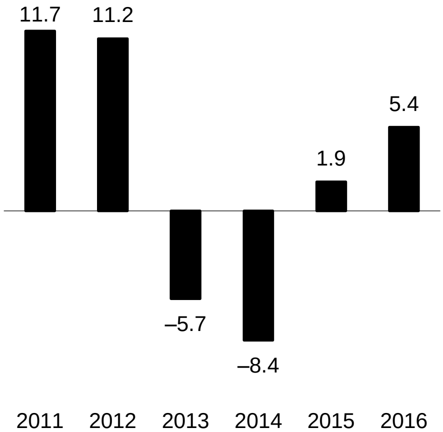
Non-residential business investment in Québec
(percentage change, in real terms)



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

CHART C.7

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



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

❑ The conditions are in place for investment growth

A number of key factors will fuel growth in non-residential business investment, in particular:

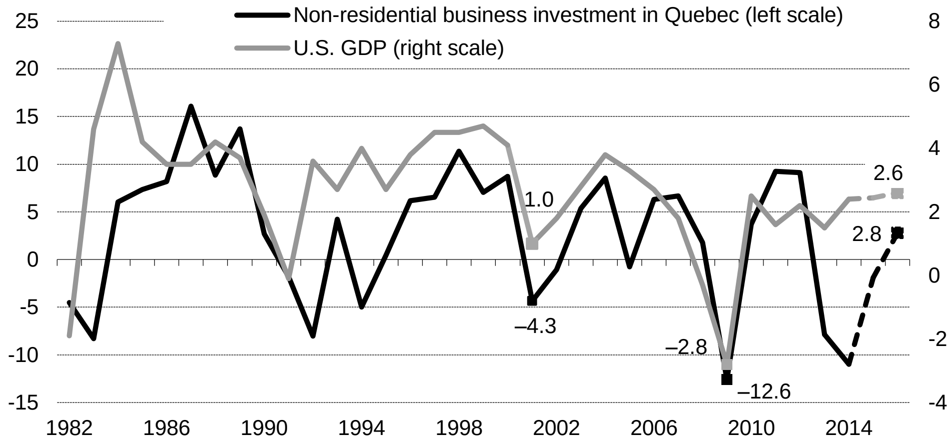
— the strengthening U.S. economy and weaker Canadian dollar, which stimulate exports and drive up demand for Québec products;

— household consumption, which is picking up pace as a result of, in particular, robust job creation.

These factors will create a more favourable business climate for investment. As pressure on production capacity rises, businesses will need to invest in order to meet increased demand for their products.

CHART C.8

Non-residential business investment in Québec and economic growth in the United States
(annual percentage change, in real terms)



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

❑ Residential investment is evolving in line with demographic determinants

Residential investment is expected to expand by 1.0% in real terms in 2015, driven by robust spending on renovations and continually favourable financing conditions.

— Home renovation spending should increase by 5.9% in 2015. The continued growth will be supported by the LogiRénov tax credit introduced by the Québec government in the spring of 2014.[2]

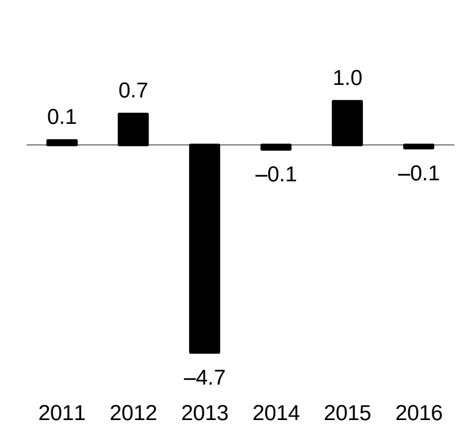
— Investment in new housing construction is expected to fall by 6.4% in 2015.

  — After catching up to previous figures in 2011, housing starts have evolved in lockstep with household formation in Québec, which is approximately 40 000 a year. The level of housing starts will be around 35 500 in 2015 and 2016.

In 2016, total residential investment is expected to be similar to that of 2015, considering that new housing construction is holding steady.

CHART C.9

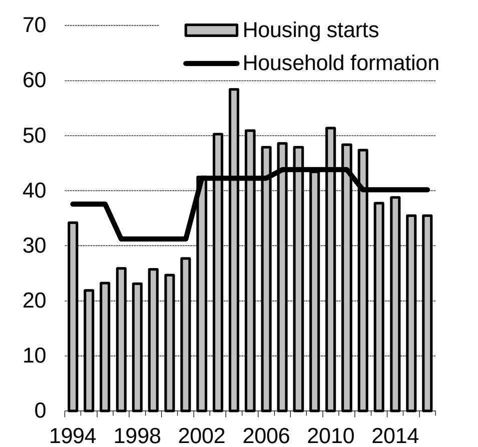
Residential investment in Québec
(percentage change, in real terms)



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

CHART C.10

Housing starts and household formation in Québec
(thousands of units)



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

[2] In order to claim the tax credit, households had to have entered into an agreement with a qualified contractor before July 1, 2015. However, the related expenditures can be made up until December 2015.

❑ Government investments remain at record highs

Public administrations in Québec (federal, provincial and local governments) will continue to maintain investments in infrastructure at high levels.

Therefore, the total value of infrastructure investments by all levels of government will remain at record highs in the coming years.

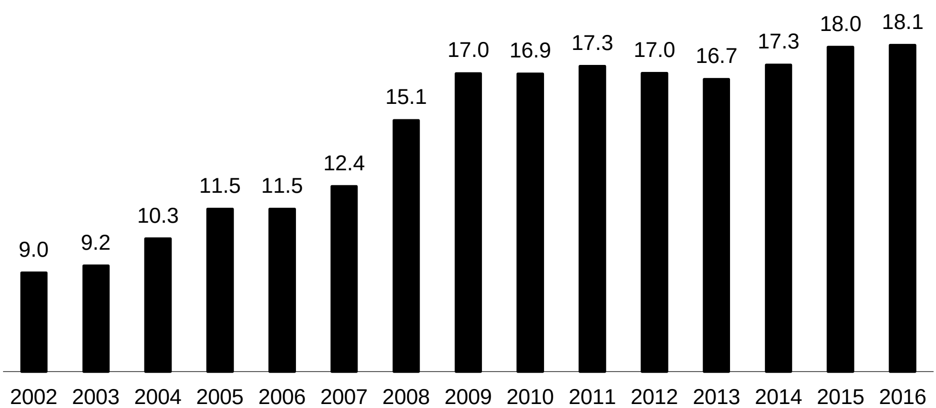
— Between 2007 and 2014, government investment increased by nearly 40%, reaching $17.3 billion in 2014.

— In 2015 and 2016, the value of government investments is expected to reach $18.0 billion and $18.1 billion, respectively.

Based on the outcome of the October 19 federal election, a greater contribution is expected from the federal government. The Caisse de dépôt et placement du Québec is also considering the possibility of participating in infrastructure projects under an agreement with the Québec government. However, these elements have not been factored into the forecast of the November 2015 update of the Québec Economic Plan.

CHART C.11

Government investment in Québec
(billions of dollars, in nominal terms)



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

Liberal Party of Canada infrastructure commitments

The federal government will dedicate $6 billion more a year, on average, to public infrastructure spending across Canada

The Liberal Party of Canada is banking on an infrastructure investment plan to stimulate the economy.

The plan put forward by the Liberals during the election campaign should raise federal infrastructure investment from $65 billion to nearly $125 billion over ten years.

- This represents a total of $12.5 billion per year over ten years for Canada as a whole.
- It is an additional investment of $6 billion per year, on average, for Canada as a whole.

More specifically, the federal government wants to boost investment in public transit, social infrastructure and green infrastructure.

The Québec government is continuing its public infrastructure investment plan with average annual investments of $9 billion

The Québec government is maintaining the level of investment under the 2016-2026 Québec Infrastructure Plan (QIP) at $88.4 billion.

- This represents an average infrastructure investment of nearly $9 billion annually over the next ten years, including $9.4 billion in 2016-2017.
- Through these high levels of investment, the Québec government will meet the asset maintenance and infrastructure development needs in Québec.

Furthermore, in addition to the government's infrastructure investment under the QIP, government enterprises also spend substantial sums on infrastructure.

- In 2016-2017, government enterprises are expected to spend $4.1 billion on infrastructure investments. Added to the $9.4 billion under the QIP, this makes for a total of $13.5 billion in projected public capital investment in 2016-2017.

1.7 Exports will continue to drive growth

Québec exports will continue to see strong growth, increasing in real terms by an anticipated 2.3% in 2015 and 3.0% in 2016, after rising by 4.5% in 2014.

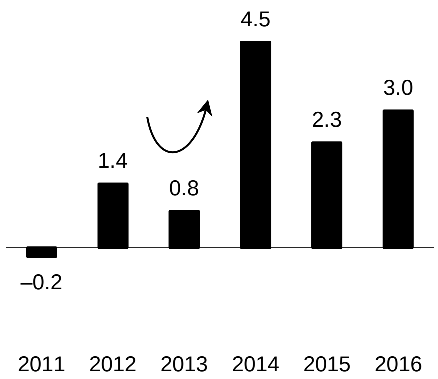
- According to Customs-basis statistics, international goods exports rose by 6.4% in real terms in the first eight months of 2015, after increasing by 10.9% in 2014.
  - International exports will continue to be a key economic driver. A weak Canadian dollar and high U.S. demand will continue fuelling export growth.
- Growth in exports with other provinces will decelerate, primarily due to less sustained growth in economic activity in the rest of Canada and shrinking investment in the oil sector.

Imports are expected to register a moderate increase. In real terms, they are expected to rise by 1.3% in 2015 and 1.6% in 2016.

- Imports will be supported by more robust domestic demand.
- However, growth in imports will be limited by depreciation of the Canadian dollar, which makes foreign goods more expensive.

CHART C.12

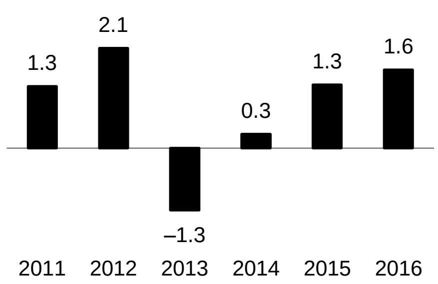
Québec's total exports
(percentage change, in real terms)



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

CHART C.13

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



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

Québec exports at a record level

Supported by a falling Canadian dollar and strengthening U.S. economy, the volume of Québec's total exports is at a high.

- In 2015, the volume of total exports will surpass the peak reached before the 2008-2009 recession.

International goods exports accounted for most of the growth in Québec's total exports.

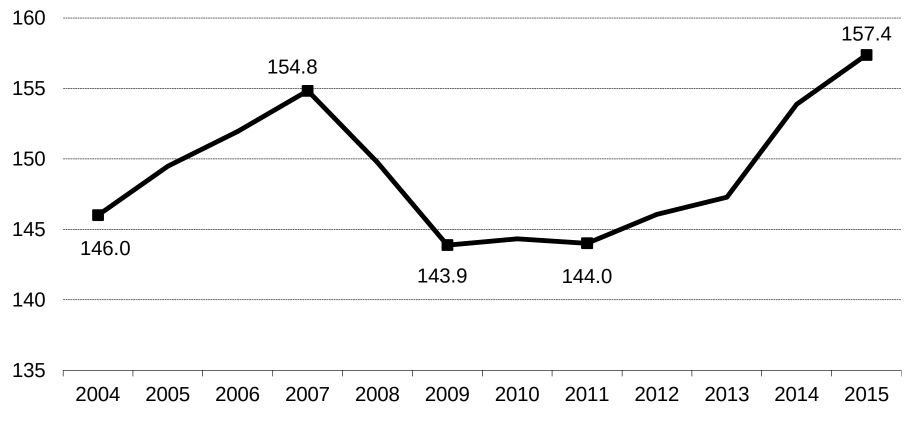
- According to Customs-basis statistics, international goods exports rose by 6.4% in the first eight months of 2015, after increasing by 10.9% in 2014.

Several sectors contributed to the strengthening of exports. In particular, compared with the same period in 2014, in the first eight months of 2015:

- mineral ore exports climbed by 27.8%;
- vehicles and parts exports were up 22.7%;
- energy product exports rose by 16.7%;
- aircraft and parts exports climbed by 10.1%.

The robust growth in exports is likely to continue in the coming years. Expansion of the U.S. economy, which is expected to continue, and the low Canadian dollar will continue driving up international exports.

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



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

❑ Positive contribution of the external sector to economic growth

Net exports, which account for changes in exports and imports, contributed 1.9 percentage points to real GDP growth in 2014.

— This contribution stemmed from a combination of faster growth in exports and moderate growth in imports.

In 2015 and 2016, net exports should continue to make a positive contribution to economic growth.

— Net exports will add 0.4 percentage point to economic growth in 2015 and 0.5 percentage point in 2016.

1.8 Comparison with private sector forecasts

The Ministère des Finances du Québec's economic growth forecast for 2015 and 2016 is similar to the average private sector forecast.

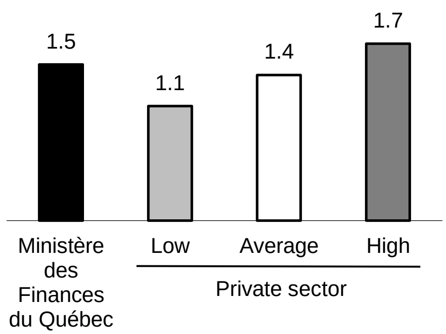
— For 2014, growth stands at 1.5%, the same rate as that indicated in March 2015.

— The 1.5% growth in real GDP forecast for 2015 is 0.1 percentage point higher than the average private sector forecast.

— Real GDP is forecast to grow by 1.7% in 2016, 0.2 percentage point below the average private sector forecast of 1.9% growth.

CHART C.14

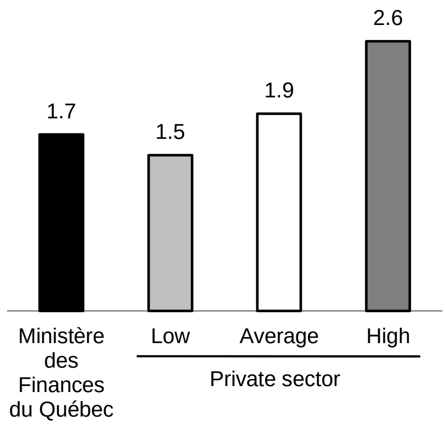
Economic growth in Québec in 2015
(real GDP, percentage change)



Source: Ministère des Finances du Québec summary as of November 10, 2015, which includes the forecasts of 11 private sector institutions.

CHART C.15

Economic growth in Québec in 2016
(real GDP, percentage change)



Source: Ministère des Finances du Québec summary as of November 10, 2015, which includes the forecasts of 11 private sector institutions.

TABLE C.4

Economic outlook for Québec

(percentage change, unless otherwise indicated)

	2014	2015	2016
Output			
Real gross domestic product	1.5	1.5	1.7
– *Budget 2015-2016*	*1.5*	*2.0*	*2.0*
Nominal gross domestic product	2.5	2.4	3.3
– *Budget 2015-2016*	*3.5*	*3.8*	*3.4*
Components of GDP (in real terms)			
Household consumption	1.5	1.9	1.9
– *Budget 2015-2016*	*2.1*	*2.4*	*1.9*
Government spending and investment	0.3	0.1	0.1
– *Budget 2015-2016*	*1.0*	*0.0*	*0.0*
Residential investment	−0.1	1.0	−0.1
– *Budget 2015-2016*	*0.1*	*0.8*	*−1.5*
Non-residential business investment	−11.0	−1.9	2.8
– *Budget 2015-2016*	*−2.5*	*2.8*	*3.8*
Exports	4.5	2.3	3.0
– *Budget 2015-2016*	*2.5*	*3.7*	*3.0*
Imports	0.3	1.3	1.6
– *Budget 2015-2016*	*1.3*	*1.9*	*1.9*
Labour market			
Job creation (thousands)	*−1.1*	38.0	30.3
– *Budget 2015-2016*	*−1.1*	*37.0*	*35.6*
Unemployment rate (%)	7.7	7.7	7.5
– *Budget 2015-2016*	*7.7*	*7.5*	*7.3*
Other economic indicators			
Nominal household consumption (excluding food and rent)	3.0	2.4	3.6
– *Budget 2015-2016*	*3.7*	*3.5*	*3.8*
Wages and salaries	2.1	2.3	3.2
– *Budget 2015-2016*	*2.0*	*3.4*	*3.4*
Household income	2.6	2.8	3.1
– *Budget 2015-2016*	*2.7*	*3.4*	*3.3*
Net operating surplus of corporations	3.8	2.3	6.1
– *Budget 2015-2016*	*6.7*	*8.7*	*6.5*

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

1.9 Five-year economic outlook for 2015-2019

The five-year forecast of the Ministère des Finances du Québec is slightly below the private sector forecast for real GDP growth, price increases and nominal GDP growth.

— The Ministère des Finances du Québec forecasts 1.6% growth in real GDP from 2015 to 2019, compared with the 1.7% growth forecast by the private sector.

— Nominal GDP is expected to grow at an average rate of 3.1% from 2015 to 2019, compared with a private sector forecast of 3.5% growth.

TABLE C.5

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

	2014	2015	2016	2017	2018	2019	Average 2015-2019
Real GDP							
Ministère des Finances du Québec	1.5	1.5	1.7	1.7	1.6	1.5	1.6
Private sector average	1.5	1.4	1.9	1.8	1.7	1.6	1.7
Price change(1)							
Ministère des Finances du Québec	0.9	0.9	1.6	1.7	1.7	1.7	1.5
Private sector average	0.9	1.3	1.9	2.0	1.9	1.9	1.8
Nominal GDP							
Ministère des Finances du Québec	2.5	2.4	3.3	3.4	3.3	3.2	3.1
Private sector average	2.5	2.7	3.8	3.9	3.6	3.5	3.5

Note: Averages may not add due to rounding.
(1) GDP deflator.
Source: Ministère des Finances du Québec summary as of November 10, 2015, which includes the forecasts of 11 private sector institutions.

2. THE SITUATION OF QUÉBEC'S MAIN ECONOMIC PARTNERS

The Québec economy is open to the world. In 2014, total exports accounted for over 46% of Québec's nominal GDP.

— Although Québec has diversified trade in recent years, Canada and the United States remain its main trading partners.

❑ Export trends vary with the destination

In the last few years, the evolution in Québec exports has differed according to destination.

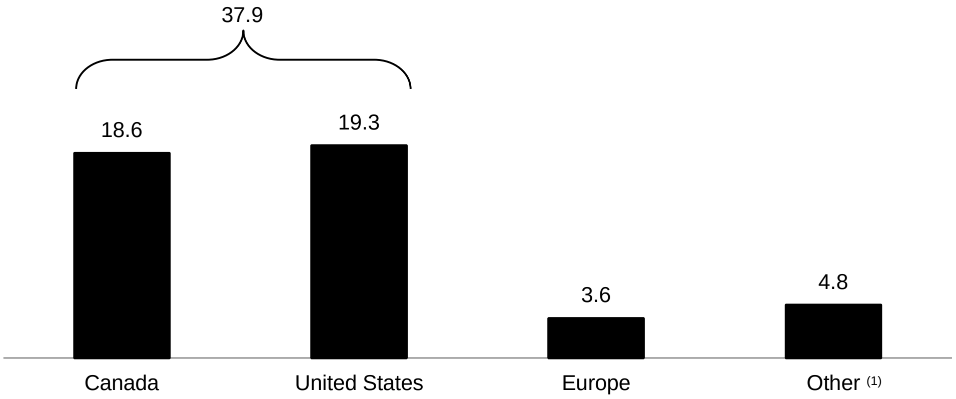
— Exports to the United States, Québec's main trading partner, rose substantially in 2014 owing to a strengthening U.S. economy and low Canadian dollar. This positive trend continued in 2015.

— However, exports to the rest of Canada were flat in 2014. The same scenario is expected in 2015, given a downturn observed elsewhere in Canada, mainly due to a sharp decrease in investment in the energy sector.

— After registering substantial gains in 2014, Québec's exports to the rest of the world stagnated in 2015 owing to a slowdown in global economic growth.

CHART C.16

Share of exports in Québec's GDP, by destination
(as a percentage of nominal GDP in 2014)



(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.

2.1 The economic situation in Canada

❑ Growth weighed down by the energy sector

The drop in oil prices affected the Canadian economy more than expected. As a result, economic growth in Canada is expected to slow to 1.2% in 2015 before accelerating to 1.8% in 2016. These are downward revisions compared with Budget 2015-2016 forecasts.

Canada's real GDP contracted in the first two quarters of 2015 by 0.2% and 0.1%, respectively.

— The weakness was essentially caused by shrinking investment in the energy sector, which dampened economic growth in Canada.

— Also, Canadian manufacturing activity did not offset the contraction in the energy sector.

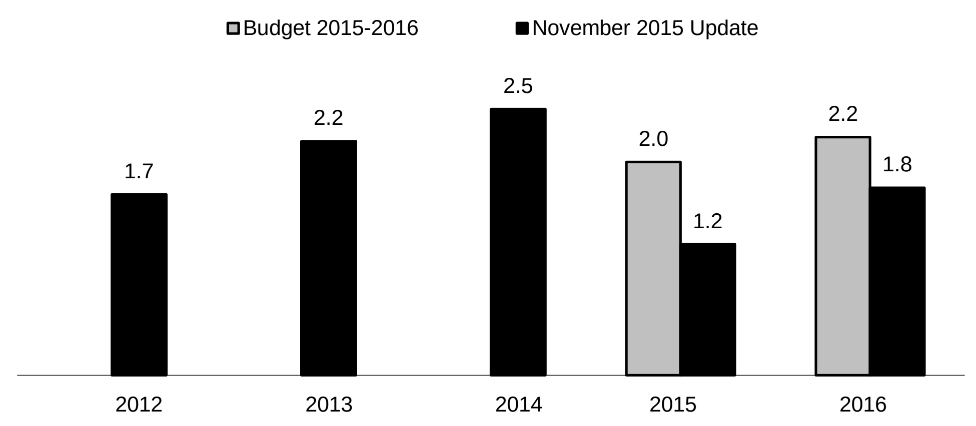
Recent economic indicators point to a rebound in economic activity in the third quarter of 2015. Canada's real GDP by industry registered three consecutive monthly increases from June to August. In addition, the correction in the energy sector appears to have reached a turning point.

— More robust U.S. demand and a low Canadian dollar should continue benefiting Canada's manufacturing sector.

— Nevertheless, persistently low oil prices will continue to dampen energy investment in Canada.

CHART C.17

Economic growth in Canada
(real GDP, percentage change)



Sources: Statistics Canada and Ministère des Finances du Québec.

The energy sector weighed on Canada's economic growth

The slowdown in Canada's economy in the first half of 2015 was concentrated in oil-related industries.[1]

Production in these industries, which account for roughly 9% of the Canadian economy, decreased by $15.4 billion between October 2014 and May 2015, the equivalent of 0.9% of Canada's real GDP.

- The downturn is essentially due to a decline in investment in oil-related industries.

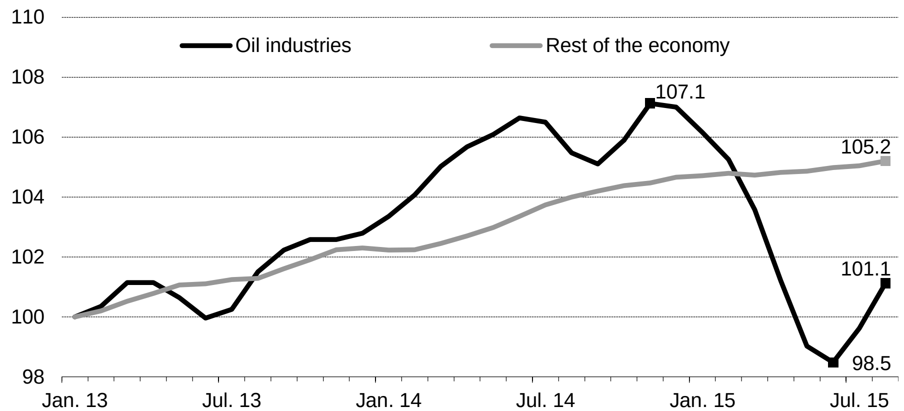
Meanwhile, the output of the rest of the economy continued to grow.

The correction in the Canadian oil sector appears to have ended

The slight rebound in oil industries production in recent months suggests that the correction in Canada's oil sector is coming to an end.

- These industries are expected to no longer put a drag on Canada's economic growth in the coming quarters.
- However, the increase in oil industries production is expected to be modest owing to persistently low oil prices.

Change in production by industry, Canada
(index, January 2013 = 100, three-month moving average, in real terms)



Sources: Statistics Canada and Ministère des Finances du Québec.

1 Oil-related industries include oil and gas extraction, mineral, oil and gas extraction support activities, engineering work and other construction activities.

❑ Oil prices remain low

World oil prices have fallen since 2014, in particular as a result of the sharp increase in production.

— The price of Brent crude oil slid by nearly 56%, from US$112 per barrel in June 2014 to US$50 in January 2015.

— The price rebounded in the first half of 2015, rising to nearly US$65 in May, but then dropped again, falling to an average monthly price of less than US$50 since August 2015.

■ Production will remain high

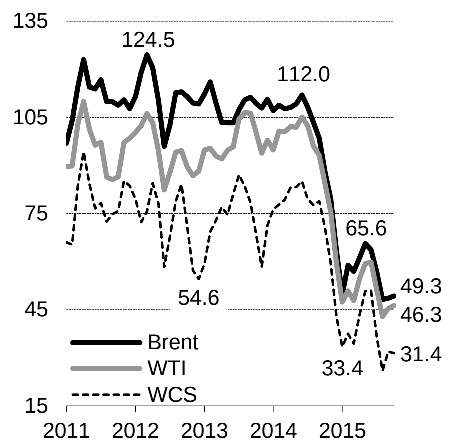
Global oil supply remained high in 2015, primarily due to increased production by member nations of the Organization of the Petroleum Exporting Countries (OPEC). The United States also kept its oil production at a high level, despite the negative impact of lower prices on the profitability of various oil projects.

In 2016, increases in global supply are expected to come mostly from OPEC member nations, who want to preserve their dominant position in global oil production and trade.

— Production in the United States is expected to fall slightly with the decrease in drilling of new wells.

CHART C.18

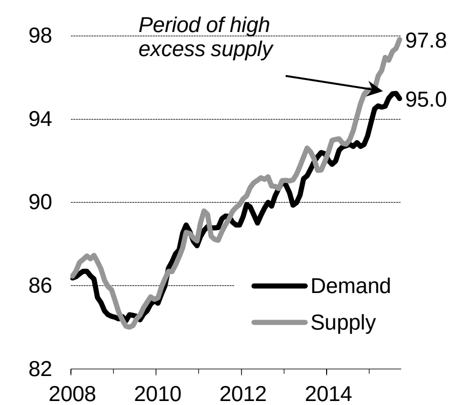
Change in Brent, WTI and WCS[1] prices
(U.S. dollars per barrel, monthly data)



(1) West Texas Intermediate (WTI) and Western Canada Select (WCS).
Sources: Bloomberg and Ministère des Finances du Québec.

CHART C.19

Global oil supply (excluding inventories) and demand[1]
(millions of barrels per day, monthly data)



(1) Three-month moving average using deseasonalized data.
Sources: Bloomberg and Ministère des Finances du Québec.

■ Low oil prices in 2015 and 2016

After falling to a nearly 10-year low in 2015, oil prices are expected to rise gradually in 2016.

— The average per-barrel price of Brent is expected to be US$54 in 2015 and US$55 in 2016. The price of West Texas Intermediate (WTI) oil is expected to be US$49 and US$50 per barrel in 2015 and 2016, respectively.

— The price of Western Canada Select (WCS), the benchmark price for oil in Western Canada, should settle at around US$36 for the same two years.

Global oil supply and demand are expected to gradually rebalance. There will still be a surplus supply in 2015 and 2016, despite a slight downturn in U.S. oil production in 2016.

— According to the U.S. Energy Information Administration, the gap between global oil supply and oil demand is expected to be 1.6 million barrels per day in 2015 and 0.4 million barrels per day in 2016.

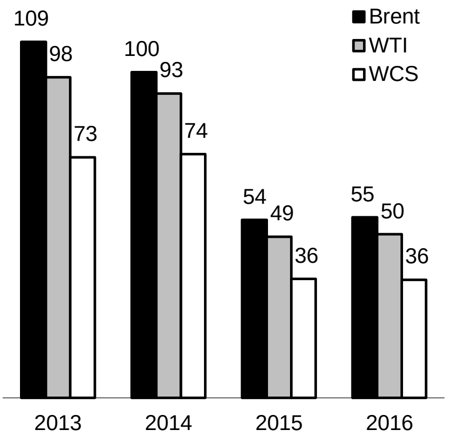
  — Furthermore, with the trade sanctions against Iran soon to be lifted, an increase in its oil production is expected starting in 2016.

— In addition, oil inventories will remain high and continue to drive supply, especially in the United States.

Insufficient transport capacity will continue to affect WCS, whereas oil production in Western Canada should continue expanding in 2016 under the momentum of past investment.

CHART C.20

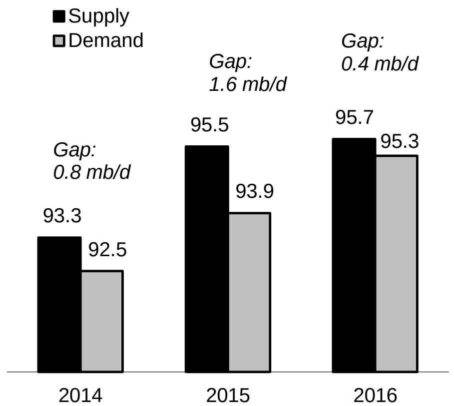
Change in Brent, WTI and WCS prices
(U.S. dollars per barrel)



Sources: Bloomberg and Ministère des Finances du Québec.

CHART C.21

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



Sources: U.S. Energy Information Administration and Ministère des Finances du Québec.

❑ Lower oil prices will have a major impact on Canada's nominal GDP growth in 2015

Lower oil prices, which are expected to stay low in the coming quarters, has a significant impact on the Canadian GDP deflator. A drop in oil prices:

— leads to a substantial decrease in domestic demand prices through lower prices for petroleum products;

— pushes down the value of Canadian exports, Canada being a net exporter of petroleum products.

The combined effect of low petroleum product prices on the real economy and the GDP deflator is expected to cause a major slowdown in nominal GDP growth, which will be 1.1% in 2015.

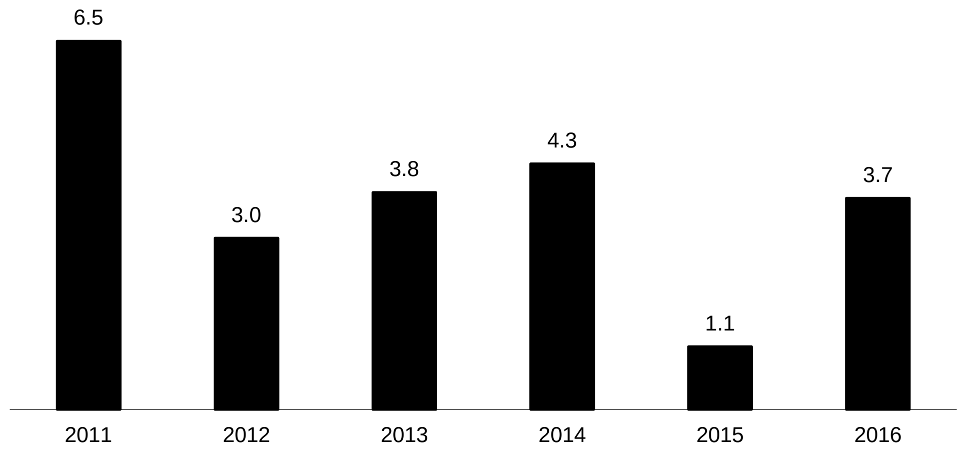
In 2016, growth in Canada's nominal GDP is expected to accelerate to 3.7%.

— Stabilization of oil prices will have a positive impact on the GDP deflator, in terms of both domestic demand prices and export prices.

— A gradual price recovery, coupled with an acceleration in the real economy, will further buoy nominal GDP growth in 2016.

CHART C.22

Nominal GDP in Canada
(percentage change)



Sources: Statistics Canada and Ministère des Finances du Québec.

❑ The Canadian labour market will keep getting stronger

After rising by 0.6% in 2014, the employment level in Canada is expected to increase by 0.8% in 2015, representing approximately 143 000 new jobs.

— Despite job losses in the oil sector, Canada's overall labour market continues to firm up, propelled by job creation in the central provinces, which have taken the lead.

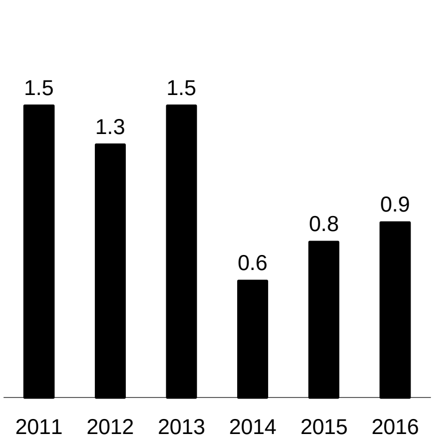
— In the first ten months of 2015, compared with the same period the previous year, 43.1% of the 72 100 private wage-paying jobs added in Canada were created in Québec.

The anticipated upturn in Canada's economy in 2016 should further support job creation. Employment is projected to expand by 0.9% in Canada, adding 153 300 new jobs.

— The unemployment rate will be flat at 6.8% in 2015 and 2016.

CHART C.23

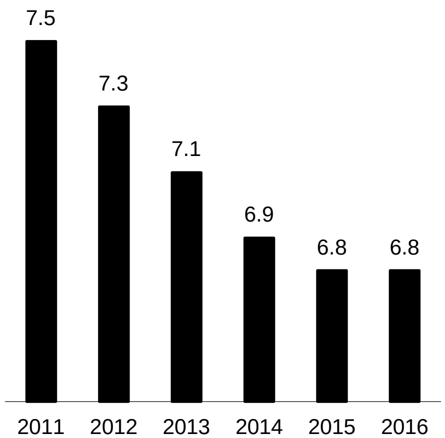
Job creation in Canada
(percentage change)



Sources: Statistics Canada and Ministère des Finances du Québec.

CHART C.24

Unemployment rate in Canada
(per cent)



Sources: Statistics Canada and Ministère des Finances du Québec.

❑ The energy sector will continue dampening non-residential business investment in Canada

The downturn in non-residential business investment in the energy sector was the main cause of Canada's weaker economic growth in the first half of 2015.

— Persistently low oil prices affected the profitability of several oil projects.

— This is expected to translate into a 7.4% downturn in total non-residential business investment in 2015, including a 12.3% decrease in the energy sector.

In 2016, the lack of a significant recovery in oil prices will likely continue dampening investment growth.

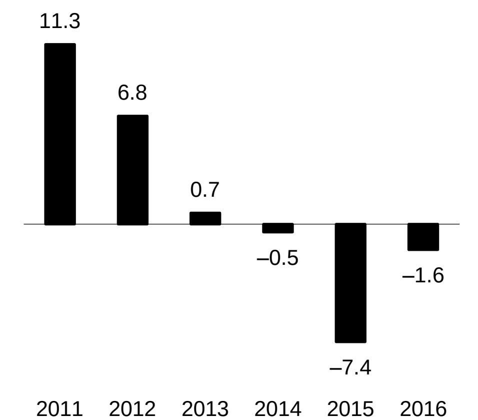
— Total non-residential investment is expected to fall by 1.6%. A 3.0% drop in investment is expected in the energy sector.

— Decreased investment in the energy sector will be tempered by an upturn in investment in the manufacturing sector. Export growth and increasing use of the sector's production capacities should boost manufacturing investment.

CHART C.25

Non-residential business investment in Canada

(percentage change, in real terms)

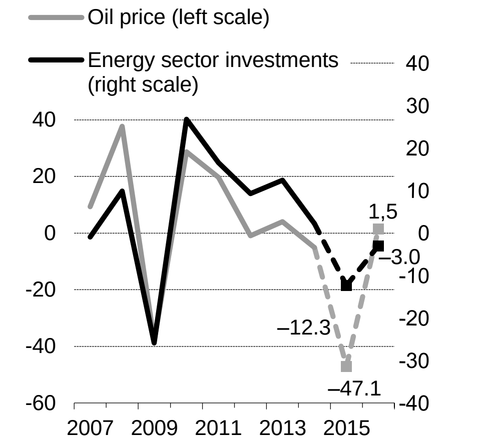


Sources: Statistics Canada and Ministère des Finances du Québec.

CHART C.26

Non-residential business investment in real terms in the energy sector in Canada, and price of oil[1]

(annual percentage change)



(1) Per-barrel price of WTI oil in U.S. dollars.
Sources: Statistics Canada, Bloomberg and Ministère des Finances du Québec.

❑ Household consumption will remain sustained

Spending by Canadian households is projected to increase by 2.0% in 2015 and 2.1% in 2016, a more sluggish growth than in previous years.

— On the one hand, low fuel prices should allow Canadian households to spend more on goods and services. Household spending should also be driven by low interest rates.

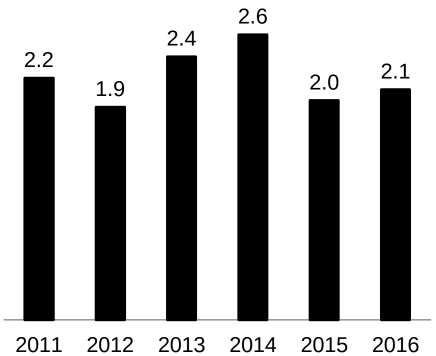
— On the other, lower commodity prices slowed growth in wages and salaries in oil-producing provinces in the first six months of 2015, which will dampen growth in consumption in Canada as a whole.

In 2016, consumption is expected to increase at much the same pace as in 2015.

— The labour market will continue improving and should support wage growth.

CHART C.27

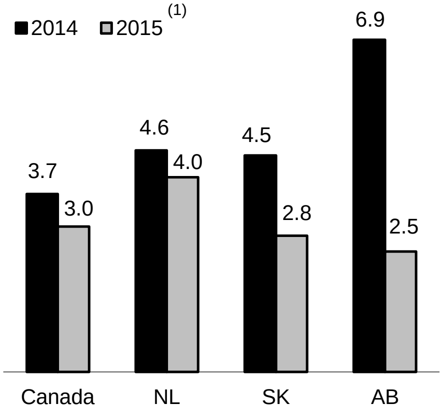
Household consumer spending in Canada
(percentage change, in real terms)



Sources: Statistics Canada and Ministère des Finances du Québec.

CHART C.28

Wages and salaries in Canada's oil-producing provinces
(percentage change, in nominal terms)



(1) Cumulative figures for the available six months in 2015 compared with the same period in 2014.
Source: Statistics Canada.

❑ A temporary upturn in the real estate sector

Canada's housing market was surprisingly robust in early 2015. Low interest rates boosted housing demand. As a result, residential investment is expected to rise by 3.9% in real terms in 2015.

— The dynamic housing markets in Ontario and British Columbia counterbalanced the weakness in oil-producing provinces. Approximately 190 800 housing starts are forecast in 2015.

However, the upturn in the residential sector will likely be temporary, as most of the demand for new housing will already have been met. A 2.8% downturn in residential investment is expected in 2016.

— Consequently, housing starts are expected to return to a level in line with household formation in Canada, which is roughly 186 000 a year.

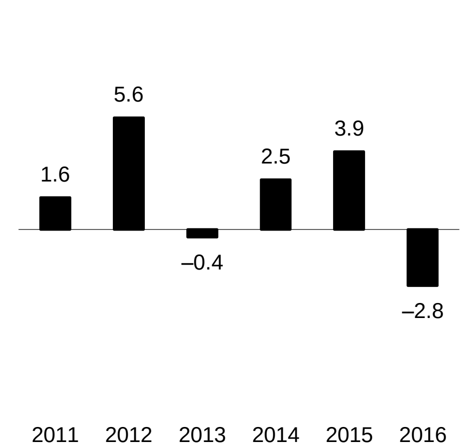
❑ Government investments will remain at high levels

Public investment in Canada will remain at high levels thanks to investments by the provincial and local governments. The new federal government elected on October 19 is expected to increase the federal contribution. However, these investments are not factored into the present forecast.

— The value of investments by all levels of government in Canada is forecast to rise from $76.7 billion in 2014 to $82.5 billion in 2016.

CHART C.29

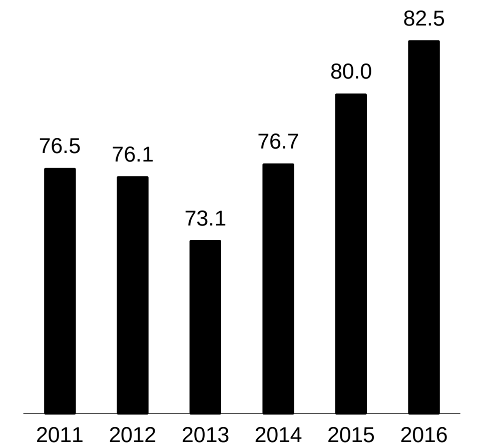
Residential investment in Canada
(percentage change, in real terms)



Sources: Statistics Canada and Ministère des Finances du Québec.

CHART C.30

Government investment in Canada
(billions of dollars, in nominal terms)



Sources: Statistics Canada and Ministère des Finances du Québec.

❑ Deterioration in the trade balance despite a growth in exports

Canadian exports are expected to grow by 2.8% in real terms in 2015 before accelerating to 3.7% in 2016.

— Depreciation of the loonie and a more robust U.S. economy will continue to boost exports, particularly in the manufacturing sector. Lower oil prices have little effect on the volume of oil exports.

Imports are projected to increase in real terms by 0.7% in 2015 and 1.1% in 2016.

— The modest growth in imports is due, in particular, to the downturn in energy investment and the weak Canadian dollar, which makes imported products more expensive.

Consequently, the external sector is expected to contribute 0.7 percentage point to Canada's real GDP growth in 2015 and 0.8 percentage point in 2016.

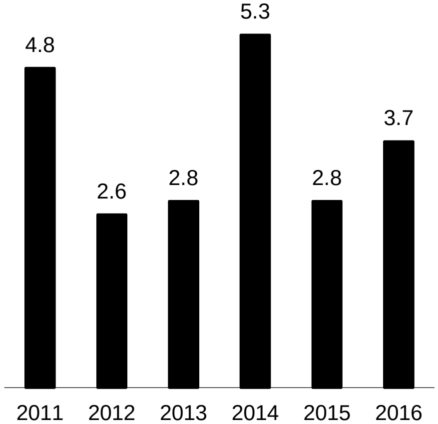
— In nominal terms, however, the drop in oil prices will negatively impact Canada's trade balance, pushing the deficit from $18.6 billion in 2014 to approximately $45 billion in 2015.

— The value of energy exports is expected to fall by nearly $40 billion in 2015.

CHART C.31

Exports in Canada

(percentage change, in real terms)

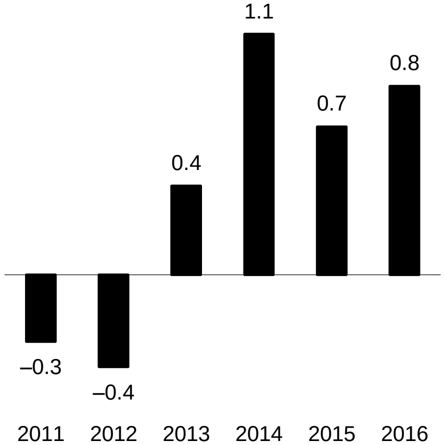


Sources: Statistics Canada and Ministère des Finances du Québec.

CHART C.32

Contribution of net exports to real GDP growth in Canada

(percentage points)



Sources: Statistics Canada and Ministère des Finances du Québec.

2.1.1 **Evolution of financial markets**

❑ Increased volatility across global financial markets

International financial markets became more volatile in summer 2015, in particular due to concerns about slowing growth in emerging economies, especially China.

— The Chinese stock market began plummeting in mid-June, when investors started to realize that the surge in China's stock market since the beginning of the year was not reflective of the real economy.

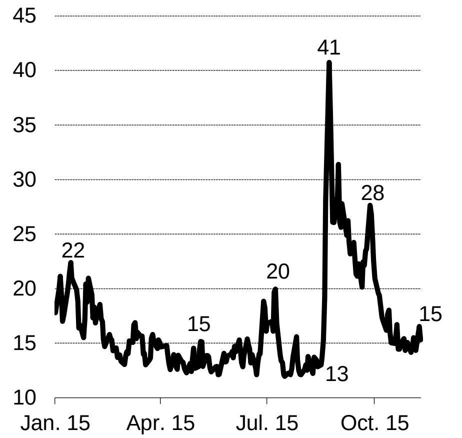
— The stock market correction intensified following China's surprise decision to devalue the yuan against the U.S. dollar, dragging the stock markets of the major advanced economies in its wake.

Concerns about Chinese demand, combined with an abundant natural resource supply, also pushed down the price of many commodities, negatively impacting resource-producing countries. The Canadian stock market, which is heavily weighted with natural resource stocks, was not spared.

Furthermore, heightened risk aversion during the market turbulence drove up demand for safer assets, in particular Canadian, U.S. and German government debt securities, resulting in lower bond yields in those countries.

CHART C.33

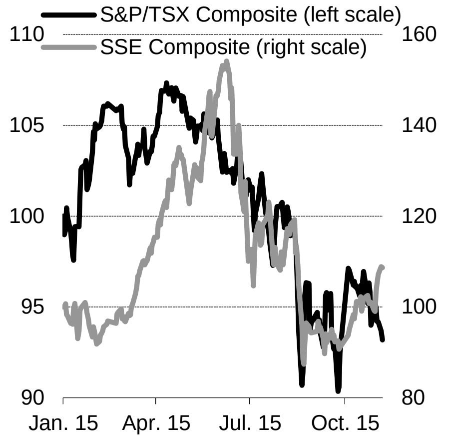
VIX volatility index(1) of U.S. stock market conditions
(per cent)



(1) The VIX, referred to as the "fear index," measures market expectations of 30-day volatility calculated using S&P 500 index options.
Source: Bloomberg.

CHART C.34

Toronto and Shanghai stock exchange indexes
(indexes, January 5, 2015 = 100)



Sources: Bloomberg and Ministère des Finances du Québec.

❑ The Federal Reserve could raise its key interest rate at the end of 2015

Unlike in the rest of the world, the U.S. economy continues to show robust growth and the U.S. Federal Reserve (Fed) is poised to start raising the key rate.

— Based on the assumption used by the Ministère des Finances du Québec in its forecasts, the first key interest rate hike is expected in December 2015.

Moreover, in its October 28 press release, the Fed showed it was less worried about international market conditions by no longer saying that global economic and financial developments could restrain U.S. economic activity.

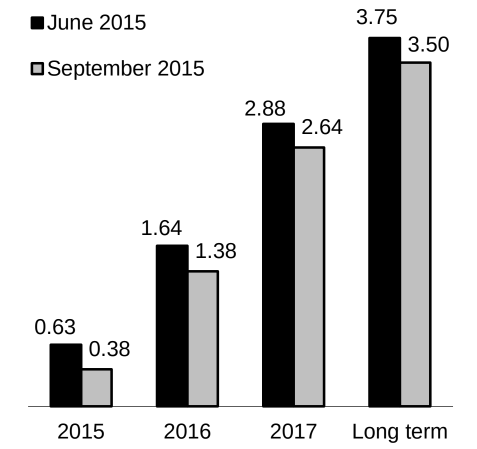
Consequently, the Fed could tighten its monetary policy at the end of 2015 or beginning of 2016.

— The Fed has stated that it will base its decision on the progress made in achieving its objectives of maximum employment and 2% inflation.

— Encouraging statistics on both of those fronts could prompt the central bank to raise the key interest rate for the first time in nearly ten years.

CHART C.35

U.S. Federal Reserve projections for the key interest rate(1)
(target for the federal funds rate, per cent, at year-end)

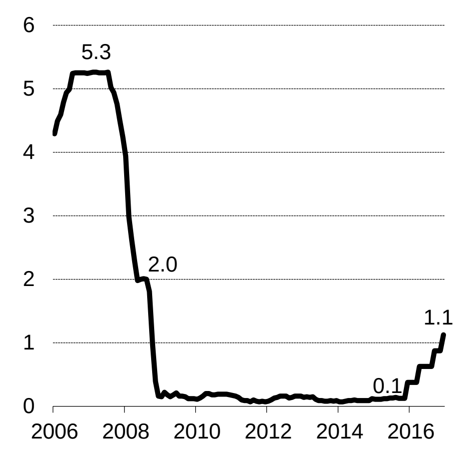


(1) Median projection of the 17 participants in the Federal Open Market Committee.
Source: U.S. Federal Reserve.

CHART C.36

Key interest rate in the United States

(federal funds rate, per cent)



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

❑ Protracted period of low interest rates in Canada

Due to the slowdown caused by the energy sector, the Bank of Canada (BoC) lowered its overnight target rate to 0.50% in July, the second rate cut this year.

— The BoC felt the easing was necessary given the contraction in the Canadian economy in the first half of 2015.

— In its September 9 and October 21 decisions, the BoC maintained its target for the overnight rate at 0.50% given the positive developments in economic activity and inflation since July.

No further cuts in the overnight rate should be needed in the coming quarters, considering the anticipated return to growth of the Canadian economy in the third quarter and the depreciation of the loonie since the beginning of the summer.

However, the effects of lower oil prices on the Canadian economy and ongoing adjustments in the resource sector will likely lead the BoC to wait until 2017 before it starts raising its key interest rate.

Elsewhere, the yields on Government of Canada bonds trended downward from mid-June to the end of October. However, they recently rose in connection with growing expectations of the first rate hike in the United States in December 2015.

— Thus, long-term interest rates are expected to rise gradually in Canada in the coming quarters in connection with the increase in U.S. bond yields and anticipated strengthening of economic activity in Canada.

TABLE C.6

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

	2014	**2015**	**2016**
Target for the overnight rate	1.0	0.6	0.5
– *Budget 2015-2016*		*0.6*	*0.8*
3-month Treasury bills	0.9	0.5	0.5
– *Budget 2015-2016*		*0.6*	*0.9*
10-year bonds	2.2	1.5	2.1
– *Budget 2015-2016*		*1.7*	*2.6*
Canadian dollar (in U.S. cents)	90.2	77.4	74.1
– *Budget 2015-2016*		*78.1*	*77.1*

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

❑ The loonie will remain weak against the greenback

After averaging 96.6 U.S. cents in 2013 and 90.2 U.S. cents in 2014, the Canadian dollar continued to fall against the U.S. dollar this year.

— The Canadian dollar is forecast to average 77.4 U.S. cents in 2015 and 74.1 U.S. cents in 2016, similar levels to those seen in the early 2000s.

The Canadian dollar is expected to remain under pressure against the U.S. dollar for the next few quarters.

— The U.S. Federal Reserve is expected to begin raising its key interest rate soon, whereas the Bank of Canada is expected to wait until 2017 before tightening its monetary policy.

  — The divergence in Canadian and U.S. monetary policies will translate into wider interest rate spreads for certain maturities, which will have a downward impact on the exchange rate.

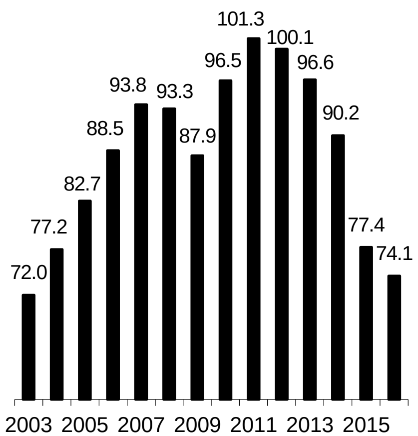
— In addition, oil prices are expected to remain low in the coming quarters. The value of the Canadian dollar is linked to oil prices.

— Lastly, the U.S. dollar is expected to keep appreciating against other currencies as the U.S. economy continues to strengthen.

CHART C.37

Canadian dollar exchange rate

(U.S. cents, annual average)

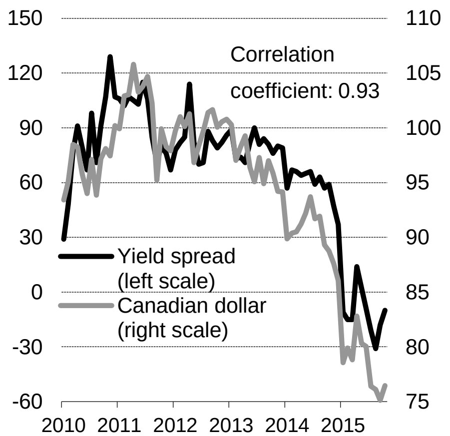


Sources: Bloomberg and Ministère des Finances du Québec.

CHART C.38

Spread between Canadian and U.S. 2-year bond yields(1) and Canadian dollar exchange rate

(basis points and U.S. cents, monthly data)



(1) Yield in Canada minus yield in United States.

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

The Canadian dollar has fallen very little against numerous currencies

With the U.S. Federal Reserve being one of the rare central banks poised to raise its key interest rate, the U.S. dollar has appreciated against a large basket of currencies in recent quarters. Between June 2014 and October 2015:

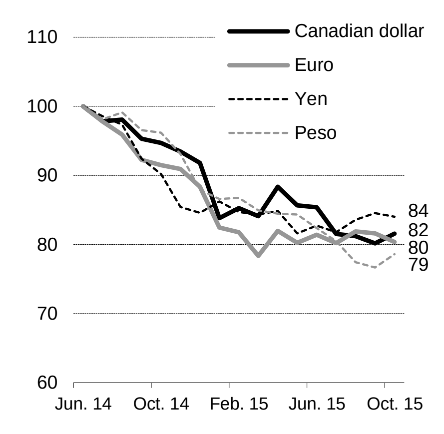
- the U.S. dollar rose 19% in value against the currencies of the United States' major trading partners;
- in contrast, in Canada monetary easing and falling oil prices pushed the value of the loonie down 18%. The euro lost 20% and the yen, 16%, as a result of the quantitative easing programs instituted in the euro area and Japan.

The downward trend was even more pronounced for certain emerging currencies. For example, the Mexican peso depreciated 21% between June 2014 and October 2015. In 2014, 12.5% of U.S. imports came from Mexico, the United States' third top supplier after China (19.9%) and Canada (14.8%).

In this context, since June 2014, the Canadian dollar has fallen only 3% or so against the currencies of its main trading partners excluding the United States. Even though the loonie has depreciated against the greenback, Canada does not necessarily have a competitive edge over other countries.

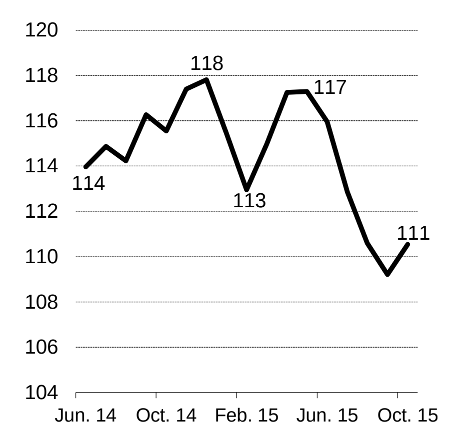
- Therefore, Canadian businesses cannot rely solely on the value of the loonie to remain competitive. If they want to retain their share of the U.S. market, they have to innovate and invest.

Exchange rate against the U.S. dollar, selected currencies
(indexes, June 2014 = 100)



Sources: Bloomberg and Ministère des Finances du Québec.

Canadian-dollar effective exchange rate index excluding the U.S. dollar(1)
(index, year 1992 = 100)



(1) Weighted average of Canadian dollar exchange rates against the currencies of Canada's top five trading partners excluding the United States.
Sources: Bank of Canada and Ministère des Finances du Québec.

2.2 The economic situation in the United States

❑ Growth driven by domestic demand

Unlike the trend in the global economy, U.S. real GDP growth is expected to remain at 2.4% in 2015, the same rate as in 2014, and accelerate to 2.6% in 2016. However, the economic growth forecast for the United States has been revised downward by 0.5 percentage point for 2015 and 0.1 percentage point for 2016 relative to Budget 2015-2016.

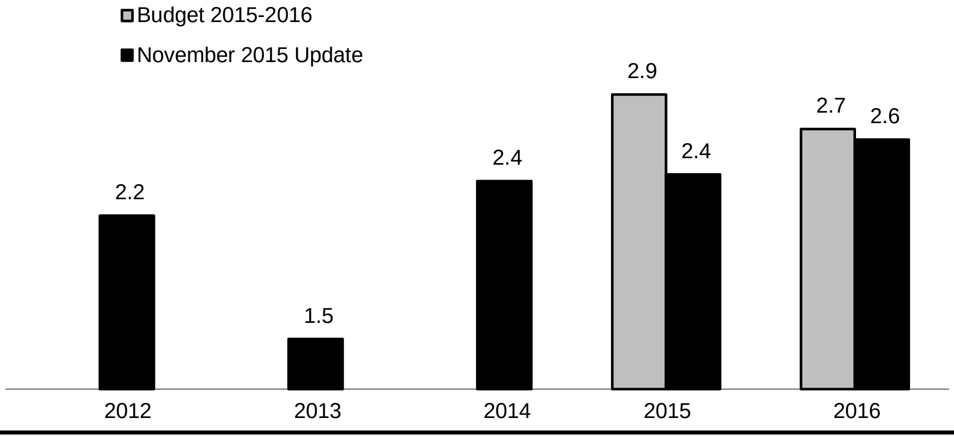
In 2015 and 2016, U.S. economic growth will be supported primarily by an increase in domestic demand, driven by:

- consumer spending, which will benefit from ongoing improvement in employment and wages;
- business investment, with the increase in consumer spending boosting demand for U.S. products;
- residential investment, fuelled by an acceleration in household formation;
- a positive contribution from public spending to economic growth, for the first time since 2010.

On the other hand, net exports will not contribute to economic growth. Slowdowns in some of the United States' major trading partners and a higher U.S. dollar will dampen growth in the country's exports. In addition, the rapid pace of inventory accumulation in the first half of 2015 is expected to turn around and limit the expansion of real GDP in 2016.

CHART C.39

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



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

❑ Better labour market conditions will bolster consumption

The pace of growth in consumer spending is projected to accelerate from 2.7% in 2014 to 3.1% in 2015 and then be 2.9% in 2016. Consumption will be fuelled in particular by the increase in personal disposable income since 2014.

— In 2015, growth in personal disposable income is expected to accelerate to 3.4% owing to a 2.1% increase in the number of jobs.

— In addition, oil prices are expected to remain low in 2015 and 2016, which means consumers' purchasing power will continue to rise.

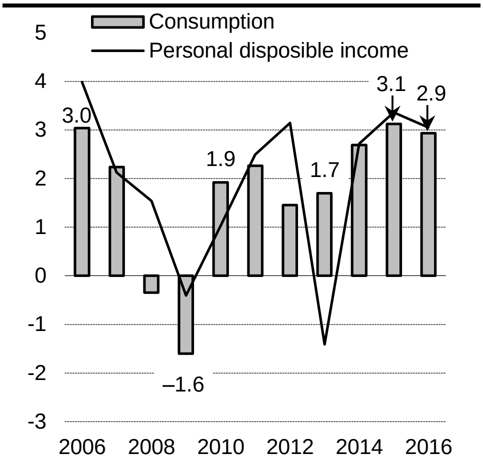
Furthermore, the high level of consumer confidence and lower level of U.S. household debt, which has fallen over the last few years, should spur an increase in consumer spending.

— After peaking at 17.9% in 2007, the average ratio of household financial obligations[3] to personal disposable income has been 15.4% since the beginning of 2015, below the average rate of 16.6% seen between 1980 and 2007.

CHART C.40

Consumption and personal disposable income in the United States

(percentage change, in real terms)

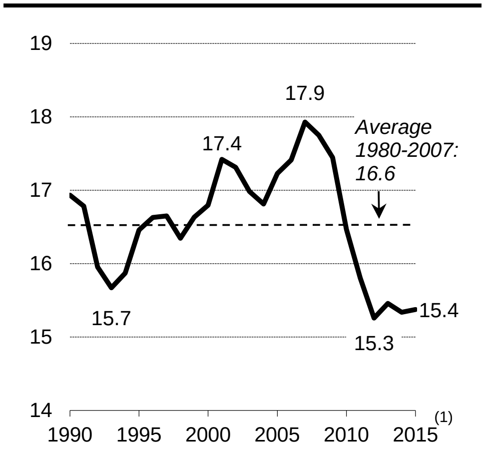


Sources: IHS Global Insight and Ministère des Finances du Québec.

CHART C.41

Household financial obligations

(as a percentage of personal disposable income, annual data)



(1) Average from January to June 2015.
Sources: IHS Global Insight and Ministère des Finances du Québec.

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3 Includes required payments on outstanding mortgage, consumer debt, automobile leases, homeowners' insurance and property tax and rent on tenant-occupied property.

The lower gasoline prices had a delayed impact on consumption

Lower gasoline prices left households with extra money that eventually translated into consumer spending.

- From June 2014 to January 2015, the price of gasoline fell by 43% in the United States, to US$2.12 a gallon. According to the U.S. Energy Information Administration, the decrease would increase the purchasing power of American consumers by the equivalent of US$750 a year per household.

A delayed impact

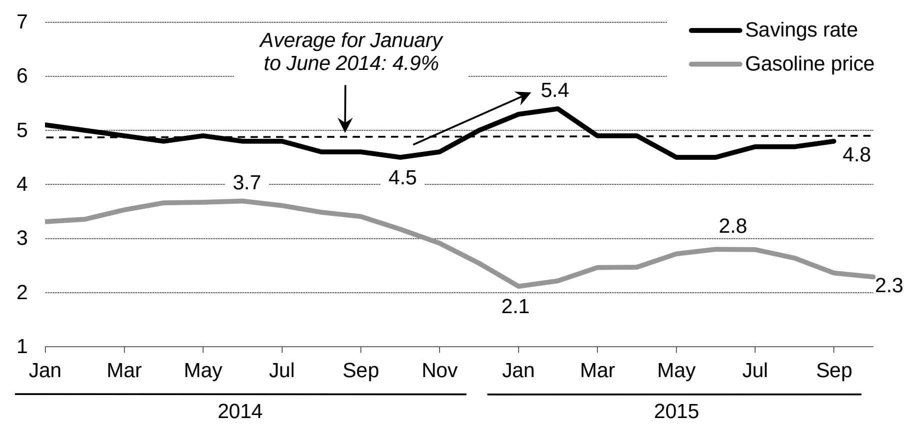
Goldman Sachs[1] equated the impact of lower gasoline prices on consumer spending to a tax cut and said it can take up to three quarters to be felt.

U.S. households put a portion of their extra money into savings until they were convinced that the lower gasoline prices would last.

- Between October 2014 and February 2015, the savings rate rose from 4.5% to 5.4% as the price of gasoline continued the slide that began in the second half of 2014 and harsh weather conditions dampened certain types of spending.

- Starting in March 2015, the savings rate began returning to the average level seen before oil prices fell. When they realized that gasoline prices were likely to remain low, consumers started spending more.

Change in the savings rate and price of gasoline
(savings rate as a percentage of personal disposable income and price of gasoline in U.S. dollars a gallon)



Sources: IHS Global Insight, U.S. Energy Information Administration and Ministère des Finances du Québec.

1 Goldman Sachs Research, "The Consumption Puzzle," *US Daily,* May 2015.

❑ The labour market continues to improve

Following the creation of 2.6 million jobs in 2014, the United States economy is expected to add a record 2.9 million jobs in 2015, the best job creation performance since 1999.

Since the start of 2015, employment has continued to see strong growth and the unemployment rate has continued to fall, going from 5.7% in January to 5.0% in October.

— The employment rate, that is, the share of the working-age population that is employed, has risen, averaging 59.3% since the start of 2015, the highest rate since 2009.

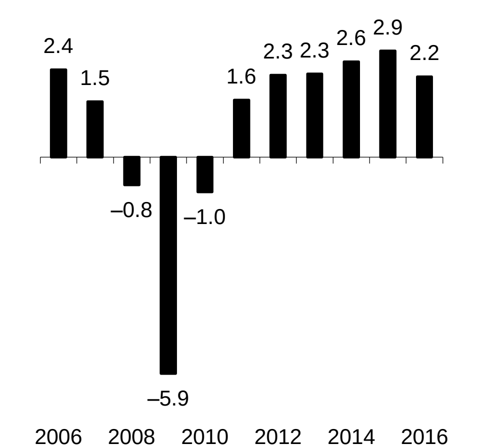
In 2016, a normal slowdown in job creation following the surge in 2015 is expected under the combined effect of a shrinking available labour pool and faster growth in hourly wages.

— The share of discouraged unemployed persons and involuntary part-time workers in the population aged 16 and over dropped from 4.2% in 2010 to an average 2.8% since the start of 2015.

— As well, after rising by 2.1% in both 2014 and 2015, hourly wages in the private sector are expected to increase by 2.5% in 2016 due to greater competition among businesses in hiring and retaining workers.

CHART C.42

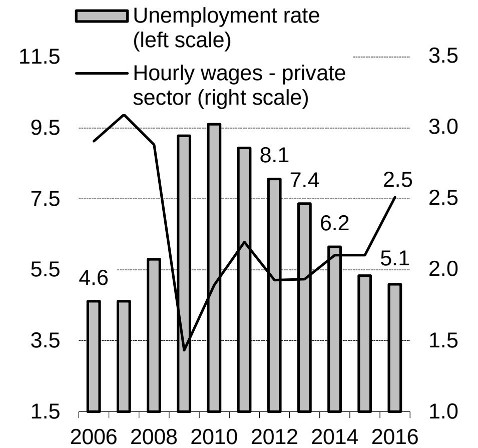
Change in employment in the United States
(annual change in millions)



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

CHART C.43

Unemployment rate and hourly wages in the United States
(per cent, annual data)



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

❑ Faster growth in business investment

After rebounding 6.2% in 2014, business investment is expected to see moderate growth in 2015, at a rate of 3.5% in real terms. The slowdown should be temporary, though, after which investment growth is expected to accelerate to 4.8% in 2016.

The increase in investment in the coming quarters will be driven by:

— an increase in household consumption expenditure as a result of improvement in the job market, which will encourage businesses to invest in order to meet demand;

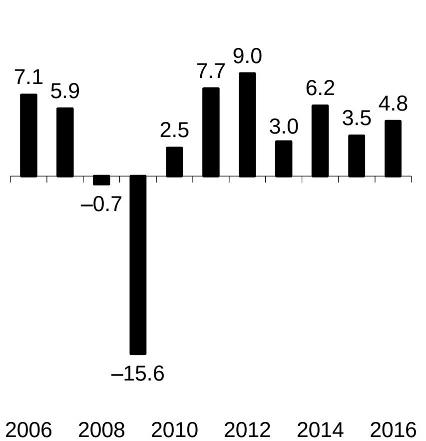
— still-advantageous financing costs and the ample liquidity built up by U.S. firms since the end of the recession, which will help finance new projects.

Robust growth in business investment is expected in several areas, particularly industrial equipment, computer science and communication equipment.

— However, investment in the energy sector, which has been in sharp decline, will continue to be negatively affected by low oil and natural gas prices.

CHART C.44

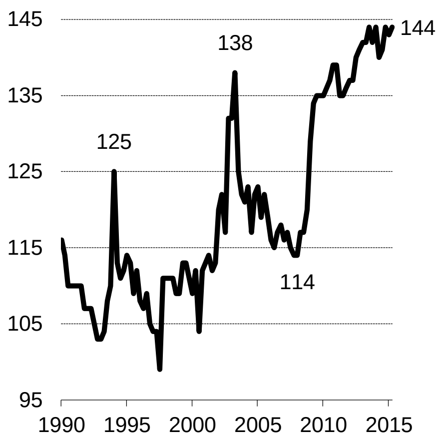
Business investment in the United States
(percentage change, in real terms)



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

CHART C.45

Firms' liquid assets to short-term debt ratio(1)
(per cent)



(1) Current ratio for S&P 500 firms.
Sources: Bloomberg and Ministère des Finances du Québec.

❑ Strong growth in residential investment

After slowing to 1.8% in 2014, growth in residential investment is expected to gain traction in the United States, rising to 8.8% in 2015 and 8.7% in 2016.

The growth in residential investment in the next two years will be supported by the easing of mortgage credit conditions in combination with households getting back into the housing market after cleaning up their balance sheets in the wake of the 2008-2009 recession.

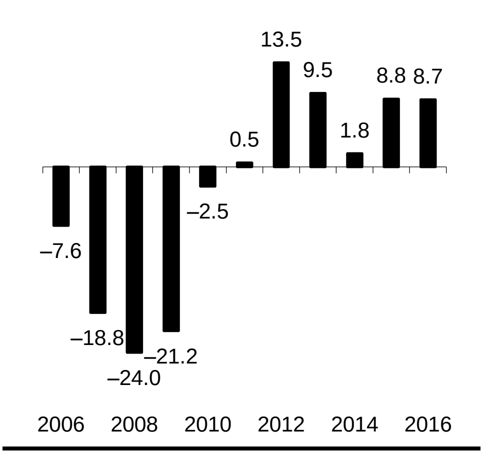
— In early 2015, mortgage lenders Fannie Mae and Freddie Mac relaxed lending conditions for first-time buyers by lowering their down payment requirements, which will have a positive impact on real estate purchases.

— At the same time, in the coming years, many owners who had their homes foreclosed during the 2008-2009 recession will be able to obtain mortgage credit again, as people are sometimes required to wait up to seven years before being able to get another mortgage loan following a foreclosure.

— In addition, household formation, which tumbled during the recession, has returned to the levels registered before the financial crisis.

CHART C.46

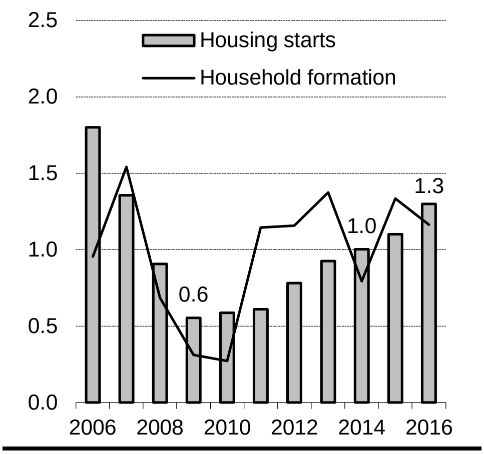
Residential investment in the United States
(percentage change, in real terms)



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

CHART C.47

Housing starts and household formation in the United States
(millions of units)



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

❑ Government spending on the rise

After declining by 0.6% in 2014, spending by all levels of government in the United States is expected to grow by 0.7% in real terms in 2015 and 0.9% in 2016. For the first time since 2010, public spending is projected to make a positive contribution to economic growth in 2015.

— Spending by State and local governments will be supported by the positive impact of upturns in the labour market and real estate sector on their tax revenues. In real terms, government spending is expected to increase by 1.4% in 2015 and 2016, after rising by 0.6% in 2014.

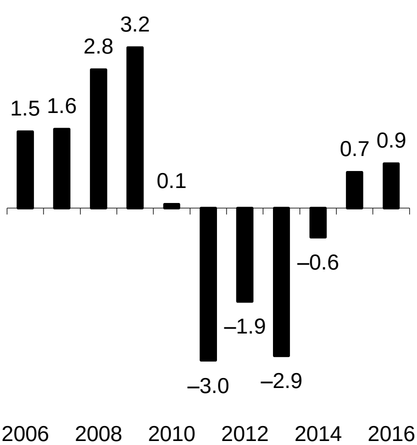
— After dropping by 2.4% in 2014, U.S. federal government spending in real terms is expected to fall by 0.4% in 2015, limited by the fiscal consolidation efforts to reduce the federal deficit as a percentage of GDP. Federal spending growth of 0.1% is projected for 2016.

According to estimates from the Congressional Budget Office, a federal agency that provides non-partisan analysis to Congress, the federal deficit will continue shrinking gradually in nominal terms from 2.5% of GDP in 2015 to 2.2% of GDP in 2016.

— The federal public debt is projected to edge up from 73.8% of GDP in 2015 to 74.4% in 2016.

CHART C.48

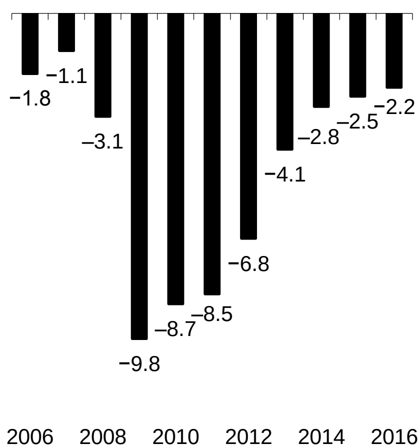
Government spending in the United States[1]
(percentage change, in real terms)



(1) Spending by all levels of government.
Sources: IHS Global Insight and Ministère des Finances du Québec.

CHART C.49

Federal government's budgetary balance
(as a percentage of GDP)



Source: Congressional Budget Office.

❑ Export growth limited by the strong dollar

Following 3.4% growth in 2014, real exports are expected to grow by 1.7% in 2015 and 3.7% in 2016. Since the start of 2015, growth in U.S. exports has been limited by:

— appreciation in the U.S. dollar, which made exporting businesses less competitive against their international counterparts;

— weaker economic growth among several key U.S. trading partners, including Latin America, Canada and China.

In 2016, U.S. exports are expected to expand at a faster pace, in particular due to improvement in the global economic situation. However, the strong U.S. dollar will continue to put a drag on export growth.

Imports are projected to grow by 5.6% and 4.8% in 2015 and 2016, respectively, spurred by:

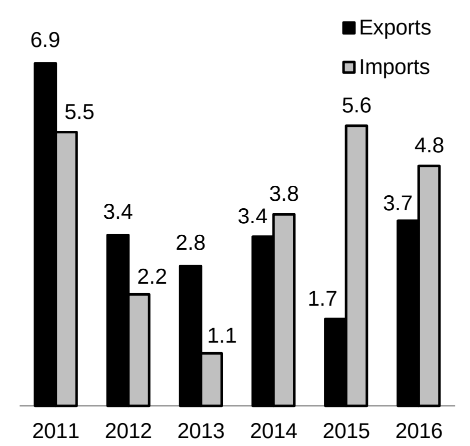
— an increase in U.S. domestic demand, in particular household consumption and investment;

— higher demand for imported goods as a result of the 19% rise in the U.S. dollar since June 2014, which makes these goods less expensive.

As exports are increasing at a slower pace than imports, net exports should make a negative contribution to U.S. economic growth for the next two years.

CHART C.50

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

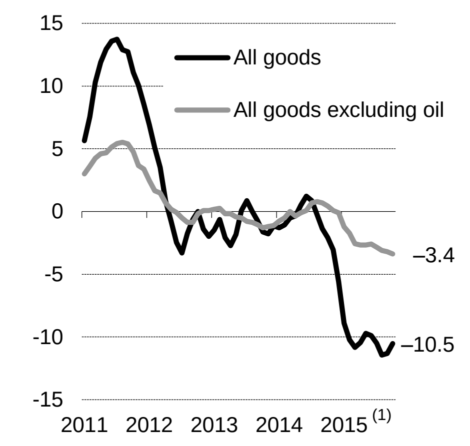


Sources: IHS Global Insight and Ministère des Finances du Québec.

CHART C.51

Change in the prices of U.S. imports

(annual percentage change)



(1) Includes data from January to October.
Sources: IHS Global Insight and Ministère des Finances du Québec.

3. THE INTERNATIONAL ECONOMIC CONTEXT

Following 3.4% expansion in 2014, global economic growth is expected to slow to 3.0% in 2015 and then stand at 3.3% in 2016. This is a downward adjustment of 0.4 percentage point for 2015 and 0.3 percentage point for 2016 relative to the Budget 2015-2016 forecast.

— The weaker growth rate in 2015 is primarily due to slowing growth in emerging economies.

  — Given China's share of global GDP (16%), moderation in its economic growth adversely affects the economic outlook for several emerging nations and some advanced nations.

— In addition, the drop in commodity prices weighs heavily on the outlook for several exporting countries.

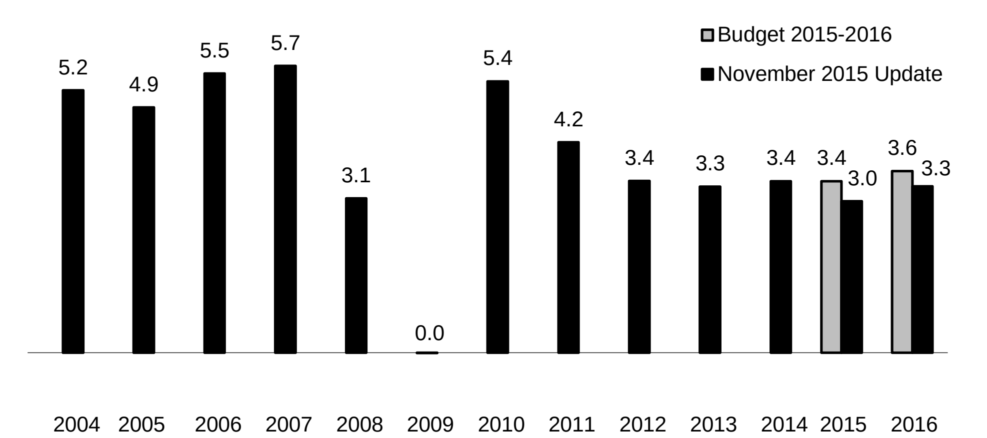
In 2016, global economic growth should gradually pick up in both advanced and emerging economies.

— Among advanced economies, the United States will remain an important engine of growth. The recovery is expected to continue in the euro area and Japan, especially thanks to accommodative monetary policy and the positive impact of low commodity prices on consumers and businesses.

— In China, the actions taken by authorities will temper the slowdown in growth.

CHART C.52

Global economic growth
(real GDP in purchasing power parity, percentage change)



Sources: International Monetary Fund, IHS Global Insight, Eurostat and Ministère des Finances du Québec.

❑ Growth in world trade remains modest

According to the CPB Netherlands Bureau for Economic Policy Analysis, world merchandise trade rose 2.5% in real terms in 2013 and 3.3% in 2014.

In the first half of 2015, global trade volumes fell by 1.5% due to the hardships experienced by several emerging economies.

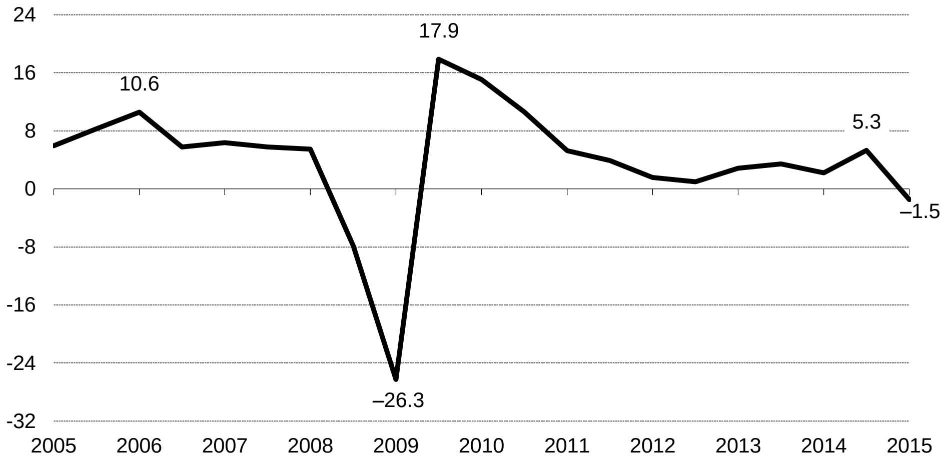
— These economies registered a 2.4% decline in exports and an 8.2% drop in imports, whereas advanced economies saw moderate growth in their exports (+0.5%) and imports (+3.6%).

In the coming quarters, global trade will continue to be constrained, in particular by the ongoing slowdown in China's economic growth.

Despite the modest growth outlook, stabilization of certain emerging economies and the implementation of several trade agreements should prevent a stagnation in world trade.

CHART C.53

World merchandise trade, in real terms
(half-year change, per cent, annualized rate)



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

3.1 Firmer growth in advanced economies

Advanced economies are expected to see firmer growth, at rates of 1.9% in 2015 and 2.1% in 2016.

— The United States will remain the main driver of growth among advanced economies, accounting for nearly half of this group's total growth.

— More modest growth is expected in the euro area and Japan, as they are more exposed to slowdowns in emerging economies. The euro area and Japan export more than the United States to emerging nations such as BRICS (Brazil, Russia, India, China and South Africa).

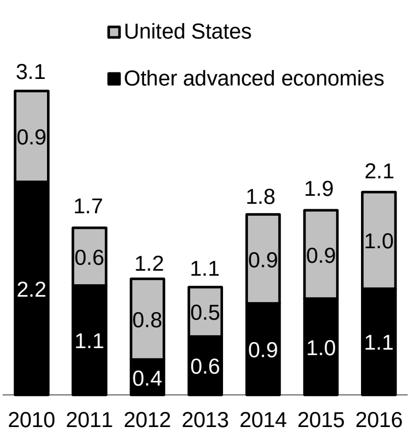
Advanced economies will continue to benefit, in particular, from low commodity prices as well as still-accommodative monetary policies in several countries.

— However, advanced economies will experience less growth than emerging economies.

— In addition, the medium-term growth outlook for several advanced economies will be affected by population aging.

CHART C.54

Growth in advanced economies
(growth in per cent and contribution in percentage points)

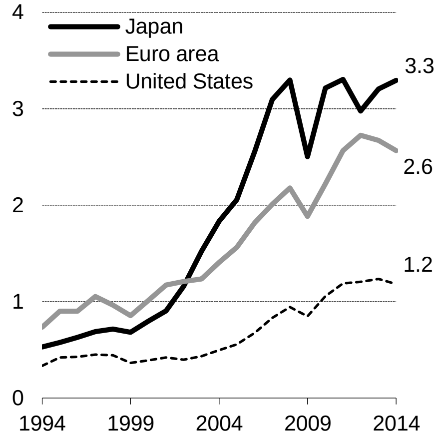


Note: Figures at the top indicate growth measured by the percentage change in real GDP in purchasing power parity.
Sources: IHS Global Insight, International Monetary Fund and Ministère des Finances du Québec.

CHART C.55

Exports to BRICS(1)

(as a percentage of GDP)



(1) Brazil, Russia, India, China and South Africa.
Sources: Datastream and Ministère des Finances du Québec.

Foreign demand for Québec products

The index of foreign demand for Québec products (IFDQP) reveals the growth potential of Québec's international goods exports, taking into account global economic activity.

- The index combines measures of U.S. demand for consumer goods and investment and a measure of global GDP excluding the United States. However, it evolves independently of fluctuations in the Canadian dollar.

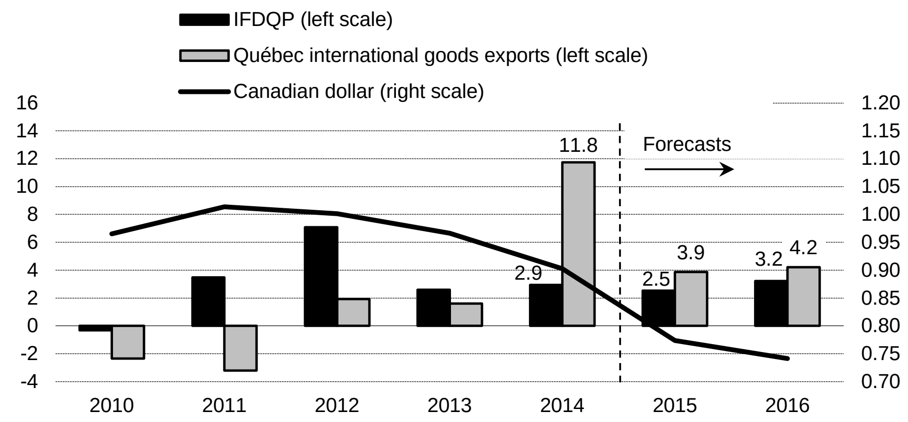
Real exports of Québec goods are expected to benefit from higher foreign demand and a weak Canadian dollar

Despite sustained growth in foreign demand, an average decline of 0.5% in Québec goods exports was registered annually from 2010 to 2013, when the Canadian dollar was near parity with the U.S. dollar. The Canadian dollar has been falling in more recent years, standing at 90 U.S. cents on average in 2014, which has helped boost Québec exports.

The combined effect of higher foreign demand and a weak Canadian dollar is expected to continue driving Québec's real international goods exports over the next two years.

- Following an average growth rate of 3.1% from 2010 to 2014, foreign demand for Québec products is projected to increase by 2.5% in 2015 and 3.2% in 2016, driven primarily by business investment and consumer spending on goods in the United States.
- Depreciation of the Canadian dollar is expected to continue, to an average value of 77.4 and 74.1 U.S. cents in 2015 and 2016, respectively.

Foreign demand, Québec's real international exports and Canadian dollar
(change in IFDQP and change in Québec's real goods exports in per cent and Canadian dollar exchange rate in U.S. dollars)



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

3.2 Difficulties in emerging economies

Following a growth rate of 4.6% in 2014, expansion of emerging economies is expected to stand at 3.9% in 2015, their fifth consecutive annual slowdown.

— The moderation stems from the evolution of economic activity in a number of countries, such as China, whose contribution to total growth in emerging economies is shrinking, and Brazil and Russia, which are in a recession.

— A number of resource-exporting emerging economies are experiencing the effects of low commodity prices, including for oil.

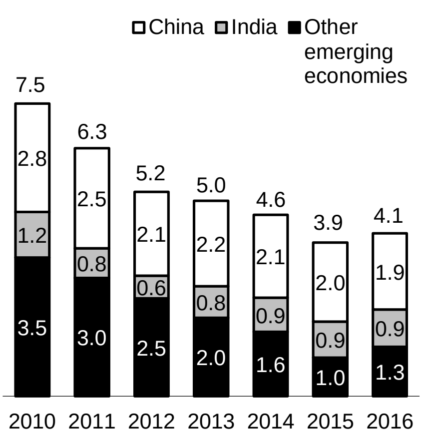
The pace of growth in emerging economies is expected to pick up slightly in 2016, to a rate of 4.1%, driven by good economic performance in countries such as India, Indonesia and some African nations.

— India's economy is projected to perform particularly well, growing by over 7% in 2015 and 2016, fuelled by low oil prices and the impact of the structural reforms implemented by the government.

— Brazil and Russia, on the other hand, will continue to experience economic difficulties.

CHART C.56

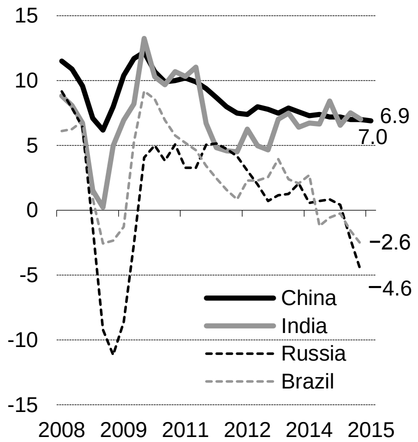
Growth in emerging economies
(growth in per cent and contribution in percentage points)



Note: Figures at the top indicate growth measured by the percentage change in real GDP in purchasing power parity.
Sources: IHS Global Insight, International Monetary Fund and Ministère des Finances du Québec.

CHART C.57

Growth in emerging economies
(real quarterly GDP, annual percentage change)



Note: Third quarter of 2015 for China and second quarter for the other countries.
Sources: Bloomberg and Datastream.

❑ China's economic growth will continue to moderate

China's economic growth rate is expected to be 6.8% in 2015 and 6.4% in 2016. This is a lower rate than the average 10.0% growth registered during the period 1990-2006.

— Fears about the Chinese economy grew during the summer when various economic indicators, such as industrial production and exports, pointed to a significant slowdown. The Shanghai Stock Exchange (SSE) Composite Index fell more than 40%, mainly following the surprise devaluation of the yuan on August 11, 2015.

— These events are signs of China's switch from an export-driven growth model to a more consumption-driven model.

Chinese officials took steps to offset the worsening economy, in particular by lowering key interest rates and banks' reserve requirement ratios and facilitating access to home ownership.

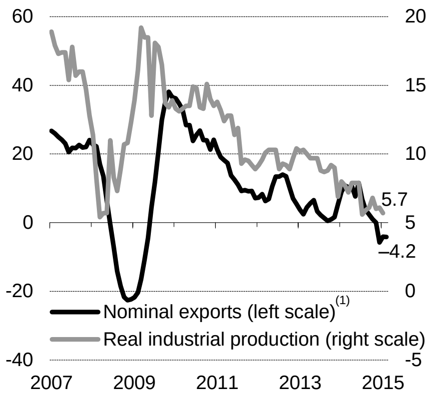
— Policymakers have the necessary resources to support domestic demand and attenuate the economic slowdown.

However, China will no longer be able to achieve the strong growth rates of previous years, mainly due to the impact of demographic factors.

— The percentage of the working-age population (15-64) in China's total population is shrinking. According to the Organisation for Economic Co-operation and Development (OECD) statistics, the Chinese population aged between 15 and 64 peaked in 2010, at 73.5% of the total population, and is expected to shrink to 68.0% in 2030.

CHART C.58

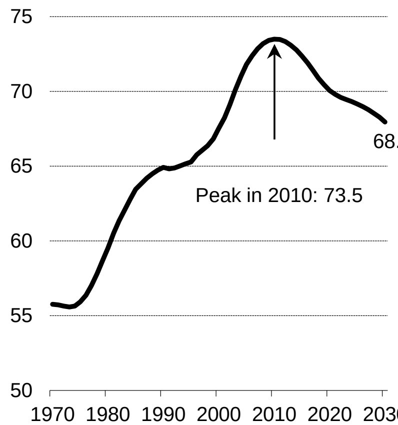
Chinese economic indicators
(annual percentage change)



(1) Six-month moving average for exports.
Sources: Bloomberg and Ministère des Finances du Québec.

CHART C.59

Population aged 15-64
(per cent of the total population)



Sources: OECD and Ministère des Finances du Québec.

World price index for metals from Québec

After dropping 7.8% in 2014, the world price index for metals from Québec fell by 15.5% in the first ten months of 2015 over with the same previous-year period.

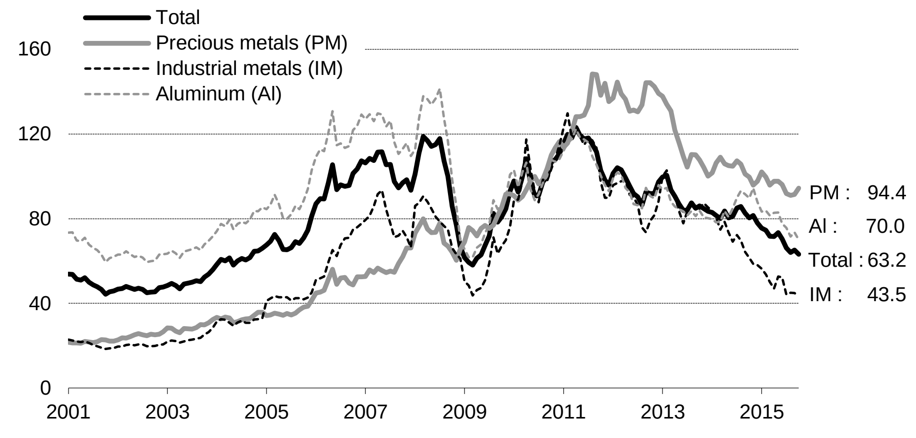
- The industrial metal price subcomponent was down 32.8% as a result of the 43.2% drop in the price of iron ore.
- The precious metal price subcomponent dropped 8.5% and the aluminum price subcomponent, 8.0%.

Slower economic growth in China and a higher U.S. dollar weighed on metal prices

In the last few quarters, metal prices have been negatively affected by the slowdown in China's economic growth and the appreciation of the U.S. dollar. A number of specific factors also contributed to the drop in price of certain metals.

- For example, the surge in production from mines with low operating costs is the primary reason that the price of iron ore fell by over 60% between November 2013 and October 2015.
- In addition, since the beginning of the year, China's aluminum exports to international markets have risen by nearly 14% over the previous year, as Chinese aluminum smelters receive government support.

World price index for metals from Québec and its subcomponents(1)
(index, 2010 = 100, monthly data)



(1) The index includes prices for metals mined in Québec as well as the price of aluminum. World prices for the main metals mined or processed in Québec and used to calculate the index are expressed in U.S. dollars.
Sources: Institut de la statistique du Québec, Bloomberg, World Bank and Ministère des Finances du Québec.

3.3 Outlook by country

In **Canada**, economic growth of 1.2% is forecast for 2015 and 1.8% for 2016. Low fuel prices and interest rates will boost consumption, while stronger U.S. demand and a weak Canadian dollar will support exports. However, low oil prices will limit investment in the energy sector.

In the **United States**, real GDP is expected to rise by 2.4% in 2015 and 2.6% in 2016. Growth will be driven by domestic demand, in particular consumption and investment, and benefit from ongoing improvement in labour market conditions and expansion of the residential sector. Exports will contribute to growth to a lesser extent owing to a high U.S. dollar and weaker-than-expected global growth.

TABLE C.7

Economic growth outlook in the world
(real GDP, percentage change)

	Weight(1)	2014	2015	2016
World(2)	**100.0**	**3.4**	**3.0**	**3.3**
– *Budget 2015-2016*		*3.4*	*3.4*	*3.6*
Advanced economies(2)	**43.5**	**1.8**	**1.9**	**2.1**
– *Budget 2015-2016*		*1.8*	*2.2*	*2.2*
Canada	1.5	2.5	1.2	1.8
– *Budget 2015-2016*		*2.5*	*2.0*	*2.2*
United States	16.1	2.4	2.4	2.6
– *Budget 2015-2016*		*2.4*	*2.9*	*2.7*
Euro area(2)	12.4	0.9	1.5	1.6
– *Budget 2015-2016*		*0.9*	*1.3*	*1.4*
United Kingdom	2.4	2.9	2.4	2.3
– *Budget 2015-2016*		*2.6*	*2.4*	*2.3*
Japan	4.5	−0.1	0.7	1.1
– *Budget 2015-2016*		*0.0*	*0.7*	*1.0*
Emerging and developing economies(2)	**56.5**	**4.6**	**3.9**	**4.1**
– *Budget 2015-2016*		*4.6*	*4.2*	*4.6*
China	16.0	7.3	6.8	6.4
– *Budget 2015-2016*		*7.4*	*6.8*	*6.5*
India(3)	6.6	7.3	7.5	7.5
– *Budget 2015-2016*		*7.4*	*7.6*	*7.5*

(1) Weight in global GDP in 2013.
(2) Aggregate growth rates are expressed in purchasing power parity.
(3) For the fiscal year (April 1 to March 31).
Sources: IHS Global Insight, International Monetary Fund, Datastream, Statistics Canada and Ministère des Finances du Québec.

In the **euro area**, economic activity is expected to expand by 1.5% in 2015 and 1.6% in 2016. Consumption and investment will be bolstered by low oil prices and accommodative monetary policy which eased credit conditions. However, the economic difficulties experienced by emerging economies could moderate export growth, mainly in Germany, which exports a large share of its manufactured goods and equipment to China.

In the **United Kingdom**, economic growth is forecasted to decelerate from 2.4% in 2015 to 2.3% in 2016. Domestic demand is expected to firm up, mainly as a result of improvement in the labour market and the low oil prices. In addition, stronger growth in the euro area and the United States should bolster the external sector. However, past appreciation in the pound sterling is expected to limit exports.

In **Japan**, economic growth of 0.7% is expected in 2015 and of 1.1% in 2016. The expanding U.S. economy and weaker yen should buoy exports. Moreover, investment and consumption are projected to firm up as a result of low commodity prices and the positive impact of accommodative monetary policy. However, the pace of growth in the Japanese economy will remain sluggish mainly due to the aging population.

In **China**, economic growth is expected to decelerate to 6.8% in 2015 and 6.4% in 2016. Growth will be driven more by consumption and investment, with domestic demand being buoyed by accommodative monetary policy and budget measures in favour of specific sectors, including the real estate and automotive sectors. In addition, the service sector will account for an increasing share of the economy. Exports, however, will contribute a smaller percentage to China's economic growth.

In **India**, the outlook is brighter than for the other emerging economies. Real GDP is expected to increase by 7.5% in 2015 and 2016. The strong growth, which now outstrips growth in China, is attributable to the effects of the reforms implemented by the government and the low commodity prices. The fact that India has stronger trade ties with the United States and European Union than with China should spur an upturn in exports.

4. MAIN RISKS THAT MAY INFLUENCE THE ECONOMIC FORECAST SCENARIO

The economic and financial forecast in the November 2015 update of the Québec Economic Plan is based on several assumptions, some of which are associated with risks that may influence the anticipated developments in the Québec economy, which is open to the world.

— A number of these risks are external. A different growth path than forecast for the economies of our main trading partners as well as geopolitical tensions in various parts of the world are two of the most common examples.

— Other risks are internal and could drive some of Québec's and Canada's economic variables in a different direction than expected.

❑ Protracted weakness in the Canadian economy

The Canadian economy responded more strongly than anticipated to the drop in oil prices. Canada's real GDP contracted in the first half of 2015.

Recent economic data are encouraging and suggest that adjustment in the oil sector is largely over. However, there is still a considerable amount of uncertainty over future oil prices.

— Oil prices could follow a different path than expected depending on whether the primary producers decide to increase or cut their production, among other factors. These decisions are hard to predict because they are guided by economic or strategic interests.

Falling oil prices could have a bigger impact than anticipated, particularly in oil and gas-producing provinces.

— Those provinces were hit by a sharp decline in oil-sector investment but, so far, it does not seem to have had a significant impact on employment and output.

— If oil prices continue to fall, oil firms may be forced to slash their production and lay off workers.

Although Québec benefits from low oil prices because of its industrial structure, protracted weakness in the Canadian economy would adversely affect Québec's economy due to its close trade ties with the rest of Canada.

❑ A sharper-than-expected slowdown in China's economy

China's economic growth has been slowing since 2010. Structural adjustments are needed to better balance its sources of growth, including by shifting to an economic model that relies less on exports.

— To soften the slowdown, government authorities have implemented several measures in recent months to stimulate growth.

Despite those measures, the Chinese economy could slow more than expected. The risk is even higher considering the following factors:

— the demographic outlook for China, with demographics no longer contributing to growth as much as in past decades;

— China's total debt load (private and public debt), which has strongly increased.

A sharper-than-expected slowdown in the Chinese economy would put a drag on global economic growth, affecting commodity-producing countries and the other emerging economies, but also advanced economies.

— China is a major driver of global economic growth, due in particular to its demand for commodities, its key position in supply chains and its participation in the flow of foreign direct investment.

❑ The effects of U.S. monetary policy

More than six years after the economic recovery began, the U.S. Federal Reserve's key interest rate is still in the 0% to 0.25% target range. Given the ongoing growth in the U.S. economy and improved labour market conditions, the Federal Reserve (Fed) is expected to start gradually raising the federal funds rate in December 2015.

Even though the Fed has stated its intention to raise its key interest rate well ahead of time, the rate hike could still lead to economic and financial turbulence.

— In the last few years, economic agents have contracted loans in U.S. dollars to take advantage of the good financing conditions afforded by the Fed's accommodative monetary policy. They will be faced with a higher U.S. dollar and higher interest rates.

— Considering that an interest rate hike will make U.S. financial assets more attractive to investors, some emerging economies may be weakened by major capital outflows to the United States.

Thus, the normalization of U.S. monetary policy could adversely affect global economic growth.

Furthermore, it is hard to predict exactly when interest rate hikes will begin in the United States or the pace of monetary tightening.

— In this environment, yields on U.S. bonds and, consequently, on Canadian bonds, may diverge from the forecasted yields.

❑ A still-uncertain global situation

The international context remains fraught with tensions and uncertainties.

— Geopolitical tensions still exist in several parts of the world. The situation in the Middle East in particular is dimming the economic outlook for the region's countries and fuelling global insecurity.

The economic and financial scenario hinges on the premise that the conflicts and associated risks will continue to be contained.

— If not, they could put downward pressure on global economic growth. It is very difficult to quantify the impact of such developments.

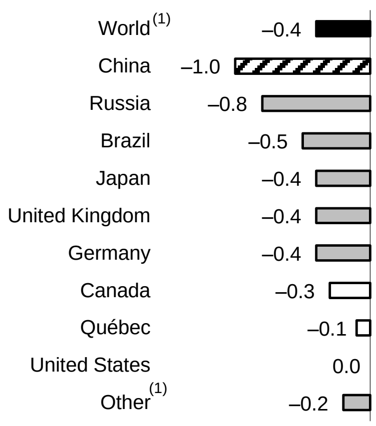
Effects on the global economy of a decrease of 1 percentage point in China's real GDP growth

The slowdown in China's economic growth has negative economic and financial impacts on the global economy, as China accounted for more than one third of global economic growth between 2010 and 2014.

Simulations by the Ministère des Finances du Québec using IHS Global Insight's economic forecasting model show that a 1-percentage point decrease in real GDP growth in China would reduce global real GDP growth by 0.4 percentage point over one year. However, the effects among economies and transmission channels would differ.

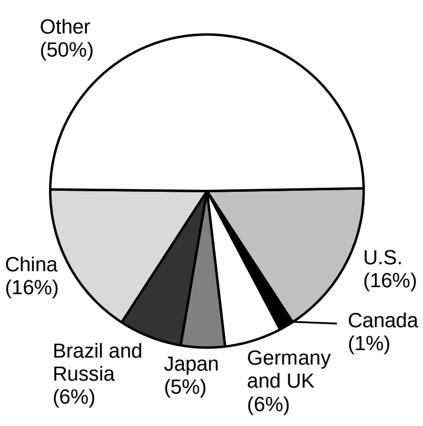
- In the **United States** (16% of global economy), economic growth would be virtually unaffected, since the negative impact on domestic demand would be offset by a decline in imports.
- In **Canada** (1% of global economy), real GDP growth would be lower by 0.3 percentage point, due in particular to the negative impact on commodity prices, which would limit investment in this sector.
- In **Québec**, there would be a minor negative impact, −0.1 percentage point, owing primarily to lower demand, globally and in the rest of Canada.
- For **Japan** (5% of global GDP), which has major trade ties with China, the impact on real GDP growth would be −0.4 percentage point.
- In **Russia** and **Brazil**, two economies that are sensitive to commodity prices, a 1-percentage point slowdown in China's economic growth would shave 0.8 percentage point and 0.5 percentage point, respectively, from their economic growth.

Impact of a 1-percentage point decrease in China's real GDP growth
(percentage points)



(1) In purchasing power parity.
Sources: IHS Global Insight and Ministère des Finances du Québec.

Weight of selected countries and regions in the global economy[1]
(as a percentage of global GDP)



(1) Weight in global GDP based on purchasing power parity in 2013.
Sources: International Monetary Fund and Ministère des Finances du Québec.

Foreign currency debt is making emerging economies vulnerable

In the last few years, growth in emerging economies has been driven by a higher debt load, a large share of which is in foreign currency. The size of the debt carried by non-financial businesses has become a source of vulnerability for emerging economies.

– According to the International Monetary Fund, business debt had reached 74% of emerging economies' GDP in 2014, a 23-percentage point increase from 2007. In China, the ratio rose 25 percentage points over the same period.

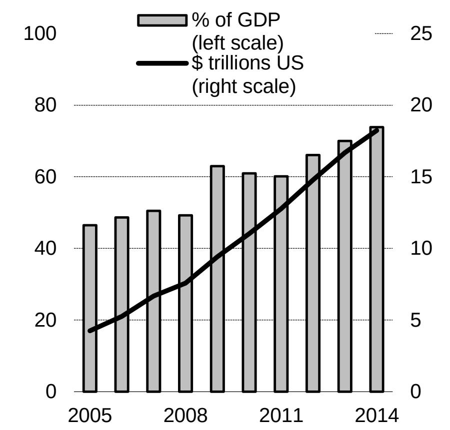
In several emerging economies, a large share of business debt is in foreign currency, especially U.S. dollars. In 2014, the percentage of total business debt denominated in foreign currency was 65% in Hungary and 52% in Indonesia and Mexico.

In recent years, businesses have taken advantage of the favourable financing conditions afforded by advanced nations' highly accommodative monetary policies to borrow in foreign currencies. In so doing, they increased their exposure to foreign exchange and interest rate risk.

High business debt is a major challenge for emerging economies, which now face a rising U.S. dollar and possible interest rate hikes.

– Monetary tightening in the United States could result in massive capital outflows from emerging economies.

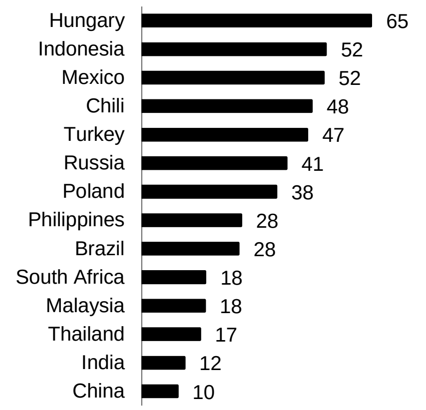
Debt of non-financial businesses in emerging economies
(as a percentage of GDP, trillions of U.S. dollars)



Source: International Monetary Fund, *Global Financial Stability Report*, October 2015.

Business debt[1] in foreign currencies

(as a percentage of total debt)



(1) Debt consists of cross-border and domestic obligations and borrowings.
Sources: International Monetary Fund and Ministère des Finances du Québec.

Section D

THE GOVERNMENT'S DETAILED FINANCIAL FRAMEWORK

INTRODUCTION

This section of *The Québec Economic Plan – November 2015 Update* presents the government's detailed financial framework for 2015-2016 to 2017-2018.[1]

The information provided concerns:

— the consolidated budgetary transactions for the period from 2015-2016 to 2017-2018;

— the detailed change in consolidated revenue and expenditure, as well as adjustments made since Budget 2015-2016;

— 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 2019-2020, is presented in Section A.

1 The budgetary data presented throughout this section for 2015-2016 and subsequent years are forecasts.

1. CHANGE IN CONSOLIDATED REVENUE AND EXPENDITURE

1.1 Change in the budgetary balance

The November 2015 update of the Québec Economic Plan still forecasts a return to a balanced budget as of 2015-2016.

To achieve that objective, expenditure growth will be below that of revenue.

— Consolidated expenditure will grow by 2.7% in 2015-2016 and 2.2% in 2016-2017. For the same two years, consolidated revenue will grow by 4.1% and 3.3%, respectively.

The government will keep the budget balanced every year while continuing to make deposits of dedicated revenues in the Generations Fund.

— Those deposits will total $1 496 million in 2015-2016 and $2 158 million in 2016-2017.

TABLE D.1

Consolidated summary financial framework – November 2015 Update
(millions of dollars)

	2015-2016	2016-2017	2017-2018
Own-source revenue	80 513	82 989	85 001
% change	*4.0*	*3.1*	*2.4*
Federal transfers	19 351	20 130	20 612
% change	*4.4*	*4.0*	*2.4*
Consolidated revenue	**99 864**	**103 119**	**105 613**
% change	***4.1***	***3.3***	***2.4***
Expenditure	−88 091	−89 860	−91 738
% change	*3.0*	*2.0*	*2.1*
Debt service	−10 277	−10 701	−10 814
% change	*0.1*	*4.1*	*1.1*
Consolidated expenditure	**−98 368**	**−100 561**	**−102 552**
% change	***2.7***	***2.2***	***2.0***
Contingency reserve	—	−400	−400
SURPLUS (DEFICIT)	**1 496**	**2 158**	**2 661**
BALANCED BUDGET ACT			
Deposits of dedicated revenues in the Generations Fund	−1 496	−2 158	–2 661
BUDGETARY BALANCE(1)	**—**	**—**	**—**

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

❑ Adjustments for 2015-2016

The November 2015 update of the Québec Economic Plan projects the return to a balanced budget as of 2015-2016.

— More precisely, adjustments related to the economic situation lead to a $31-million deterioration in the budgetary balance. These adjustments stem from a shortfall of $206 million in consolidated revenue and a $175-million reduction in debt service.

— In addition, the adjustments attributable mainly to consolidated entities make it possible overall to offset the adjustments related to the economic situation.

TABLE D.2

Adjustments for 2015-2016 to the financial framework since Budget 2015-2016
(millions of dollars)

	2015-2016		
	Adjustments related to the economy	**Consolidated entities and other adjustments**	**Total**
BUDGETARY BALANCE[(1)] – BUDGET 2015-2016			**—**
Consolidated revenue			
Own-source revenue excluding government enterprises			
General fund	−29	—	−29
Consolidated entities	—	−128	−128
Government enterprises	−46	—	−46
Own-source revenue	**−75**	**−128**	**−203**
Federal transfers	−131	38	−93
Total consolidated revenue	**−206**	**−90**	**−296**
Consolidated expenditure			
Expenditure excluding debt service			
Program spending	—	—	—
Consolidated entities	—	—	—
Debt service	175	31	206
Total consolidated expenditure	**175**	**31**	**206**
Deposits of dedicated revenues in the Generations Fund	**—**	**90**	**90**
TOTAL	**−31**	**31**	**—**
BUDGETARY BALANCE[(1)] – NOVEMBER 2015			**—**

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

1.2 Change in consolidated revenue

This section presents the updated consolidated revenue of the government for 2015-2016 to 2017-2018, as well as the change in this revenue.

The government's revenue will total $99.9 billion in 2015-2016, i.e. $80.5 billion in own-source revenue and $19.4 billion in revenue from federal transfers.

Revenue is expected to grow by 4.1% in 2015-2016, 3.3% in 2016-2017 and 2.4% in 2017-2018.

TABLE D.3

Change in consolidated revenue
(millions of dollars)

	Budget 2015-2016		November 2015 Update		
	2015-2016	Adjustments	2015-2016	2016-2017	2017-2018
Own-source revenue					
Own-source revenue excluding government enterprises	75 859	−157	75 702	78 297	80 426
% change	*5.3*		*5.1*	*3.4*	*2.7*
Government enterprises	4 857	−46	4 811	4 692	4 575
% change	*−7.8*		*−9.8*	*−2.5*	*−2.5*
Subtotal	**80 716**	**−203**	**80 513**	**82 989**	**85 001**
% change	***4.4***		***4.0***	***3.1***	***2.4***
Federal transfers	19 444	−93	19 351	20 130	20 612
% change	*3.9*		*4.4*	*4.0*	*2.4*
TOTAL	**100 160**	**−296**	**99 864**	**103 119**	**105 613**
% change	***4.3***		***4.1***	***3.3***	***2.4***

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 tax and consumption taxes. How it changes is closely tied to economic activity in Québec and to changes in the tax systems.

Consolidated own-source revenue excluding government enterprises also 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 in 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), as well as to non-budget-funded bodies and the health and social services and education networks.

❑ Adjustments for 2015-2016

For fiscal 2015-2016, consolidated own-source revenue excluding government enterprises amounts to $75.7 billion, an increase of 5.1% compared with the revenue observed for fiscal 2014-2015.

Compared with the forecast in Budget 2015-2016, consolidated own-source revenue excluding government enterprises is adjusted downward by $157 million, of which $68 million is attributable to tax revenue. This represents a downward adjustment of 0.2% in forecast revenue.

■ Tax revenue

Revenue from personal income tax is adjusted upward by $33 million for fiscal 2015-2016 compared with the forecast in Budget 2015-2016. This adjustment reflects the recurrence of the higher level of tax payable for 2014, which is offset, however, by lower-than-expected withholdings at source since the beginning of the fiscal year due to the lower-than-anticipated level of salaries and wages observed in 2015.

TABLE D.4

Change in consolidated own-source revenue excluding government enterprises
(millions of dollars)

	Budget 2015-2016		November 2015 Update		
	2015-2016	**Adjustments**	**2015-2016**	**2016-2017**	**2017-2018**
Tax revenue					
Personal income tax	28 218	33	28 251	29 474	30 532
% change	*4.7*		*2.6*	*4.3*	*3.6*
Contributions for health services	6 571	−109	6 462	6 529	6 298
% change	*2.0*		*1.0*	*1.0*	*−3.5*
Corporate taxes	6 447	−15	6 432	6 703	6 935
% change	*12.7*		*10.2*	*4.2*	*3.5*
School property tax	2 030	14	2 044	2 137	2 206
% change	*6.3*		*4.6*	*4.5*	*3.2*
Consumption taxes	18 601	9	18 610	18 688	19 084
% change	*3.8*		*6.0*	*0.4*	*2.1*
Other revenue					
Duties and permits	2 755	50	2 805	2 805	2 705
% change	*10.6*		*11.3*	*0.0*	*−3.6*
Miscellaneous revenue	9 651	−49	9 602	9 803	10 005
% change	*3.2*		*7.0*	*2.1*	*2.1*
Generations Fund revenue	1 586	−90	1 496	2 158	2 661
TOTAL	**75 859**	**−157**	**75 702**	**78 297**	**80 426**
% change	***5.3***		***5.1***	***3.4***	***2.7***

Contributions for health services are adjusted downward by $109 million for 2015-2016, reflecting the lower-than-anticipated growth in salaries and wages in 2015 and 2016, as well as the recurrence of lower-than-anticipated results in 2014-2015.

Revenue from corporate taxes is adjusted downward by $15 million for fiscal 2015-2016. This lower level takes into account the downward adjustment in the growth of the net operating surplus of corporations in 2015 and the monitoring of tax revenues since the beginning of the fiscal year.

Revenue from consumption taxes is adjusted only slightly compared with the forecast of last March, owing to substantial tax revenues from the Québec sales tax since the beginning of the fiscal year. This reflects continued consumer confidence.

■ Other revenue

Revenue from duties and permits is adjusted upward by $50 million in 2015-2016, reflecting essentially higher-than-expected revenue from emission allowances under Québec's cap-and-trade system for greenhouse gas emission allowances.

In addition, miscellaneous revenue is adjusted downward by $49 million in 2015-2016, particularly because of lower-than-expected interest rates.

Revenue dedicated to the Generations Fund is adjusted downward by $90 million in 2015-2016, mainly on account of lower-than-forecast investment income.

❑ Outlook for 2016-2017 and 2017-2018

Consolidated own-source revenue excluding government enterprises will increase by 3.4% in 2016-2017 and 2.7% in 2017-2018. The growth in own-source revenue reflects essentially the change in economic activity forecast for those years.

■ Tax revenue

Personal income tax, the government's largest revenue source, will grow by 4.3% in 2016-2017 and 3.6% in 2017-2018, settling at $29.5 billion and $30.5 billion, respectively.

- This change reflects in particular the growth in household income as well as indexation of the personal income tax system and takes into account the progressive nature of the tax system.

- It also reflects the growing contribution of pension income to the growth of income subject to tax, particularly income from private pension plans.

Contributions for health services will grow by 1.0% in 2016-2017 and decline by 3.5% in 2017-2018, to $6.5 billion and $6.3 billion, respectively. These changes reflect mainly the anticipated increase of 3.2% in salaries and wages in 2016 and 2017. They also take into account the impact of the measures announced to reduce the tax burden on individuals and small and medium-sized businesses.

— These measures include, in particular, the gradual elimination of the health contribution as of January 1, 2017 and the reduction of the Health Services Fund contribution rate for service sector businesses from 2.7% to 2.25%, two measures announced last March.

Revenue from corporate taxes will grow by 4.2% in 2016-2017 and 3.5% in 2017-2018, to $6.7 billion and $6.9 billion, respectively.

— This change reflects essentially the growth rate of the net operating surplus of corporations, which is expected to be 6.1% and 5.5% for 2016 and 2017, respectively.

The growth of 4.5 % and 3.2% in revenue from the school property tax in 2016-2017 and 2017-2018, respectively, can be attributed mainly to the increase in the number of students, as well as the increase in property values on the territory of certain school boards.

Growth in revenue from consumption taxes will be 0.4% in 2016-2017 and 2.1% in 2017-2018. The growth reflects an increase in deposits in the Generations Fund and growth in consumption, excluding food and rent, of 3.6% in 2016 and 2017.

— 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.

■ Other revenue

In 2016-2017, revenue from duties and permits will remain stable compared with the level in 2015-2016.

Miscellaneous revenue will rise by 2.1% in 2016-2017 and 2017-2018, primarily as a result of the anticipated revenue of special funds and organizations in the health and social services and education networks.

Revenue dedicated to the Generations Fund will increase by $662 million in 2016-2017 to $2.2 billion, essentially because of the additional deposit of $400 million drawn from the specific tax on alcoholic beverages and the increase in investment income.[2]

[2] Information on the Generations Fund is presented in Table E.6 of the section “The Québec Government’s Debt.”

1.2.2 **Revenue from government enterprises**

❑ Adjustments for 2015-2016

For 2015-2016, revenue from government enterprises[3] is adjusted downward by $50 million, to $4.9 billion. This adjustment can be attributed to the reduced results outlook for Hydro-Québec, which reflects in particular the impact of its compliance with International Financial Reporting Standards (IFRS).[4]

❑ Outlook for 2016-2017 and 2017-2018

Revenue from government enterprises[3] will stand at $4.9 billion in 2016-2017 and $5.0 billion in 2017-2018.

— The change for 2016-2017 reflects the lower-than-anticipated results for Hydro-Québec and an improvement in the results of other government enterprises, including Loto-Québec and the Société des alcools du Québec.

In addition, Hydro-Québec's revenue from the indexation of the price of heritage electricity will continue to be allocated to the Generations Fund. Moreover, an additional contribution of $215 million from Hydro-Québec will be deposited in this fund as of 2017-2018. Deposits in the Generations Fund will thus amount to $170 million in 2016-2017 and $450 million in 2017-2018.

[3] Before allocation of revenue from Hydro-Québec to the Generations Fund.

[4] Hydro-Québec has determined its financial results using United States generally accepted accounting principles (U.S. GAAP) since January 1, 2015, that is, the accounting standards used for the *Québec Economic Plan* under the March 2015 budget. During preparation of the Public Accounts 2014-2015, it was agreed that Hydro-Québec's results should be consolidated in the government's results following the International Financial Reporting Standards (IFRS). The forecasts in *The Québec Economic Plan – November 2015 Update* account for this adjustment.

TABLE D.5

Change in revenue from government enterprises
(millions of dollars)

	Budget 2015-2016		November 2015 Update		
	2015-2016	Adjustments	2015-2016	2016-2017	2017-2018
Hydro-Québec(1)	2 750	−50	2 700	2 600	2 700
Loto-Québec	1 130	—	1 130	1 158	1 172
Société des alcools du Québec	1 040	—	1 040	1 045	1 085
Other	42	—	42	59	68
Subtotal	**4 962**	**−50**	**4 912**	**4 862**	**5 025**
% change	***−7.0***		***−9.2***	***−1.0***	***3.4***
Revenue from Hydro-Québec allocated to the Generations Fund(2)	−105	4	−101	−170	−450
TOTAL	**4 857**	**−46**	**4 811**	**4 692**	**4 575**
% change	***−7.8***		***−9.8***	***−2.5***	***−2.5***

(1) The revenue from Hydro-Québec is based on data available on November 9, 2015.
(2) This revenue corresponds to amounts relative to the indexation of the price of heritage electricity, and to the additional contribution of $215 million that will be deposited annually in the Generations Fund as of 2017-2018.

1.2.3 **Revenues from federal transfers**

❑ Adjustments for 2015-2016

In 2015-2016, consolidated revenues from federal transfers are expected to reach nearly $19.4 billion and grow by 4.4%. This represents $93 million less than forecast in Budget 2015-2016.

This decrease of $93 million in 2015-2016 is due essentially to downward adjustments of $43 million in health transfers and $25 million in transfers for post-secondary education and other social programs. These differences stem from the upward adjustment of the value of the special Québec abatement, which is subtracted from these transfers.

❑ Outlook for 2016-2017 and 2017-2018

In 2016-2017, consolidated federal transfers should total $20.1 billion, an increase of 4.0%. This growth can be attributed mainly to:

— a 7.5% increase in health transfers, which stems from annual growth of 6% in the Canada Health Transfer (CHT) envelope for the provinces as a whole, coupled with the adjustment of the value forecast for the special Québec abatement;

— a 4.1% increase in revenue from the equalization program, which is explained essentially by the increase in the equalization envelope, which grows at the same rate as Canada's nominal GDP.

In 2017-2018, consolidated federal transfers should reach $20.6 billion. This represents an increase of 2.4% that is chiefly explained by:

— an anticipated increase of 3.4% in equalization payments;

— an increase of 2.7% in health transfers. This increase is lower than in 2016-2017 due to the smaller increase in the CHT envelope, which will change from the current rate of 6% to the growth rate of Canada's nominal GDP as of 2017-2018. As a result, Québec will incur an estimated shortfall of $239 million in 2017-2018.

TABLE D.6

Change in consolidated federal transfer revenues
(millions of dollars)

	Budget 2015-2016		November 2015 Update		
	2015-2016	**Adjustments**	**2015-2016**	**2016-2017**	**2017-2018**
Equalization	9 521	—	9 521	9 910	10 248
% change	*2.5*		*2.5*	*4.1*	*3.4*
Health transfers	5 599	−43	5 556	5 973	6 132
% change	*6.0*		*5.2*	*7.5*	*2.7*
Transfers for post-secondary education and other social programs	1 609	−25	1 584	1 648	1 685
% change	*1.3*		*−0.3*	*4.0*	*2.2*
Other programs	2 715	−25	2 690	2 599	2 547
% change	*5.9*		*12.9*	*−3.4*	*−2.0*
TOTAL	**19 444**	**−93**	**19 351**	**20 130**	**20 612**
% change	***3.9***		***4.4***	***4.0***	***2.4***

1.3 Change in consolidated expenditure

Consolidated expenditure will stand at $98.4 billion in 2015-2016, $100.6 billion in 2016-2017 and $102.6 billion in 2017-2018, representing an increase of 2.7%, 2.2% and 2.0%, respectively.

TABLEAU D.7

Change in consolidated expenditure
(en millions de dollars)

	Budget 2015-2016		November 2015 Update		
	2015-2016	Adjustments	2015-2016	2016-2017	2017-2018
Program spending(1)	66 460	— (2)	66 460	67 969	69 868
% change	*1.2*		*1.7*	*2.3*	*2.8*
Other consolidated expenditures(3)	21 631	—	21 631	21 891	21 870
% change	*2.6*		*7.1*	*1.2*	*−0.1*
Expenditure excluding debt service	**88 091**	**—**	**88 091**	**89 860**	**91 738**
% change	***1.5***		***3.0***	***2.0***	***2.1***
Debt service	10 483	−206	10 277	10 701	10 814
% change	*1.5*		*0.1*	*4.1*	*1.1*
TOTAL	**98 574**	**−206**	**98 368**	**100 561**	**102 552**
% change	***1.5***		***2.7***	***2.2***	***2.0***

(1) Program spending includes transfers intended for consolidated entities.
(2) For fiscal 2015-2016, the additional budget of $20 million for education is financed by assets made available elsewhere in the government's program spending.
(3) Other consolidated expenditures include, in particular, consolidation adjustments.

❑ Expenditure excluding debt service

■ Adjustments for 2015-2016

In 2015-2016, the level of consolidated expenditure excluding debt service is unchanged relative to the Budget 2015-2016 forecast. It is still at 88.1 billion.

The forecast for program spending, which makes up the bulk of consolidated expenditure, also remains unchanged for 2015-2016. The level is thus maintained at $66.5 billion.

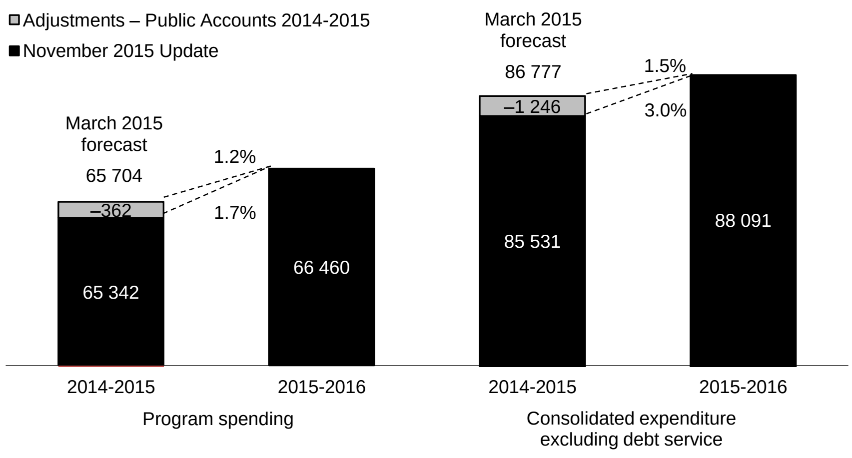
Adjustment in the growth rate of spending in 2015-2016

The adjustment in the growth rate of program spending in the November 2015 update of the Québec Economic Plan compared with last March stems from the fact that actual spending was lower than expected in 2014-2015.

- Last March, the program spending forecast was $65 704 million for 2014-2015 and $66 460 million for 2015-2016. Anticipated growth in program spending was 1.2%.
- According to the Public Accounts 2014-2015, actual program spending for 2014-2015 was $65 342 million, i.e. $362 million less than forecast in Budget 2015-2016.
- Therefore, even though the level of spending in 2015-2016 is unchanged ($66 460 million), growth in program spending now stands at 1.7%.

The situation is similar for consolidated expenditure excluding debt service. The growth rate of 1.5% for 2015-2016 forecast last March is raised to 3.0% in the November 2015 update of the Québec Economic Plan owing to the downward adjustment of $1 246 million in 2014-2015 in consolidated expenditure excluding debt service.

Impact of the adjustment in program spending and consolidated expenditure in 2014-2015 on growth rates in 2015-2016
(millions of dollars)



Outlook for 2016-2017 and 2017-2018

In 2016-2017 and 2017-2018, consolidated expenditure excluding debt service will stand at $89.9 billion and $91.7 billion, respectively.

Growth in expenditure excluding debt service will stand at 2.0% in 2016-2017 and 2.1% in 2017-2018.

Program spending

The program spending objectives set in Budget 2015-2016 remain unchanged for 2015-2016 and are increased by $80 million in 2016-2017 and 2017-2018 to finance the additional investment in education.

In order to improve academic success, the government is investing additional amounts to increase teaching staff and professional and technical resources, in particular in underprivileged and devitalized communities.

TABLEAU D.8

Change in program spending
(millions of dollars)

	2014-2015	2015-2016	2016-2017	2017-2018
PROGRAM SPENDING – BUDGET 2015-2016	**65 704**	**66 460**	**67 889**	**69 788**
% change	***2.1***	***1.2***	***2.2***	***2.8***
Adjustments	**−362**	—(1)	80	80
PROGRAM SPENDING – NOVEMBER 2015	**65 342**	**66 460**	**67 969**	**69 868**
% change	***1.6***	***1.7***	***2.3***	***2.8***

(1) For fiscal 2015-2016, the additional budget of $20 million for education is financed by assets made available elsewhere in the government's program spending.

❑ Debt service

■ Adjustments for 2015-2016

In 2015-2016, consolidated debt service should stand at $10.3 billion, i.e. $7.5 billion for direct debt service and $2.8 billion for interest on the liability related to the retirement plans of public and parapublic sector employees.

Compared with the March 2015 budget, debt service has been adjusted downward by $206 million in 2015-2016 mainly because of lower-than-expected interest rates and the higher-than-anticipated return on the Retirement Plans Sinking Fund (RPSF) in 2014-2015, which affects debt service as of 2015-2016. The income of the RPSF is recorded as a deduction from debt service.

■ Outlook for 2016-2017 and 2017-2018

Debt service is expected to rise by 4.1% in 2016-2017 and 1.1% in 2017-2018, owing mainly to the anticipated increase in interest rates and the debt.

TABLE D.9

Change in consolidated debt service
(millions of dollars)

	Budget 2015-2016		November 2015 Update		
	2015-2016	Adjustments	2015-2016	2016-2017	2017-2018
Direct debt service	7 633	−116	7 517	8 184	8 558
Interest on the retirement plans liability(1)	2 844	−84	2 760	2 524	2 269
Interest on the employee future benefits liability(2)	6	−6	—	−7	−13
TOTAL	**10 483**	**−206**	**10 277**	**10 701**	**10 814**
% change	***1.5***		***0.1***	***4.1***	***1.1***

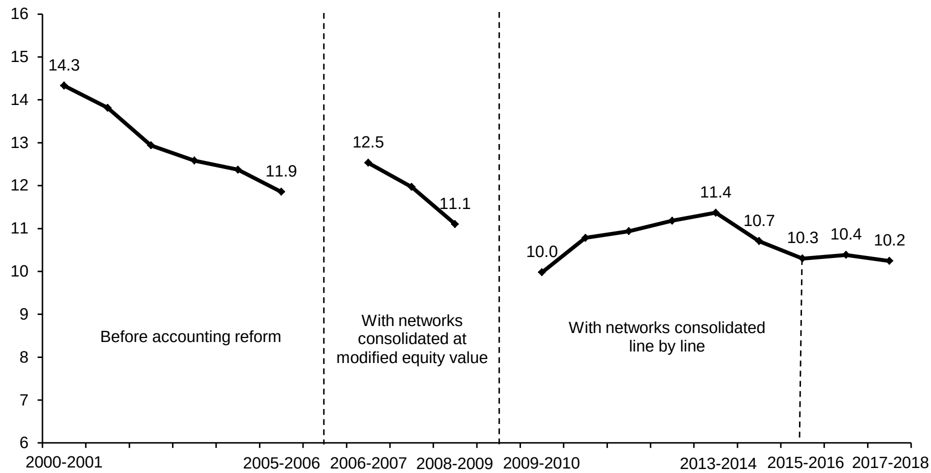
(1) This interest corresponds to the interest on the obligations relating to the retirement plans of public and parapublic sector employees less the investment income of the Retirement Plans Sinking Fund.
(2) This interest corresponds to the interest on the obligation relating to the survivor's pension 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 10.3% in 2015-2016, 10.4% in 2016-2017 and 10.2% in 2017-2018, compared with 14.3% in 2000-2001.

CHART D.1

Consolidated debt service
(as a percentage of consolidated revenue)



2. FINANCIAL FRAMEWORK BY SECTOR

The 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 D.10 presents the forecast revenue and expenditure of these different components for fiscal 2015-2016 to 2017-2018.

Tables D.11 to D.16 present, for 2015-2016 to 2017-2018, the transactions carried out by the general fund, special funds, specified purpose accounts, non-budget-funded bodies and the health and social services and education networks, as well as tax-funded expenditures.

To determine consolidated revenue and expenditure levels, financial transactions between entities in the government reporting entity are eliminated.

TABLE D.10

Financial framework for consolidated revenue and expenditure by sector
(millions of dollars)

	2015-2016	2016-2017	2017-2018
Revenue			
General fund	74 252	76 905	79 035
Special funds	13 467	13 713	13 564
Generations Fund	1 496	2 158	2 661
Specified purpose accounts	1 055	948	790
Non-budget-funded bodies	20 467	20 900	21 804
Health and social services and education networks	39 500	39 842	40 637
Tax-funded transfers(1)	6 308	6 269	6 354
Consolidation adjustments(2)	−56 681	−57 616	−59 232
Total consolidated revenue	**99 864**	**103 119**	**105 613**
Expenditure			
General fund (program spending)	−66 460	−67 969	−69 868
Special funds	−11 721	−11 875	−12 059
Specified purpose accounts	−1 055	−948	−790
Non-budget-funded bodies	−19 511	−20 084	−20 963
Health and social services and education networks	−38 712	−38 975	−39 682
Tax-funded transfers(1)	−6 308	−6 269	−6 354
Consolidation adjustments(2)	55 676	56 260	57 978
Consolidated expenditure excluding debt service	**−88 091**	**−89 860**	**−91 738**
Debt service			
General fund	−8 156	−8 473	−8 386
Consolidated entities(3)	−2 121	−2 228	−2 428
Total consolidated debt service	**−10 277**	**−10 701**	**−10 814**
Total consolidated expenditure	**−98 368**	**−100 561**	**−102 552**
Contingency reserve	—	−400	−400
SURPLUS (DEFICIT)	**1 496**	**2 158**	**2 661**
BALANCED BUDGET ACT			
Deposits of dedicated revenues in the Generations Fund	−1 496	−2 158	−2 661
BUDGETARY BALANCE(4)	**—**	**—**	**—**

(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, which includes own-source revenue and federal transfers, will amount to $74.3 billion in 2015-2016 and increase by 3.6% in 2016-2017 and 2.8% in 2017-2018, to $76.9 billion and $79.0 billion, respectively.

The expenditure of the general fund, which includes, in particular, program spending, will stand at $74.6 billion in 2015-2016 and grow by 2.4% in 2016-2017 and 2017-2018, to $76.4 billion and $78.3 billion, respectively.

TABLE D.11

Summary of the budgetary transactions of the general fund
(millions of dollars)

	2015-2016	2016-2017	2017-2018
Revenue			
Income and property taxes	32 256	34 051	35 242
Consumption taxes	18 133	18 124	18 560
Duties and permits	319	351	359
Miscellaneous revenue	1 542	1 544	1 570
Government enterprises	4 811	4 692	4 575
Own-source revenue	**57 061**	**58 762**	**60 306**
% change	***4.3***	***3.0***	***2.6***
Federal transfers	17 191	18 143	18 729
% change	*2.1*	*5.5*	*3.2*
Total revenue	**74 252**	**76 905**	**79 035**
% change	***3.8***	***3.6***	***2.8***
Expenditure			
Program spending	−66 460	−67 969	−69 868
% change	*1.7*	*2.3*	*2.8*
Debt service	−8 156	−8 473	−8 386
% change	*0.1*	*3.9*	*−1.0*
Total expenditure	**−74 616**	**−76 442**	**−78 254**
% change	***1.5***	***2.4***	***2.4***
Contingency reserve	—	−400	−400
SURPLUS (DEFICIT)	**−364**	**63**	**381**

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)

	2014-2015	2015-2016	*% change*
Own-source revenue excluding government enterprises			
Income and property taxes			
Personal income tax	20 146	20 909	*3.8*
Contributions to the Health Services Fund	6 878	6 967	*1.3*
Corporate taxes	3 562	4 380	*23.0*
Consumption taxes	17 160	18 133	*5.7*
Other revenue sources	1 629	1 861	*14.2*
Total own-source revenue excluding government enterprises	**49 375**	**52 250**	***5.8***
Government enterprises	5 336	4 811	*–9.8*
Total own-source revenue	**54 711**	**57 061**	***4.3***
Federal transfers			
Equalization	9 286	9 521	*2.5*
Health transfers(1)	4 852	5 167	*6.5*
Transfers for post-secondary education and other social programs	1 588	1 584	*–0.3*
Other programs	1 104	919	*–16.8*
Total federal transfers	**16 830**	**17 191**	***2.1***
TOTAL	**71 541**	**74 252**	***3.8***

(1) In 2014-2015 and 2015-2016, $430 million and $389 million, respectively, from health transfers are allocated to the Fund to Finance Health and Social Services Institutions (FINESSS), a consolidated entity. These allocations have already been deducted from health transfers. Had it not been for those allocations, the change would have been 5.2% instead of 6.5%.

2.2 Special funds

The special funds are entities set up by law to finance certain activities within government departments and bodies.

The activities of special funds may be financed, in particular, through program spending, fees or tax revenues.

The following table shows the forecasts pertaining to special funds for 2015-2016 to 2017-2018.

TABLE D.12

Summary of the budgetary transactions of special funds(1)
(millions of dollars)

	2015-2016	2016-2017	2017-2018
Revenue			
Income and property taxes	2 119	2 081	1 834
Consumption taxes	2 409	2 416	2 422
Duties and permits	2 126	2 083	1 961
Miscellaneous revenue	1 807	2 068	2 281
Own-source revenue	**8 461**	**8 648**	**8 498**
Québec government transfers	4 542	4 624	4 616
Federal transfers	464	441	450
Total revenue	**13 467**	**13 713**	**13 564**
% change(2)	***6.4***	***1.8***	***−1.1***
Expenditure			
Expenditure excluding debt service	−11 721	−11 875	−12 059
% change	*10.3*	*1.3*	*1.5*
Debt service	−1 438	−1 617	−1 865
Total expenditure	**−13 159**	**−13 492**	**−13 924**
% change(2)	***9.5***	***2.5***	***3.2***
SURPLUS (DEFICIT)	**308**	**221**	**–360**

(1) Excludes the Generations Fund. Information on the Generations Fund is presented in Table E.6 of the section "The Québec Government's Debt."
(2) Taking into account the transactions of the new Educational Childcare Services Fund, the growth rates for revenue and for expenditure excluding debt service in 2015-2016 would be 28.6% and 37.6%, respectively.

The revenue of the special funds will amount to $13.5 billion for 2015-2016, $13.7 billion for 2016-2017 and $13.6 billion for 2017-2018, representing a change of 6.4%, 1.8% and −1.1%, respectively.

The expenditure of the special funds excluding debt service will stand at $11.7 billion in 2015-2016, $11.9 billion in 2016-2017 and $12.1 billion in 2017-2018, representing an increase of 10.3%, 1.3% and 1.5%, respectively.

The growth in spending by special funds stems mainly from:

- the Land Transportation Network Fund, for financing road and public transit infrastructure;

- the Green Fund, given the deployment of the 2013-2020 Climate Change Action Plan.

2.3 Specified purpose accounts

A specified purpose account is a financial management mechanism that enables a government department to record separately sums paid into the Consolidated Revenue Fund by a third party under a contract or agreement that provides for the sums to be allocated to a specific purpose.

The following table shows the forecasts pertaining to specified purpose accounts for 2015-2016 to 2017-2018.

TABLE D.13

Summary of the budgetary transactions of specified purpose accounts
(millions of dollars)

	2015-2016	2016-2017	2017-2018
Revenue			
Miscellaneous revenue	187	187	146
Own-source revenue	**187**	**187**	**146**
Federal transfers	868	761	644
Total revenue	**1 055**	**948**	**790**
% change	***5.5***	***−10.1***	***−16.7***
Expenditure			
Expenditure excluding debt service	−1 055	−948	−790
Total expenditure	**−1 055**	**−948**	**−790**
% change	***5.5***	***−10.1***	***−16.7***
SURPLUS (DEFICIT)	**—**	**—**	**—**

The revenue and expenditure of specified purpose accounts will amount to $1.1 billion for 2015-2016, $0.9 billion for 2016-2017 and $0.8 billion for 2017-2018.

The change in the revenue and expenditure of specified purpose accounts is explained chiefly by the expiry, as of 2016-2017, of certain agreements with the federal government.

2.4 Non-budget-funded bodies

The non-budget-funded bodies were created to provide specific services to the public.

The following table shows the forecasts pertaining to non-budget-funded bodies for 2015-2016 to 2017-2018.

TABLE D.14

Summary of the budgetary transactions of non-budget-funded bodies
(millions of dollars)

	2015-2016	2016-2017	2017-2018
Revenue			
Income and property taxes	53	—	—
Consumption taxes	117	118	119
Duties and permits	419	430	445
Miscellaneous revenue	5 922	5 908	6 047
Own-source revenue	**6 511**	**6 456**	**6 611**
Québec government transfers	12 839	13 314	14 065
Federal transfers	1 117	1 130	1 128
Total revenue	**20 467**	**20 900**	**21 804**
% change	***6.1***	***2.1***	***4.3***
Expenditure			
Expenditure excluding debt service	−19 511	−20 084	−20 963
% change	*8.3*	*2.9*	*4.4*
Debt service	−823	−789	−789
Total expenditure	**−20 334**	**−20 873**	**−21 752**
% change	***7.5***	***2.7***	***4.2***
SURPLUS (DEFICIT)	**133**	**27**	**52**

The revenue of non-budget-funded bodies will amount to $20.5 billion for 2015-2016, $20.9 billion for 2016-2017 and $21.8 billion for 2017-2018, representing an increase of 6.1%, 2.1% and 4.3%, respectively.

The expenditure excluding debt service of non-budget-funded bodies will stand at $19.5 billion in 2015-2016, $20.1 billion in 2016-2017 and $21.0 billion in 2017-2018, representing an increase of 8.3%, 2.9% and 4.4%, 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.

2.5 Health and social services and education networks

The structure of the health and social services network was changed with the *Act to modify the organization and governance of the health and social services network, in particular by abolishing the regional agencies* (S.Q. 2015, chapter 1), assented to on February 9, 2015. As of April 1, 2015, governance was reduced to two hierarchical levels consisting of the Ministère de la Santé et des Services sociaux and 34 public institutions.[5]

As for the education networks, they are made up of 132 entities, namely, 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 constituents.

The following table shows the forecasts pertaining to the health and social services and education networks for 2015-2016 to 2017-2018.

TABLE D.15

Summary of the budgetary transactions of the health and social services and education networks
(millions of dollars)

	2015-2016	2016-2017	2017-2018
Revenue			
Income and property taxes	2 044	2 137	2 206
Miscellaneous revenue	4 192	4 261	4 337
Own-source revenue	**6 236**	**6 398**	**6 543**
Québec government transfers	32 953	33 152	33 796
Federal transfers	311	292	298
Total revenue	**39 500**	**39 842**	**40 637**
% change	***0.4***	***0.9***	***2.0***
Expenditure			
Expenditure excluding debt service	−38 712	−38 975	−39 682
% change	*0.3*	*0.7*	*1.8*
Debt service	−820	−877	−955
Total expenditure	**−39 532**	**−39 852**	**−40 637**
% change	***0.3***	***0.8***	***2.0***
SURPLUS (DEFICIT)	**−32**	**−10**	**—**

5 In 2014-2015, the health and social services network was made up of 197 entities. These entities comprised 15 agencies and a regional authority in health and social services, as well as 181 public health and social services institutions.

The revenue of organizations in the health and social services and education networks will amount to $39.5 billion for 2015-2016, $39.8 billion for 2016-2017 and $40.6 billion for 2017-2018, representing growth of 0.4%, 0.9% and 2.0%, respectively.

The expenditure excluding debt service of the health and social services and education networks will stand at $38.7 billion in 2015-2016, $39.0 billion in 2016-2017 and $39.7 billion in 2017-2018, representing growth of 0.3%, 0.7 % and 1.8%, respectively.

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. Expenditures related to doubtful tax accounts are added to these refundable tax credits.

For 2015-2016 and 2016-2017, these expenditures will decline by 5.0% and 0.6%, respectively. This change is explained in particular by certain measures announced in:

— Budget 2014-2015, including the revision of the rates of tax credits granted to corporations;

— the December 2014 *Update on Québec's Economic and Financial Situation*, including the introduction of a minimum eligible expenditure threshold for R&D tax credits and the investment tax credit;

— Budget 2015-2016, including the measures intended to increase the effectiveness of the sectoral tax assistance granted to corporations and the introduction of a tax shield for individuals.

The increase for 2017-2018 is attributed in particular to the change in the tax credit for home support for seniors and in child assistance.

TABLE D.16

Summary of budgetary transactions relating to tax-funded expenditures
(millions of dollars)

	2015-2016	2016-2017	2017-2018
Revenue			
Personal income tax	4 289	4 317	4 403
Corporate taxes	1 803	1 709	1 702
Consumption taxes	216	243	249
Total revenue	**6 308**	**6 269**	**6 354**
% change	***−5.0***	***−0.6***	***1.4***
Expenditure	**−6 308**	**−6 269**	**−6 354**
% change	***−5.0***	***−0.6***	***1.4***
SURPLUS (DEFICIT)	**—**	**—**	**—**

APPENDIX 1: ELIMINATION OF THE PROGRESSIVE HEALTH CONTRIBUTION AND THE FUND TO FINANCE HEALTH AND SOCIAL SERVICES INSTITUTIONS (FINESSS)

The health contribution will be gradually phased out starting January 1, 2017. In addition, FINESSS will be abolished on April 1, 2016.[6]

— These two decisions in no way change the anticipated level of health spending.

— As of 2016-2017, spending currently planned by FINESSS ($1 539 million in 2016-2017) will be financed out of program spending, which will be adjusted by an equivalent amount.

TABLEAU D.17

Impact on health funding of the elimination of the progressive health contribution and FINESSS in 2016-2017
(millions of dollars)

	Before elimination	After elimination	Difference
Health spending			
Program spending	33 462	35 001	1 539
FINESSS	1 539	—	−1 539
Total – Spending	**35 001**	**35 001**	**—**
Funding	**35 001**	**35 001**	**—**

Note : The health contribution will be eliminated gradually as of January 1, 2017. The impact in 2016-2017 is $81 million.

Once these decisions are fully implemented, all of the funding that came from the progressive health contribution will be offset by revenue provided for in the financial framework.

6 The legislative provisions dealing with the elimination of FINESSS are contained in Bill 74, *An Act respecting mainly the implementation of certain provisions of the Budget Speech of 26 March 2015*.

The elimination of FINESSS will result in a $1 539-million increase in program spending in 2016-2017, raising it from $67 969 million to $69 508 million.

TABLEAU D.18

Impact of the elimination of FINESSS on program spending
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
Program spending before elimination	**66 460**	**67 969**	**69 868**	**71 802**	**73 802**
% change	***1.7***	***2.3***	***2.8***	***2.8***	***2.8***
FINESSS spending	1 537	1 539	1 538	1 538	1 538
Program spending after elimination	**67 997**	**69 508**	**71 406**	**73 340**	**75 340**
% change	***1.7***	***2.2***	***2.7***	***2.7***	***2.7***

The gradual elimination of the health contribution will be financed using revenue provided for in the financial framework for the coming years. This will allow the government to continue financing expenditures previously supported by the progressive health contribution.

The government's consolidated expenditure will thus remain unchanged.

TABLEAU D.19

Impact of the elimination of FINESSS on consolidated expenditure excluding debt service
(millions of dollars)

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
Consolidated expenditure[1] before elimination	**88 091**	**89 860**	**91 738**	**93 514**	**95 788**
% change	***3.0***	***2.0***	***2.1***	***1.9***	***2.4***
Impact of the elimination of FINESSS					
Program spending	1 537	1 539	1 538	1 538	1 538
Other consolidated expenditure	−1 537	−1 539	−1 538	−1 538	−1 538
Subtotal	**—**	**—**	**—**	**—**	**—**
Consolidated expenditure[1] after elimination	**88 091**	**89 860**	**91 738**	**93 514**	**95 788**
% change	***3.0***	***2.0***	***2.1***	***1.9***	***2.4***

(1) Excluding debt service.

APPENDIX 2: DETAILED CONSOLIDATED FINANCIAL FRAMEWORK

TABLE D.20

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	20 909	1 193	—	—
Contributions for health services	6 967	730	—	—
Corporate taxes	4 380	196	—	—
School property tax	—	—	—	—
Consumption taxes	18 133	2 409	—	—
Duties and permits	319	2 126	—	—
Miscellaneous revenue	1 542	1 807	—	187
Government enterprises	4 811	—	—	—
Generations Fund revenue	—	—	1 496	—
Own-source revenue	**57 061**	**8 461**	**1 496**	**187**
Québec government transfers	—	4 542	—	—
Federal transfers	17 191	464	—	868
Total revenue	**74 252**	**13 467**	**1 496**	**1 055**
Expenditure				
Expenditure	−66 460	−11 721	—	−1 055
Debt service	−8 156	−1 438	—	—
Total expenditure	**−74 616**	**−13 159**	**—**	**−1 055**
SURPLUS (DEFICIT)	**−364**	**308**	**1 496**	**—**
BALANCED BUDGET ACT				
Deposits of dedicated revenues in the Generations Fund			−1 496	
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
4 289	—	—	1 860	28 251
—	—	—	−1 235	6 462
1 803	53	—	—	6 432
—	—	2 044	—	2 044
216	117	—	−2 265	18 610
—	419	—	−59	2 805
—	5 922	4 192	−4 048	9 602
—	—	—	—	4 811
—	—	—	—	1 496
6 308	**6 511**	**6 236**	**−5 747**	**80 513**
—	12 839	32 953	−50 334	—
—	1 117	311	−600	19 351
6 308	**20 467**	**39 500**	**−56 681**	**99 864**
−6 308	−19 511	−38 712	55 676	−88 091
—	−823	−820	960	−10 277
−6 308	**−20 334**	**−39 532**	**56 636**	**−98 368**
—	**133**	**−32**	**−45**	**1 496**
				−1 496
				—

TABLE D.21

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	22 116	1 227	—	—
Contributions for health services	7 135	660	—	—
Corporate taxes	4 800	194	—	—
School property tax	—	—	—	—
Consumption taxes	18 124	2 416	—	—
Duties and permits	351	2 083	—	—
Miscellaneous revenue	1 544	2 068	—	187
Government enterprises	4 692	—	—	—
Generations Fund revenue	—	—	2 158	—
Own-source revenue	**58 762**	**8 648**	**2 158**	**187**
Québec government transfers	—	4 624	—	—
Federal transfers	18 143	441	—	761
Total revenue	**76 905**	**13 713**	**2 158**	**948**
Expenditure				
Expenditure	−67 969	−11 875	—	−948
Debt service	−8 473	−1 617	—	—
Total expenditure	**−76 442**	**−13 492**	**—**	**−948**
Contingency reserve	−400			
SURPLUS (DEFICIT)	**63**	**221**	**2 158**	**—**
BALANCED BUDGET ACT				
Deposits of dedicated revenues in the Generations Fund			−2 158	
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
4 317	—	—	1 814	29 474
—	—	—	−1 266	6 529
1 709	—	—	—	6 703
—	—	2 137	—	2 137
243	118	—	−2 213	18 688
—	430	—	−59	2 805
—	5 908	4 261	−4 165	9 803
—	—	—	—	4 692
—	—	—	—	2 158
6 269	**6 456**	**6 398**	**−5 889**	**82 989**
—	13 314	33 152	−51 090	—
—	1 130	292	−637	20 130
6 269	**20 900**	**39 842**	**−57 616**	**103 119**
−6 269	−20 084	−38 975	56 260	−89 860
—	−789	−877	1 055	−10 701
−6 269	**−20 873**	**−39 852**	**57 315**	**−100 561**
				−400
—	**27**	**−10**	**−301**	**2 158**
				−2 158
				—

TABLE D.22

Detailed consolidated financial framework

(millions of dollars)

	2017-2018			
	Consolidated Revenue Fund			
	General fund	**Special funds**	**Generations Fund**	**Specified purpose accounts**
Revenue				
Personal income tax	22 991	1 271	—	—
Contributions for health services	7 217	364	—	—
Corporate taxes	5 034	199	—	—
School property tax	—	—	—	—
Consumption taxes	18 560	2 422	—	—
Duties and permits	359	1 961	—	—
Miscellaneous revenue	1 570	2 281	—	146
Government enterprises	4 575	—	—	—
Generations Fund revenue	—	—	2 661	—
Own-source revenue	**60 306**	**8 498**	**2 661**	**146**
Québec government transfers	—	4 616	—	—
Federal transfers	18 729	450	—	644
Total revenue	**79 035**	**13 564**	**2 661**	**790**
Expenditure				
Expenditure	−69 868	−12 059	—	−790
Debt service	−8 386	−1 865	—	—
Total expenditure	**−78 254**	**−13 924**	**—**	**−790**
Contingency reserve	−400	—	—	—
SURPLUS (DEFICIT)	**381**	**−360**	**2 661**	**—**
BALANCED BUDGET ACT				
Deposits of dedicated revenues in the Generations Fund			−2 661	
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*.

2017-2018				
Tax-funded expenditures [1]	**Non-budget-funded bodies**	**Health and social services and education networks**	**Consolidation adjustments** [2]	**Consolidated results**
4 403	—	—	1 867	30 532
—	—	—	−1 283	6 298
1 702	—	—	—	6 935
—	—	2 206	—	2 206
249	119	—	−2 266	19 084
—	445	—	−60	2 705
—	6 047	4 337	−4 376	10 005
—	—	—	—	4 575
—	—	—	—	2 661
6 354	**6 611**	**6 543**	**−6 118**	**85 001**
—	14 065	33 796	−52 477	—
—	1 128	298	−637	20 612
6 354	**21 804**	**40 637**	**−59 232**	**105 613**
−6 354	−20 963	−39 682	57 978	−91 738
—	−789	−955	1 181	−10 814
−6 354	**−21 752**	**−40 637**	**59 159**	**−102 552**
—	—	—	—	−400
—	**52**	**—**	**−73**	**2 661**
				−2 661
				—

Section E

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 the Québec government's debt according to three concepts, i.e. gross debt, net debt and debt representing accumulated deficits.

TABLE E.1

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

	2015	2016F	2017F	2018F	2019F	2020F
GROSS DEBT(1)	**203 957**	**208 498**	**213 603**	**215 885**	**217 741**	**218 322**
As a % of GDP	*55.1*	*55.0*	*54.6*	*53.3*	*52.1*	*50.6*
Less: Financial assets, net of other liabilities	−18 377	−20 348	−24 327	−27 336	−30 421	−32 993
NET DEBT	**185 580**	**188 150**	**189 276**	**188 549**	**187 320**	**185 329**
As a % of GDP	*50.1*	*49.7*	*48.3*	*46.6*	*44.8*	*43.0*
Less: Non-financial assets	−64 419	−68 485	−71 769	−73 703	−75 499	−76 894
DEBT REPRESENTING ACCUMULATED DEFICITS	**121 161**	**119 665**	**117 507**	**114 846**	**111 821**	**108 435**
As a % of GDP	*32.7*	*31.6*	*30.0*	*28.4*	*26.7*	*25.1*

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, 2016, the gross debt should stand at $208 498 million, or 55.0% of GDP. As of the present fiscal year, the ratio of gross debt to GDP is expected to gradually decline. It should stand at 50.6% as at March 31, 2020.

The five-year forecast for the gross debt includes the government's recent announcement to invest US$1 billion, or approximately CAN$1.3 billion, in Bombardier's C Series program. This investment raises the government's financial requirements for 2016-2017 (for more information, see the box on page E.10).

TABLE E.2

Gross debt as at March 31
(millions of dollars)

	2015	2016F	2017F	2018F	2019F	2020F
Consolidated direct debt(1)	182 723	189 558	196 879	202 253	207 923	212 974
Plus: Net retirement plans liability	28 041	27 411	27 422	26 991	26 202	25 118
Plus: Net employee future benefits liability	131	69	—	—	—	—
Less: Generations Fund	−6 938	−8 540	−10 698	−13 359	−16 384	−19 770
GROSS DEBT(1)	**203 957**	**208 498**	**213 603**	**215 885**	**217 741**	**218 322**
As a % of GDP	***55.1***	***55.0***	***54.6***	***53.3***	***52.1***	***50.6***

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 $83 304 million as at March 31, 2015.

The government created the RPSF in 1993. As at March 31, 2015, the RPSF's book value stood at $55 263 million.

Thus, the net retirement plans liability represented $28 041 million as at March 31, 2015.

Net retirement plans liability as at March 31, 2015
(millions of dollars)

Retirement plans liability	
Government and Public Employees Retirement Plan (RREGOP)	51 966
Pension Plan of Management Personnel (PPMP) and Retirement Plan for Senior Officials (RPSO)	12 264
Other plans(1)	19 074
Subtotal	**83 304**
Less: Retirement Plans Sinking Fund (RPSF)	−55 263
NET RETIREMENT PLANS LIABILITY	**28 041**

(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, 2015, the employee future benefits liability stood at $1 488 million.

As at March 31, 2015, 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 $1 357 million.

Thus, the net employee future benefits liability was $131 million as at March 31, 2015.

Net employee future benefits liability as at March 31, 2015
(millions of dollars)

Employee future benefits liability	
Accumulated sick leave	877
Survivor's pension plan	412
Université du Québec programs	199
Subtotal	**1 488**
Less:	
Accumulated Sick Leave Fund	−918
Survivor's Pension Plan Fund	−439
Subtotal	**−1 357**
NET EMPLOYEE FUTURE BENEFITS LIABILITY	**131**

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, 2016, the book value of the Generations Fund is expected to be $8 540 million.

The sums accumulated in the Generations Fund are expected to reach $19 770 million as at March 31, 2020.

Generations Fund
(millions of dollars)

	2014-2015	2015-2016F	2016-2017F	2017-2018F	2018-2019F	2019-2020F
Book value, beginning of year	**5 659**	**6 938**	**8 540**	**10 698**	**13 359**	**16 384**
Dedicated revenues						
Water-power royalties						
Hydro-Québec	660	663	652	673	688	706
Private producers	101	97	96	97	99	101
Subtotal	**761**	**760**	**748**	**770**	**787**	**807**
Indexation of the price of heritage electricity	71	101	170	235	330	435
Other contributions from Hydro-Québec	—	—	—	215	215	215
Mining revenues	—	100	124	174	249	284
Specific tax on alcoholic beverages	100	100	500	500	500	500
Unclaimed property	32	40	15	15	15	15
Investment income	315	395	601	752	929	1 130
Total dedicated revenues	**1 279**	**1 496**	**2 158**	**2 661**	**3 025**	**3 386**
Deposit from the accumulated surplus of the Commission des normes du travail	—	106	—	—	—	—
Total deposits	**1 279**	**1 602**	**2 158**	**2 661**	**3 025**	**3 386**
BOOK VALUE, END OF YEAR	**6 938**	**8 540**	**10 698**	**13 359**	**16 384**	**19 770**

F: Forecasts.

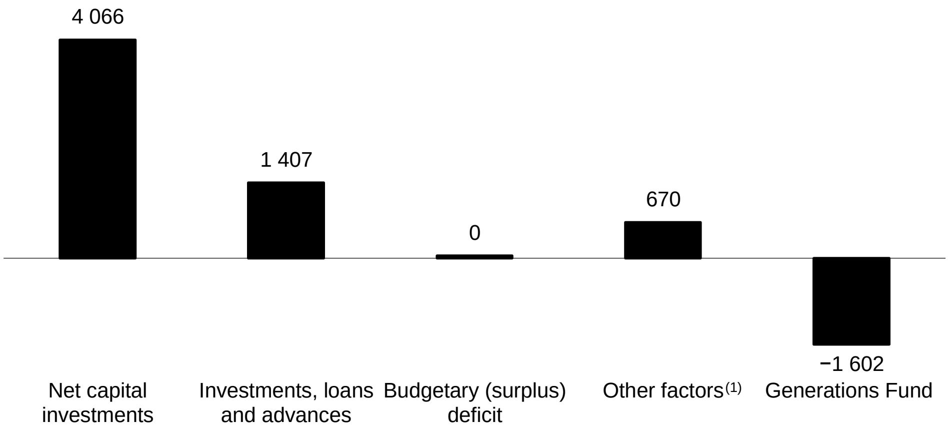
❑ Factors responsible for the growth in the gross debt

In 2015-2016, the gross debt is expected to increase by $4 541 million, mainly because of capital investments ($4 066 million).

Deposits in the Generations Fund will help to reduce the gross debt by $1 602 million.

CHART E.1

Factors responsible for the growth in the gross debt in 2015-2016
(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 E.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	52.4
2001-2002	120 562	−22		1 248	934	1 199	−9		3 350	123 912	51.9
2002-2003	123 912	728		1 921	631	1 706	237		5 223	129 135	51.7
2003-2004	129 135	358		1 367	560	1 186	625		4 096	133 231	51.4
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	49.9
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	48.5
With networks consolidated line by line(5)											
2009-2010	157 630	3 174		1 746		4 226	−2 733	−725	5 688	163 318	51.9
2010-2011	163 318	3 150		2 507		4 923	298	−760	10 118	173 436	52.9
2011-2012	173 436	2 628		1 861		5 071	1 228	−840	9 948	183 384	53.2
2012-2013	183 384	1 600	1 876	659		4 863	445	−961	8 482	191 866	54.2
2013-2014	191 866	2 824		1 349		3 977	−788	−1 421	5 941	197 807	54.8
2014-2015	197 807	1 143		2 146		2 980	1 160	−1 279	6 150	203 957	55.1
2015-2016	203 957	—		1 407		4 066	670	−1 602	4 541	208 498	55.0
2016-2017	208 498	—		3 152		3 284	827	−2 158	5 105	213 603	54.6
2017-2018	213 603	—		1 944		1 934	1 065	−2 661	2 282	215 885	53.3
2018-2019	215 885	—		2 453		1 796	632	−3 025	1 856	217 741	52.1
2019-2020	217 741	—		2 044		1 395	528	−3 386	581	218 322	50.6

(1) The net investment in the networks includes mainly loans by Financement-Québec to 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) In 2015-2016, deposits in the Generations Fund include $1 496 million in dedicated revenues and $106 million from the accumulated surplus of the Commission des normes du travail.

(5) The line-by-line consolidation of the health and social services and 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.

Investment by the government in Bombardier's C Series program

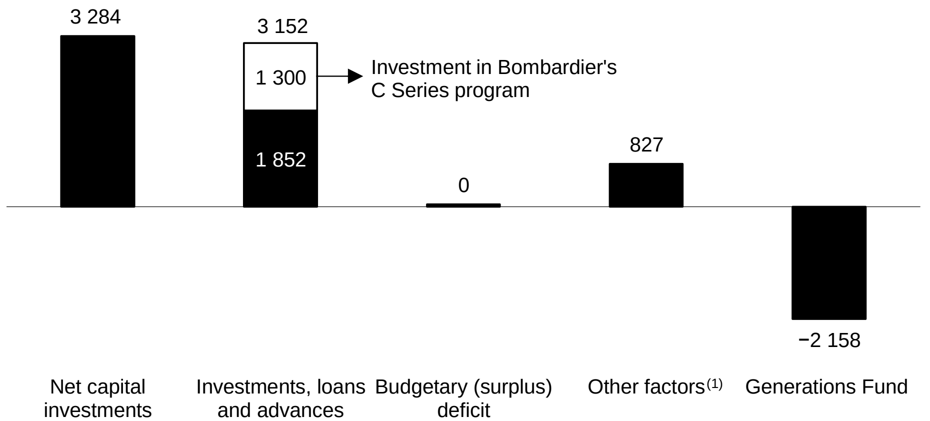
On October 29, 2015, the Québec government announced that it was investing US$1 billion (CAN$1.3 billion) in the C Series aircraft program developed by Bombardier.

The government's investment will be made through an equity participation of 49.5% in a limited partnership created specifically for the C Series program. Bombardier's interest will be 50.5%.

The government's investment will be made in two equal installments of US$500 million: the first, on April 1, 2016 and the second, on June 30, 2016.

This investment will entail additional financial requirements for the government in 2016-2017 and thus an increase in the gross debt. On the other hand, the government will hold a financial asset worth the equivalent of its investment. Among the factors responsible for the growth in the gross debt, this investment is presented in investments, loans and advances.

Factors responsible for the growth in the gross debt in 2016-2017F
(millions of dollars)



F: Forecasts.
(1) Other factors include in particular the change in other accounts, such as accounts receivable and accounts payable.

The government's investment in Bombardier's C Series program does not have any effect, however, on the net debt or the debt representing accumulated deficits, because the government owns a financial asset in exchange for its participation.

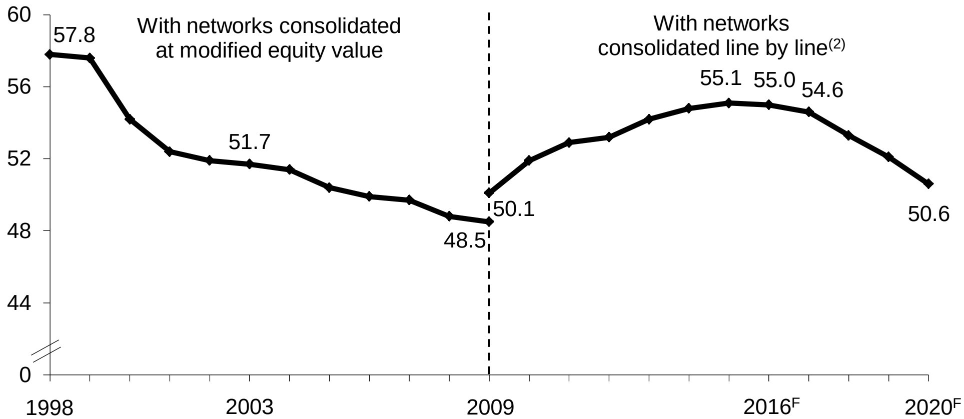
❑ Gross debt burden

Between 1998 and 2009, the government's gross-debt-to-GDP ratio fell significantly. While the gross debt was equivalent to 57.8% of GDP as at March 31, 1998, this ratio stood at 51.7% as at March 31, 2003 and 48.5% 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 50.1% 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 the present fiscal year.

CHART E.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 issued 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, 2015, the net debt stood at $185 580 million, or 50.1% of GDP. As a proportion of GDP, the net debt began to decrease in 2013-2014 and will continue to fall over the coming years, to 43.0% as at March 31, 2020.

TABLE E.4

Factors responsible for the growth in the net debt
(millions of dollars)

	Debt, beginning of year	Budgetary (surplus) deficit	Closure of Gentilly-2	Net capital investments	Other	Generations Fund	Total change	Debt, end of year	As a % of GDP
2012-2013	167 700	1 600	1 876	4 863	4 959(1)	−961	12 337	180 037	50.9
2013-2014	180 037	2 824		3 977	−2 465(2)	−1 121	3 215	183 252	50.7
2014-2015	183 252	1 143		2 980	−516(2)	−1 279	2 328	185 580	50.1
2015-2016F	185 580	—		4 066	—	−1 496	2 570	188 150	49.7
2016-2017F	188 150	—		3 284	—	−2 158	1 126	189 276	48.3
2017-2018F	189 276	—		1 934	—	−2 661	−727	188 549	46.6
2018-2019F	188 549	—		1 796	—	−3 025	−1 229	187 320	44.8
2019-2020F	187 320	—		1 395	—	−3 386	−1 991	185 329	43.0

F: Forecasts.
(1) The amount of $4 959 million in 2012-2013 is explained mainly by changes made to Hydro-Québec's accounting standards. These changes led to a decrease in the value of the government's investment in Hydro-Québec and thus an increase in the net debt.
(2) The amounts of $2 465 million in 2013-2014 and $516 million in 2014-2015 are explained mainly by the other comprehensive income items of government enterprises that lead to a decrease in the net debt for the years concerned.

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, 2015, the debt representing accumulated deficits stood at $121 161 million, or 32.7% of GDP. Compared with the previous year, this is a decrease both in absolute terms and as a proportion of GDP.

The ratio of the debt representing accumulated deficits to GDP will continue to decrease over the coming years, to 25.1% as at March 31, 2020.

The following table shows the factors responsible for the growth in the debt representing accumulated deficits since March 31, 2009.

TABLE E.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	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	34.7
2010-2011	109 125	3 150		431	−760	2 821	111 946	34.1
2011-2012	111 946	2 628		1 486	−840	3 274	115 220	33.4
2012-2013	115 220	1 600	1 876	4 880(1)	−961	7 395	122 615	34.6
2013-2014	122 615	2 824		−2 471(2)	−1 121	−768	121 847	33.7
2014-2015	121 847	1 143		−550(2)	−1 279	−686	121 161	32.7
2015-2016F	121 161	—		—	−1 496	−1 496	119 665	31.6
2016-2017F	119 665	—		—	−2 158	−2 158	117 507	30.0
2017-2018F	117 507	—		—	−2 661	−2 661	114 846	28.4
2018-2019F	114 846	—		—	−3 025	−3 025	111 821	26.7
2019-2020F	111 821	—		—	−3 386	−3 386	108 435	25.1

F: Forecasts.
(1) The amount of $4 880 million in 2012-2013 is explained mainly by changes made to Hydro-Québec's accounting standards. These changes led to a decrease in the value of the government's investment in Hydro-Québec and thus an increase in the debt representing accumulated deficits.
(2) The amounts of $2 471 million in 2013-2014 and $550 million in 2014-2015 are explained mainly by the other comprehensive income items of government enterprises that lead to a decrease in the debt representing accumulated deficits for the years concerned.

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:

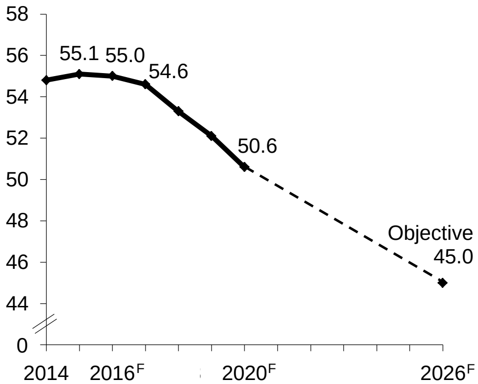
— the gross debt cannot exceed 45% of GDP;

— the debt representing accumulated deficits cannot exceed 17% of GDP.

CHART E.3

Gross debt as at March 31

(as a percentage of GDP)



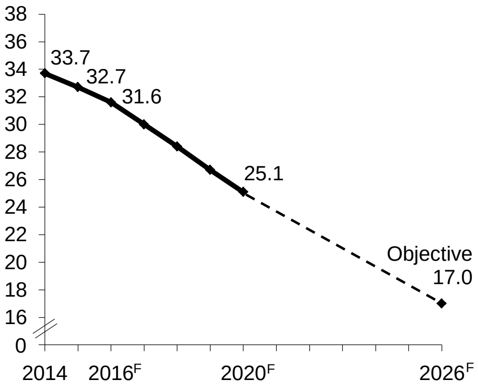
F: Forecasts for 2016 to 2020 and projections for subsequent years.

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

CHART E.4

Debt representing accumulated deficits as at March 31

(as a percentage of GDP)



F: Forecasts for 2016 to 2020 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;

— all mining revenues as of 2015-2016;

[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.

— an amount of $215 million per year from Hydro-Québec,[2] as of 2017-2018;

— an amount of $100 million per year, in 2014-2015 and 2015-2016, derived from the specific tax on alcoholic beverages. This amount will increase to $500 million per year as of 2016-2017.

In addition, the government has decided to deposit in the Generations Fund the accumulated surplus of the Commission des normes du travail, which should amount to $106 million. The deposit will be made in 2015-2016.

The Generations Fund is expected to amount to $19 770 million as at March 31, 2020.

TABLE E.6

Generations Fund
(millions of dollars)

	2014-2015	2015-2016F	2016-2017F	2017-2018F	2018-2019F	2019-2020F
Book value, beginning of year	**5 659**	**6 938**	**8 540**	**10 698**	**13 359**	**16 384**
Dedicated revenues						
Water-power royalties						
Hydro-Québec	660	663	652	673	688	706
Private producers	101	97	96	97	99	101
Subtotal	**761**	**760**	**748**	**770**	**787**	**807**
Indexation of the price of heritage electricity	71	101	170	235	330	435
Other contributions from Hydro-Québec	—	—	—	215	215	215
Mining revenues	—	100	124	174	249	284
Specific tax on alcoholic beverages	100	100	500	500	500	500
Unclaimed property	32	40	15	15	15	15
Investment income	315	395	601	752	929	1 130
Total dedicated revenues	**1 279**	**1 496**	**2 158**	**2 661**	**3 025**	**3 386**
Deposit from the accumulated surplus of the Commission des normes du travail	—	106	—	—	—	—
Total deposits	**1 279**	**1 602**	**2 158**	**2 661**	**3 025**	**3 386**
BOOK VALUE, END OF YEAR	**6 938**	**8 540**	**10 698**	**13 359**	**16 384**	**19 770**

F: Forecasts.

[2] Further to the closing of the Gentilly-2 nuclear power plant, the government decided to deposit in the Generations Fund an amount of $215 million per year, from 2017-2018 to 2043-2044, corresponding to the estimate made in 2012 of Hydro-Québec's annual savings related to the non-refurbishment of the plant.

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, 2015, Québec's public sector debt stood at $270 931 million, or 73.2% 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 E.7

Public sector debt as at March 31
(millions of dollars)

	2011	2012	2013	2014	2015
Government's gross debt(1)	173 436	183 384	191 866	197 807	203 957
Hydro-Québec	37 723	38 514	39 631	40 361	41 662
Municipalities(2)	20 307	20 719	21 820	22 622	23 305
Universities other than the Université du Québec and its constituents(3)	1 925	1 797	1 739	1 610	1 624
Other government enterprises(4)	1 363	1 363	1 479	433	383
PUBLIC SECTOR DEBT	**234 754**	**245 777**	**256 535**	**262 833**	**270 931**
As a % of GDP	***71.5***	***71.3***	***72.5***	***72.8***	***73.2***

(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 ($4 702 million as at March 31, 2015).
(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 ($628 million as at March 31, 2015).
(4) These amounts correspond to the debt of the Financing Fund to finance government enterprises and entities not included in the reporting entity.

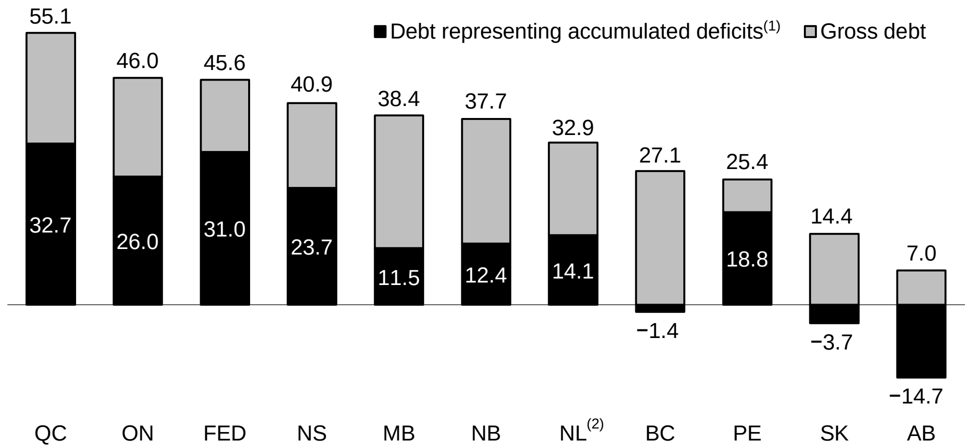
1.6 Comparison of the debt of governments in Canada

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, 2015, the ratio of Québec's gross debt to GDP was 55.1%, compared with 46.0% in Ontario, the second most indebted province, and 40.9% in Nova Scotia, which ranked third.

CHART E.5

Gross debt and debt representing accumulated deficits as at March 31, 2015
(as a percentage of GDP)



(1) A negative entry means that the government has an accumulated surplus.
(2) Data as at March 31, 2014 given that the 2014-2015 public accounts of that province were not published as of November 19, 2015.
Sources: Governments' public accounts, Statistics Canada and Ministère des Finances du Québec.

The table on the next page shows the debt of the federal government and each province as at March 31, 2015. 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 same concept used by Québec.

TABLE E.8

Debt of governments in Canada as at March 31, 2015 according to various concepts

(millions of dollars)

	QC	ON	FED	NS	MB	NB	NL[1]	BC	PE	SK	AB
Consolidated direct debt	**182 723**	**328 744**	**671 182**	**13 434**	**21 895**	**11 357**	**5 066**	**62 181**	**1 849**	**4 839**	**14 982**
Net retirement plans liability	28 041	−7 679	152 664	609	2 245	380	3 908	261	−385	7 077	11 196
Net employee future benefits liability	131	10 830	76 140	1 955	478	363	2 554	1 921	58	—	—
Generations Fund	−6 938										
Gross debt	**203 957**	**331 895**	**899 986**	**15 998**	**24 618**	**12 100**	**11 528**	**64 363**	**1 522**	**11 916**	**26 178**
As a % of GDP	*55.1*	*46.0*	*45.6*	*40.9*	*38.4*	*37.7*	*32.9*	*27.1*	*25.4*	*14.4*	*7.0*
Less: Financial assets, net of other liabilities	−18 377	−47 409	−213 027	−967	−5 655	322	−2 443	−25 461	612	−6 364	−36 676
Net debt[2]	**185 580**	**284 486**	**686 959**	**15 031**	**18 963**	**12 422**	**9 085**	**38 902**	**2 134**	**5 552**	**−10 498**
As a % of GDP	*50.1*	*39.4*	*34.8*	*38.5*	*29.6*	*38.8*	*26.0*	*16.4*	*35.5*	*6.7*	*−2.8*
Less: Non-financial assets	−64 419	−97 065	−74 629	−5 758	−11 578	−8 461	−4 148	−42 154	−1 003	−8 626	−44 753
Debt representing accumulated deficits[2]	**121 161**	**187 421**	**612 330**	**9 273**	**7 385**	**3 961**	**4 937**	**−3 252**	**1 131**	**−3 074**	**−55 251**
As a % of GDP	*32.7*	*26.0*	*31.0*	*23.7*	*11.5*	*12.4*	*14.1*	*−1.4*	*18.8*	*−3.7*	*−14.7*

Note: The figures in boxes indicate the debt concept(s) used in the governments' budget documents.
(1) Data as at March 31, 2014 given that the 2014-2015 public accounts of that province were not published as of November 19, 2015.
(2) A negative entry indicates that the government has net assets or an accumulated surplus.
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 2015-2016 amounts to $11 969 million, i.e. $3 754 million more than forecast in March 2015. This upward revision is primarily attributable to $3.5 billion in pre-financing carried out to date this year.

TABLE E.9

The government's financing program, 2015-2016
(millions of dollars)

	March 2015	Revisions	Revised program	Realized[1]	To be realized
GENERAL FUND					
Net financial requirements[2]	1 891	−18	1 873		
Repayments of borrowings	7 370	3	7 373		
Change in cash position[3]	−8 952	−692	−9 644		
Deposits in the Retirement Plans Sinking Fund[4]	—	500	500		
Transactions under the credit policy[5]	—	−895	−895		
Additional contributions to the Sinking Fund for borrowings	—	1 529	1 529		
Subtotal	**309**	**427**	**736**		
Pre-financing	—	3 502	3 502		
GENERAL FUND	**309**	**3 929**	**4 238**		
FINANCING FUND	**7 406**	**−175**	**7 231**		
Subtotal – General fund and Financing Fund	**7 715**	**3 754**	**11 469**	**11 469**	**—**
FINANCEMENT-QUÉBEC	**500**	**—**	**500**	**—**	**500**
TOTAL	**8 215**[6]	**3 754**	**11 969**	**11 469**	**500**
Including: repayments of borrowings	10 525	99	10 624		

Note: A negative entry indicates a source of financing and a positive entry, a financial requirement.
(1) Borrowings contracted or negotiated as at November 19, 2015.
(2) These amounts exclude the net financial requirements of consolidated entities funded through the Financing Fund. They are adjusted to take into account the non-receipt of revenues of the RPSF and of funds dedicated to future employee benefits.
(3) Corresponds to pre-financing carried out the previous year.
(4) Deposits in the RPSF are optional. They are recorded in the financing program only once they are made.
(5) 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.
(6) This amount is $4 billion less than the financing program of $12.2 billion presented in the March 2015 budget documents. A pre-financing forecast of $4 billion was then included in the financing program. Given that pre-financing is optional, it was decided to not include forecasts in that regard for 2015-2016 as well as subsequent years. Only pre-financing that has already been carried out is shown in the table.

The financing program is expected to reach $18 236 million in 2016-2017 and $15 988 million in 2017-2018.

TABLE E.10

The government's financing program,[1] 2016-2017 and 2017-2018
(millions of dollars)

	2016-2017	2017-2018
GENERAL FUND		
Net financial requirements[2]	1 638	862
Repayments of borrowings	10 567	6 026
Change in cash position[3]	−3 502	—
GENERAL FUND	**8 703**	**6 888**
FINANCING FUND	**9 033**	**8 100**
Subtotal – General fund and Financing Fund	**17 736**	**14 988**
FINANCEMENT-QUÉBEC	**500**	**1 000**
TOTAL	**18 236**	**15 988**
Including: repayments of borrowings	15 042	11 247

Note: A negative entry indicates a source of financing and a positive entry, a financial requirement.
(1) The data shown in this table do not include pre-financing forecasts.
(2) These amounts exclude the net financial requirements of consolidated entities funded through the Financing Fund. They are adjusted to take into account the non-receipt of revenues of the RPSF and of funds dedicated to future employee benefits.
(3) Corresponds to pre-financing carried out the previous year.

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 2005-2006 to 2014-2015, 16.9% of borrowings were contracted in foreign currencies. Nonetheless, the government keeps no exposure of its debt to these currencies (see section 2.5).

In 2015-2016, the government has thus far carried out 24.1% of its borrowings on foreign markets, i.e.:

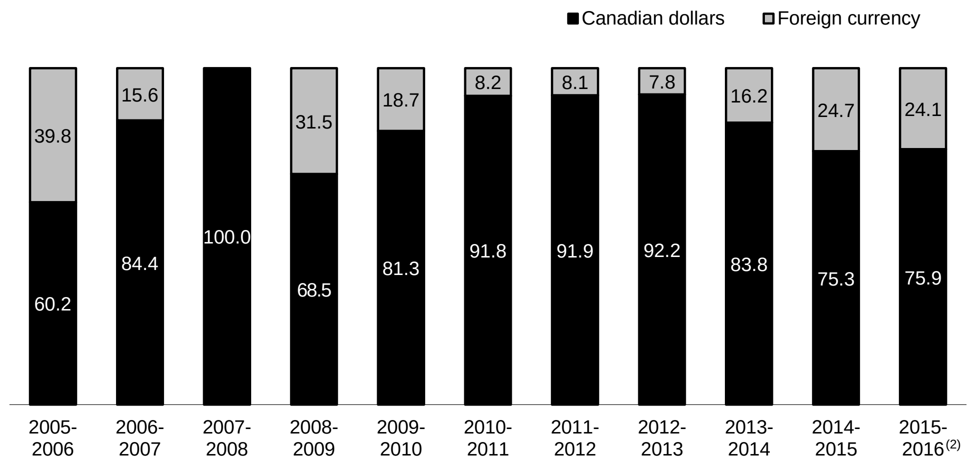
— five issues totalling US$1 150 million (CAN$1 529 million) in September and November 2015;

— one issue of €750 million (CAN$1 080 million) in October 2015;

— two issues totalling AU$150 million (CAN$150 million) in May and November 2015.

CHART E.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 19, 2015.

2.2.2 **Diversification by instrument**

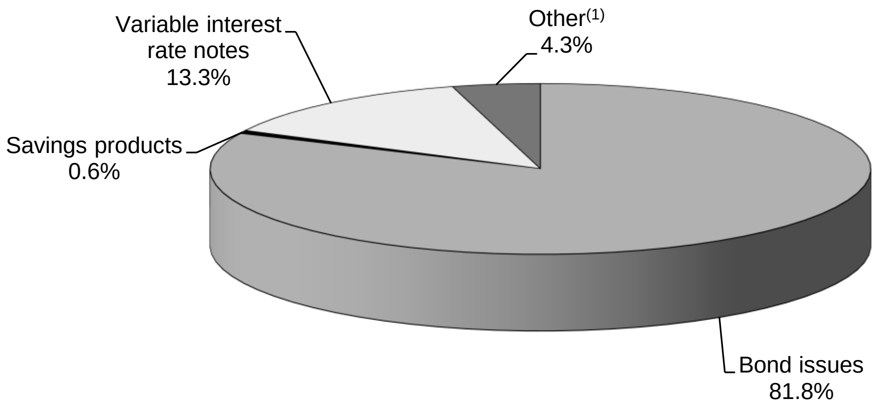
To satisfy investors' needs, an extensive array of financial products is used in the course of financing transactions.

Long-term instruments consist primarily of bond issues and variable interest rate notes.

In 2015-2016, bond issues have thus far represented 81.8% of the instruments used.

CHART E.7

Long-term borrowings contracted in 2015-2016 by instrument
(per cent)



Note: Borrowings contracted as at November 19, 2015.
(1) Business Assistance – Immigrant Investor Program.

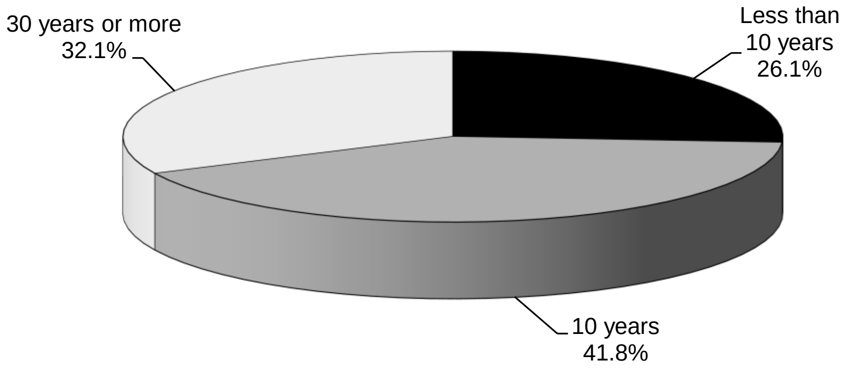
2.2.3 **Diversification by maturity**

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 2015-2016, 26.1% had a maturity of less than 10 years, 41.8% a maturity of 10 years and 32.1% a maturity of 30 years or more.

CHART E.8

Long-term borrowings contracted in 2015-2016 by maturity
(per cent)

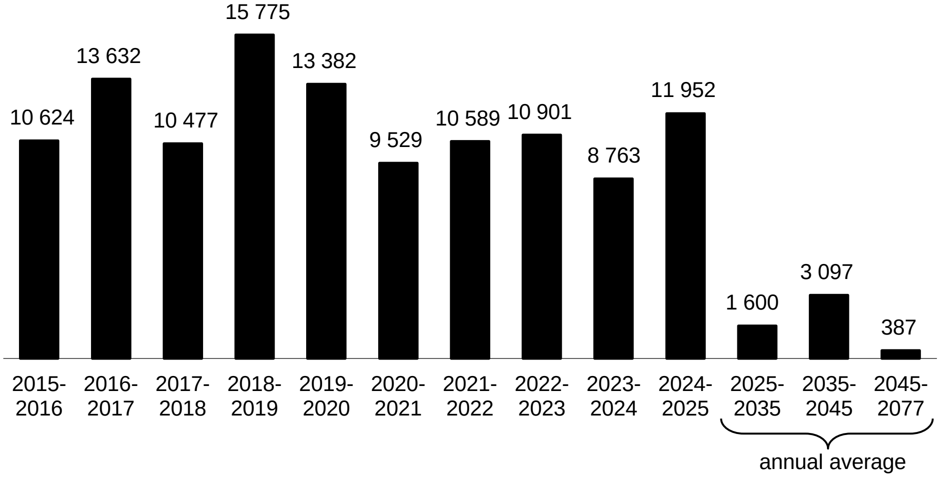


Note: Borrowings contracted as at November 19, 2015.

This diversification by maturity is reflected on the maturity of the debt shown in the following chart. As at March 31, 2015, the average maturity of the debt was 12 years.

CHART E.9

Maturity of the long-term debt as at March 31, 2015
(millions of dollars)



Note: Direct debt of the general fund, debt issued to make advances to the Financing Fund and debt of Financement-Québec.

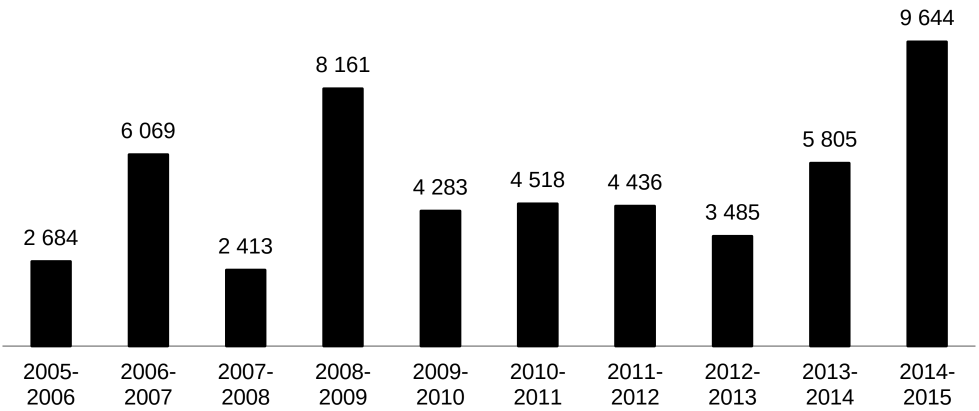
2.3 Pre-financing

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 2014-2015, the government contracted pre-financing of $9 644 million. The average for the past 10 years is $5 150 million per year.

CHART E.10

Pre-financing
(millions of dollars)

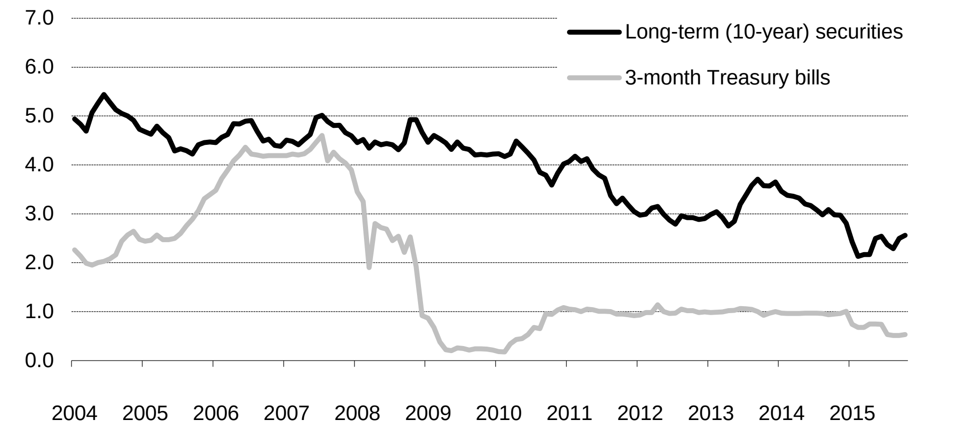


2.4 Yield

The yield on the Québec government's long-term securities is currently about 2.7%, while that on short-term securities is roughly 0.5%.

CHART E.11

Yield on the Québec government's securities
(per cent)

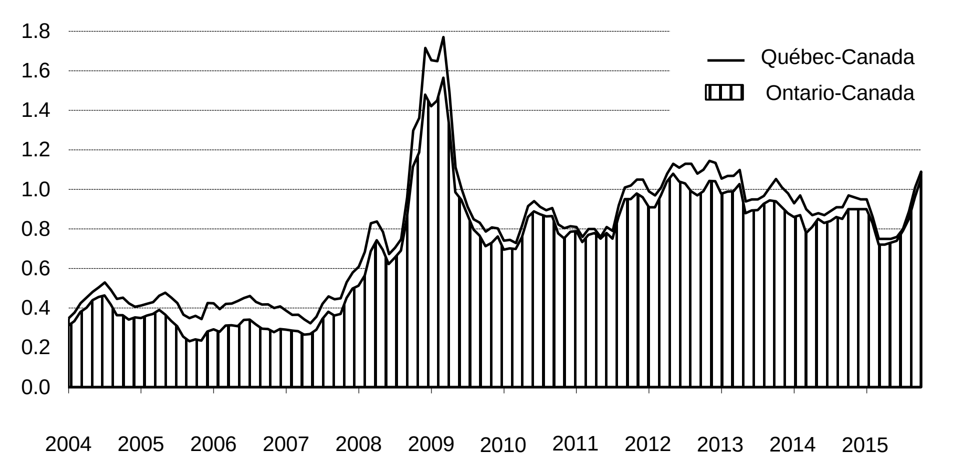


Sources: PC-Bond and Ministère des Finances du Québec.

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 E.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.

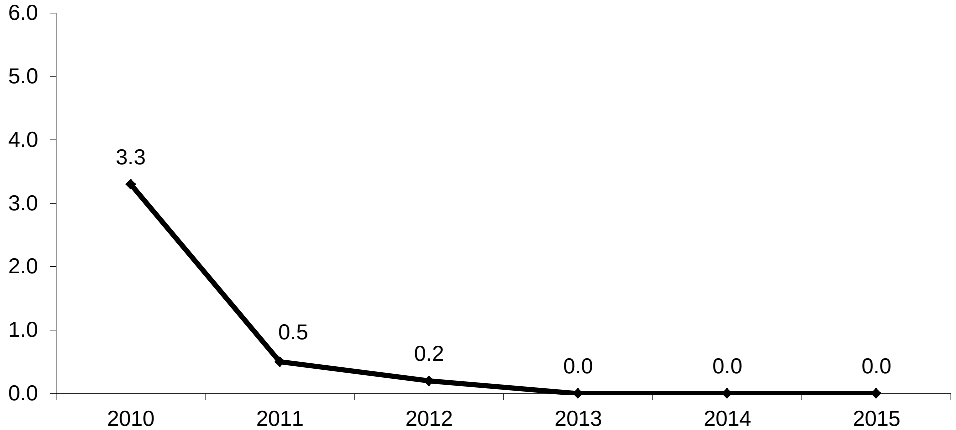
The government uses a range of financial instruments, particularly interest rate and currency swap agreements, to achieve desired debt proportions by currency and interest rate.

❑ Proportion of the gross debt in foreign currency

As at March 31, 2015, the proportion of the government's gross debt in foreign currency, after taking into account interest rate and currency swap agreements, was nil.[3] This proportion was also nil as at March 31, 2014 and March 31, 2013.

CHART E.13

Proportion of the gross debt in foreign currency as at March 31
(per cent)



Note: Gross debt including pre-financing.

3 As at March 31, 2015, before taking into account interest rate and currency swap agreements, the proportion of the gross debt was 83.1% in Canadian dollars, 8.8% in U.S. dollars, 4.7% in euros, 1.7% in Swiss francs and 1.7% in other foreign currencies (yen, Australian dollars, etc.).

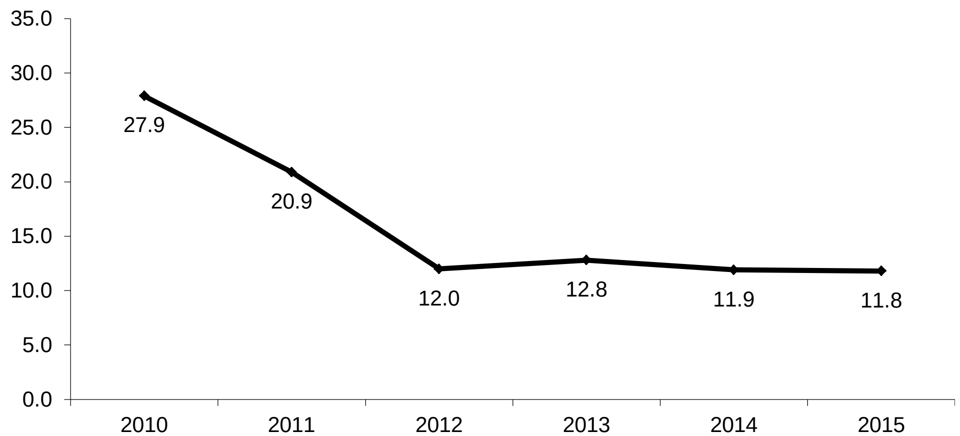
❑ Proportion of the gross debt at variable interest rates

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 11.8% as at March 31, 2015.

CHART E.14

Proportion of the gross debt at variable interest rates as at March 31[1]
(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 E.11

Québec government
Summary of long-term borrowings in 2015-2016(1)

Currency	$ millions	%
CANADIAN DOLLAR		
Bond issues	8 147	71.0
Savings products	65	0.6
Business Assistance - Immigrant Investor Program	498	4.3
Subtotal	**8 710**	**75.9**
OTHER CURRENCIES		
US dollar	1 529	13.4
Euro	1 080	9.4
Australian dollar	150	1.3
Subtotal	**2 759**	**24.1**
TOTAL	**11 469**	**100.0**

Note: Based on borrowings contracted or negotiated as at November 19, 2015.
(1) The amounts include borrowings of the general fund, borrowings for the Financing Fund and borrowings of Financement-Québec.

TABLE E.12

Québec government
Borrowings contracted in 2015-2016 – General fund and 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)		(%)			($)	(%)
561	—	3.50	April 15	2045-12-01	112.274	2.893
103	AU$100	4.20	May 1	2025-03-10	108.461	3.193
506	—	2.75	May 15	2025-09-01	101.146	2.622
510	—	2.75	May 19	2025-09-01	101.916	2.537
536	—	3.50	June 2	2045-12-01	107.277	3.128
506	—	2.75	June 12	2025-09-01	101.211	2.614
512	—	2.75	July 17	2025-09-01	102.466	2.473
539	—	3.50	July 31	2045-12-01	107.682	3.107
521	—	2.75	August 11	2025-09-01	104.202	2.280
929	US$700	Variable[4]	September 4	2018-09-04	100.000	Variable[5]
522	—	3.50	September 9	2045-12-01	104.411	3.269
267[6]	US$200	Variable[4]	September 24	2018-09-04	100.006	Variable[5]
516	—	3.50	September 28	2048-12-01	103.130	3.343
67[6]	US$50	Variable[4]	September 30	2018-09-04	100.012	Variable[5]
67[6]	US$50	Variable[4]	September 30	2018-09-04	100.011	Variable[5]
507	—	3.50	October 13	2048-12-01	101.436	3.427
572	—	4.50	October 22	2020-12-01	114.293	1.577
1 080	€750	1.125[7]	October 28	2025-10-28	99.018	1.230[8]
329	—	3.50	November 4	2022-12-01	109.723	2.018
199[6]	US$150	Variable[4]	November 9	2018-09-04	100.010	Variable[5]
47	AU$50	3.70	November 20	2026-05-20	99.957	3.705
501	—	3.50	November 20	2048-12-01	100.214	3.489
504	—	2.75	November 23	2025-09-01	100.751	2.662
505	—	2.75	November 24	2025-09-01	101.026	2.630
65[9]	—	Various	Various	Various	Various	Various
498[10]	—	Zero coupon	Various	Various	Various	Various
11 469						

Note: Borrowings contracted or negotiated as at November 19, 2015.
(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) Private borrowings.
(7) Interest payable annually.
(8) Yield to investor is determined on the basis of interest payable annually.
(9) Savings products issued by Épargne Placements Québec.
(10) Business Assistance – Immigrant Investor Program.

TABLE E.13

Borrowings contracted in 2015 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)		(%)			($)	(%)
13	—	4.205	March 4	2017-03-02	106.785	0.770
6	—	Zero coupon	April 24	2017-04-15	97.939	1.058
19						

Note: Borrowings contracted from January 1 to November 19, 2015.
(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.

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 591 747 active participants and 352 273 beneficiaries as at December 31, 2014.

TABLE E.14

Retirement plans of public and parapublic sector employees as at December 31, 2014

	Active participants	Beneficiaries
Government and Public Employees Retirement Plan (RREGOP)	543 434	248 740
Pension Plan of Management Personnel (PPMP) and Retirement Plan for Senior Officials (RPSO)	29 154	28 858
Other plans:		
– Teachers Pension Plan (TPP) (1) and Pension Plan of Certain Teachers (PPCT)(1)	54	43 571
– Civil Service Superannuation Plan (CSSP)(1)	15	19 196
– Superannuation Plan for the Members of the Sûreté du Québec (SPMSQ)	5 725	5 107
– Pension Plan of Peace Officers in Correctional Services (PPPOCS)	3 827	1 821
– Pension Plan of the Judges of the Court of Québec and of Certain Municipal Courts (PPJCQM)	290	365
– Pension Plan for Federal Employees Transferred to Employment with the Gouvernement du Québec (PPFEQ)(2)	165	170
– Pension Plan of the Members of the National Assembly (PPMNA)	121	420
– Pension Plan of the Université du Québec (PPUQ)	8 962	4 025
Total for other plans	19 159	74 675
TOTAL	**591 747**	**352 273**

(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 2014-2015.

❑ 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 the 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%.[4]

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.[5]

TABLE E.15

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
2015	10.50	14.38	8 / 6.2 / 8	9.3

(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. For 2015, the rate applies to the excess of 27% of the MPE. In 2015, the MPE is $53 600.
(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.

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4 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%).

5 Except for the Pension Plan of the Université du Québec (PPUQ).

❑ Changes in 2010

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. Accordingly, 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,[6] 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, 2015, the liability for the retirement plans of public and parapublic sector employees stood at $83 304 million (net of the plans' assets). This amount is recognized in the government's gross debt.

6 Except in the case of the PPUQ, whose liability valuation is performed by a private-sector actuarial firm.

TABLE E.16

Retirement plans liability
(millions of dollars)

	March 31, 2015
Government and Public Employees Retirement Plan (RREGOP)	51 966
Pension Plan of Management Personnel (PPMP) and Retirement Plan for Senior Officials (RPSO)	12 264
Other plans:	
– Teachers Pension Plan (TPP) and Pension Plan of Certain Teachers (PPCT)	11 034
– Civil Service Superannuation Plan (CSSP)	3 550
– Superannuation Plan for the Members of the Sûreté du Québec (SPMSQ)	3 898
– Pension Plan of the Université du Québec (PPUQ)	3 420
– Pension Plan of Peace Officers in Correctional Services (PPPOCS)	654
– Pension Plan of the Judges of the Court of Québec and of Certain Municipal Courts (PPJCQM)	586
– Pension Plan of the Members of the National Assembly (PPMNA)	196
– Pension Plan for Federal Employees Transferred to Employment with the Gouvernement du Québec (PPFEQ)	148
– Plans' assets(1)	−4 412
Total for other plans	19 074
RETIREMENT PLANS LIABILITY	**83 304**

(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. $2 247 million in 2014-2015;

— the amortization of revisions to the government's actuarial obligations arising from previous updates of actuarial valuations, for a cost of $879 million in 2014-2015.

In 2014-2015, government spending in respect of the retirement plans thus stood at $3 126 million.

TABLE E.17

Spending in respect of the retirement plans
(millions of dollars)

	2014-2015
Net cost of vested benefits	2 247
Amortization of revisions stemming from actuarial valuations	879
SPENDING IN RESPECT OF THE RETIREMENT PLANS	**3 126**

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, 2015, the RPSF's book value was $55 263 million.

TABLE E.18

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
2014-2015	51 333	1 500	2 430	55 263

(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.

As at March 31, 2015, the market value of the RPSF was higher than its book value.

TABLE E.19

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
2014-2015	55 263	57 432	−2 169

❑ 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 E.20

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	Variation
(A)	Consolidated direct debt	182 723	183 723	1 000
	Retirement plans liability	83 304	83 304	—
	Less: Book value of the RPSF	−55 263	−56 263	−1 000
(B)	Net retirement plans liability	28 041	27 041	−1 000
(C)	Net employee future benefits liability	131	131	—
(D)	Less: Generations Fund	−6 938	−6 938	—
(E)	**GROSS DEBT (E = A + B + C + D)**	**203 957**	**203 957**	**—**

(1) Illustration based on results as at March 31, 2015.

❑ 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 16 years out of 21.

TABLE E.21

Comparison of the RPSF's annual return and the Québec government's borrowing costs
(per cent, on a calendar year basis)

	Return of the RPSF	Cost of new borrowings(1)	Difference (percentage points)
1994	−3.3(2)	9.2	−12.5
1995	17.0	8.9	8.1
1996	16.1	7.7	8.4
1997	13.4	6.5	6.9
1998	10.4	5.8	4.6
1999	15.3	6.0	9.3
2000	7.2	6.5	0.7
2001	−4.7	6.1	−10.8
2002	−8.5	5.8	−14.3
2003	14.9	5.2	9.7
2004	11.4	5.0	6.4
2005	13.5	4.5	9.0
2006	13.5	4.6	8.9
2007	5.2	4.7	0.5
2008	−25.6	4.5	−30.1
2009	10.7	4.4	6.3
2010	13.4	4.1	9.3
2011	3.5	3.7	−0.2
2012	9.4	3.0	6.4
2013	12.6	3.3	9.3
2014	11.9	3.2	8.7

(1) The government's borrowing costs correspond to the yield on 10-year maturity Québec bonds.
(2) From February to December 1994.
Source: PC-Bond for the yield on 10-year maturity Québec bonds.

❑ A flexible deposit policy

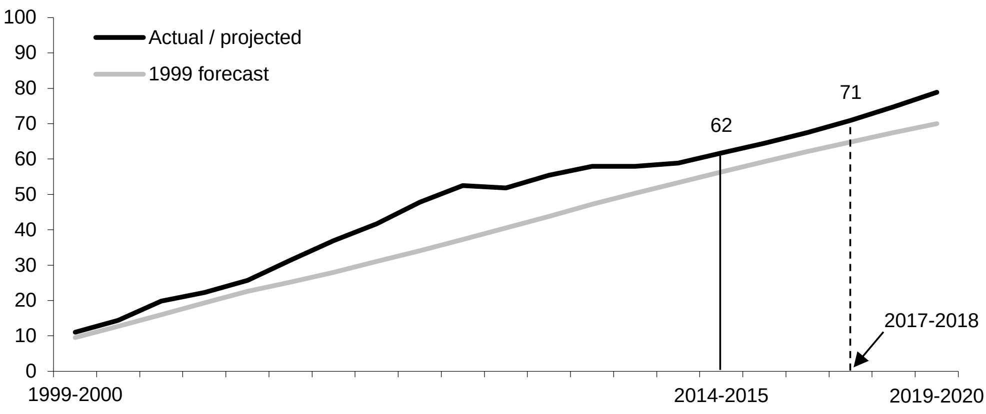
In December 1999, as part of the agreement concluded for the renewal of its employees' collective agreements, the government set the objective that the book value of the amounts accumulated in the RPSF would be equal, in 2020, to 70% of its actuarial obligations in regard to the retirement plans of public 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, 2015, the RPSF's book value represented 62% 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 E.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, 2015, the market value of the Generations Fund was higher than its book value.

TABLE E.22

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
2014-2015	6 938	8 182	−1 244

(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 the cost of new borrowings by the government seven years out of eight.

TABLE E.23

Comparison of the Generations Fund's annual return and the Québec government's borrowing costs
(per cent, on a calendar year basis)

	Return of the Generations Fund	Cost of new borrowings[1]	Difference (percentage points)
2007	5.6[2]	4.7	0.9
2008	−22.4	4.5	−26.9
2009	11.3	4.4	6.9
2010	12.3	4.1	8.2
2011	4.0	3.7	0.3
2012	8.4	3.0	5.4
2013	12.0	3.3	8.7
2014	11.7	3.2	8.5

(1) The government's borrowing costs correspond to the yield on 10-year maturity Québec bonds.
(2) Return realized from February to December 2007, since the first deposit was made in the Generations Fund on January 31, 2007.
Source: PC-Bond for the yield on 10-year maturity Québec bonds.

3.3 Returns of the Caisse de dépôt et placement du Québec on funds deposited by the Ministère des Finances

In 2014, the return on funds deposited by the Ministère des Finances with the Caisse de dépôt et placement du Québec was 11.93% for the RPSF, 11.67% for the Generations Fund and 11.90% for the Accumulated Sick Leave Fund. The investment policy of these funds is presented in the box on page E.47.

TABLE E.24

Market value and return in 2014 on funds deposited with the Caisse de dépôt et placement du Québec by the Ministère des Finances

	Return	Market value as at December 31, 2014
	(%)	($ millions)
Retirement Plans Sinking Fund	11.93	53 433
Generations Fund	11.67	7 462
Accumulated Sick Leave Fund	11.90	942

3.3.1 Retirement Plans Sinking Fund

The RPSF posted a return of 11.93% in 2014. Its market value was $53 433 million as at December 31, 2014.

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.), 16.5% inflation-sensitive investments (real estate and infrastructure) and 47.75% equities. These weightings are similar to those used on average by the Caisse's depositors as a whole.

TABLE E.25

Investment policy of the RPSF as at July 1, 2015
(per cent)

	Benchmark portfolio of the RPSF	Average benchmark portfolio of depositors as a whole(1)
Fixed-income securities	35.75	34.8
Inflation-sensitive investments	16.50	17.1
Equities	47.75	48.1
TOTAL	**100.00**	**100.0**

(1) Data as at December 31, 2014. Annual Report 2014 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 11.25% in 2014.

3.3.2 Generations Fund

The Generations Fund posted a return of 11.67% in 2014. Its market value was $7 462 million as at December 31, 2014.

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.), 14.5% inflation-sensitive investments (real estate and infrastructure) and 44.5% equities.

TABLE E.26

Investment policy of the Generations Fund as at July 1, 2015
(per cent)

	Benchmark portfolio of the Generations Fund	Average benchmark portfolio of depositors as a whole(1)
Fixed-income securities	41.0	34.8
Inflation-sensitive investments	14.5	17.1
Equities	44.5	48.1
TOTAL	**100.0**	**100.0**

(1) Data as at December 31, 2014. Annual Report 2014 of the Caisse de dépôt et placement du Québec.

3.3.3 Accumulated Sick Leave Fund

The Accumulated Sick Leave Fund (ASLF) posted a return of 11.90% in 2014. Its market value was $942 million as at December 31, 2014.

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. The ASLF's investment policy is identical to that of the RPSF.

Comparison of investment policies

Investment policies as at July 1, 2015
(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	27.2
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**	**34.8**
Real Return Bonds	0.0	0.0	0.5
Infrastructure	5.5	5.0	4.9
Real Estate	11.0	9.5	11.7
Total – Inflation-Sensitive Investments	**16.5**	**14.5**	**17.1**
Canadian Equity	11.25	10.0	11.1
Global Quality Equity	10.5	10.0	9.9
US Equity	4.5	5.0	5.4
Foreign Equity (EAFE)	4.5	4.5	5.1
Emerging Markets Equity	5.0	5.0	5.2
Private Equity	12.0	10.0	11.4
Total – Equity	**47.75**	**44.5**	**48.1**
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, 2014. Annual Report 2014 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 E.27

Interest on the retirement plans liability
(millions of dollars)

	2014-2015
Interest on the actuarial obligations relating to the retirement plans(1)	5 591
Less: Investment income of the RPSF	−2 430
INTEREST ON THE RETIREMENT PLANS LIABILITY	**3 161**

(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 in compliance 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.[7]

[7] 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 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.[8]

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.[9] This amortization mechanism and the period used are prescribed by GAAP.[10]

8 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.

9 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.

10 "…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 E.28

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 E.29

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 E.30

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 2015 are those in effect as at November 19, 2015.

CHART E.16

Credit rating assigned to Québec by Moody's

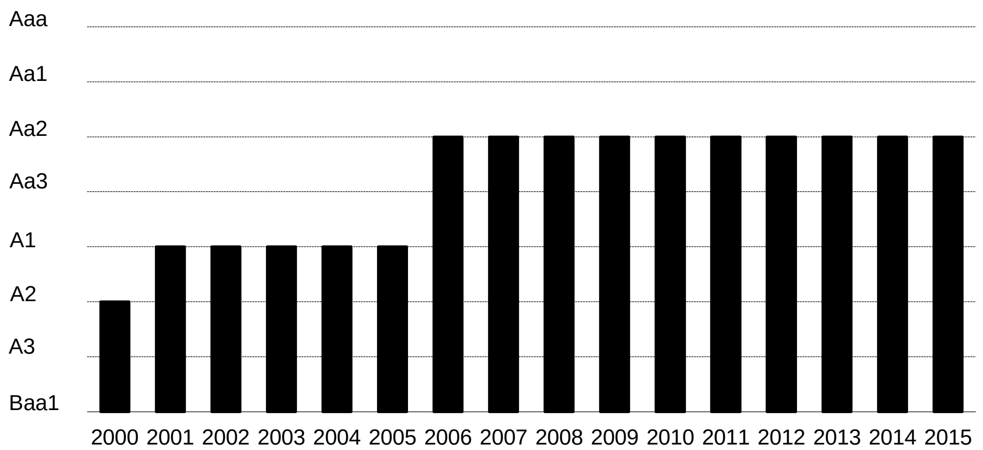
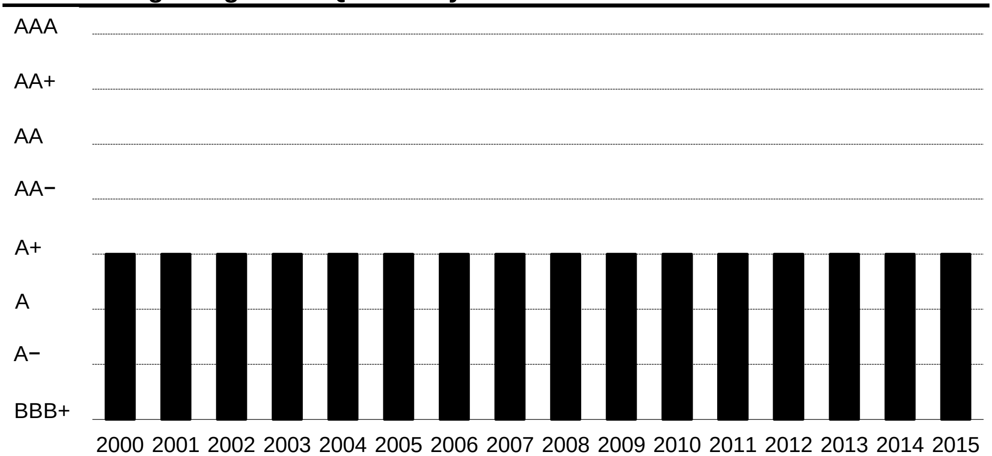


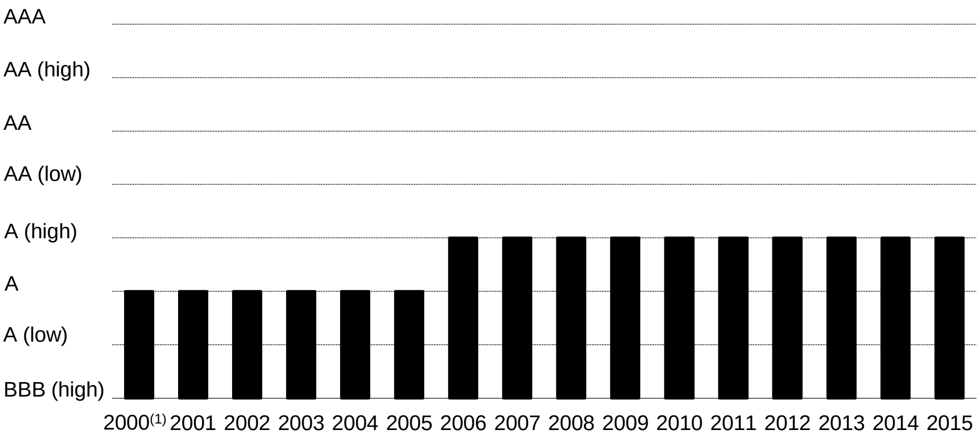
CHART E.17

Credit rating assigned to Québec by Standard & Poor's



GRAPHIQUE E.18

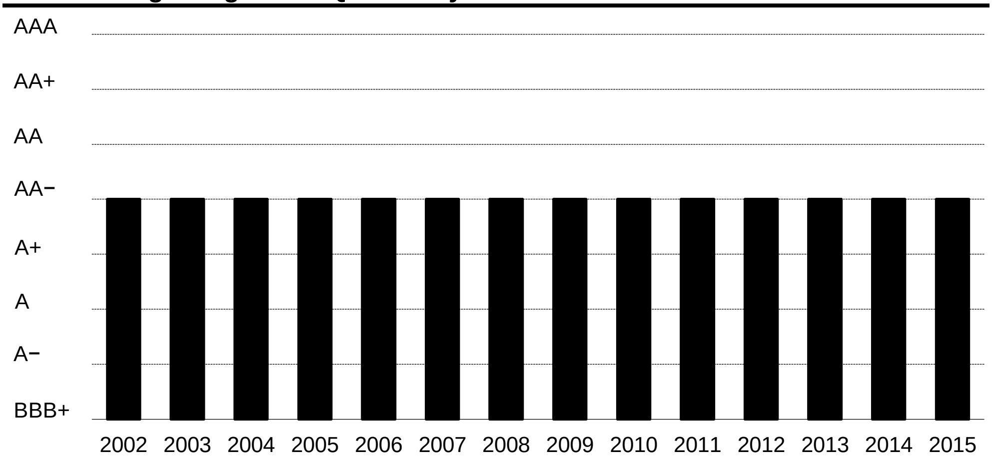
Credit rating assigned to Québec by DBRS



(1) The credit rating was raised from A (low) to A on June 14, 2000.

CHART E.19

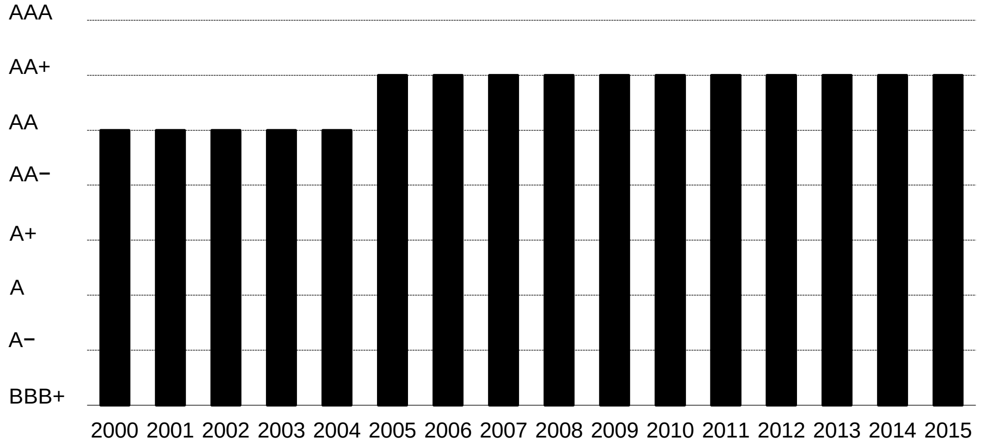
Credit rating assigned to Québec by Fitch



Note: Fitch has assigned Québec a credit rating since 2002.

CHART E.20

Credit rating assigned to Québec by JCR

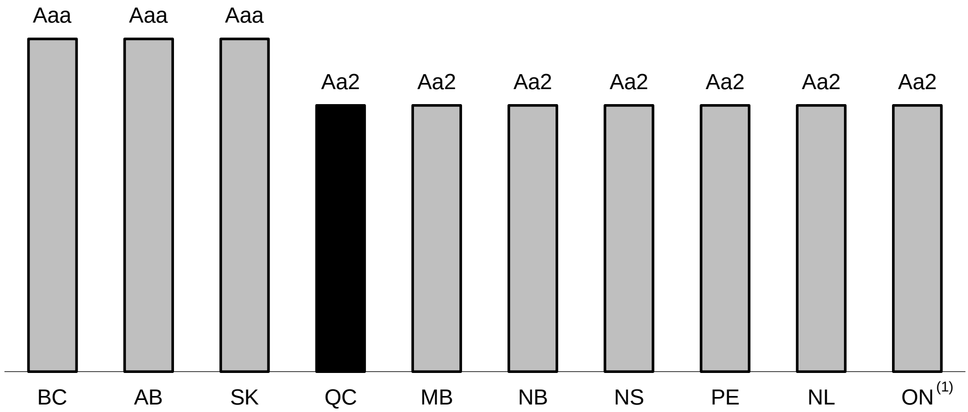


4.2 Comparison of the credit ratings of the Canadian provinces

The following charts show the credit ratings of the Canadian provinces as at November 19, 2015. No chart is given for JCR since Québec is the only province that receives a credit rating from that agency.

CHART E.21

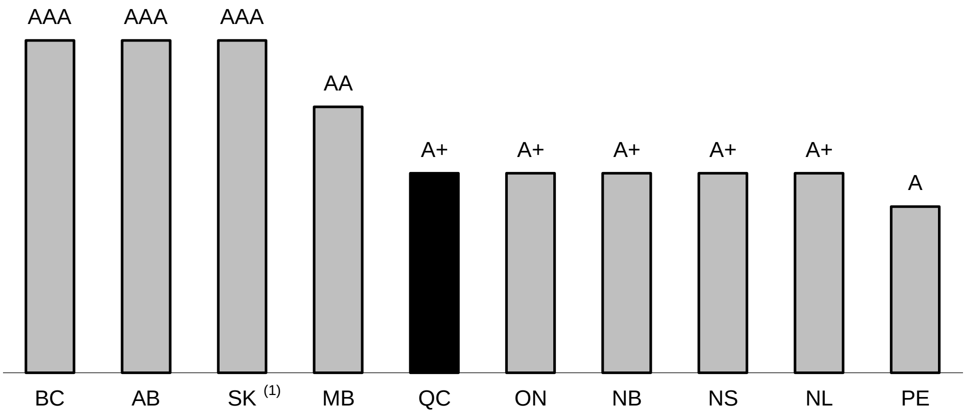
Credit rating of the Canadian provinces – Moody's



(1) Negative outlook.

CHART E.22

Credit rating of the Canadian provinces – Standard & Poor's



(1) Negative outlook.

CHART E.23

Credit rating of the Canadian provinces – DBRS

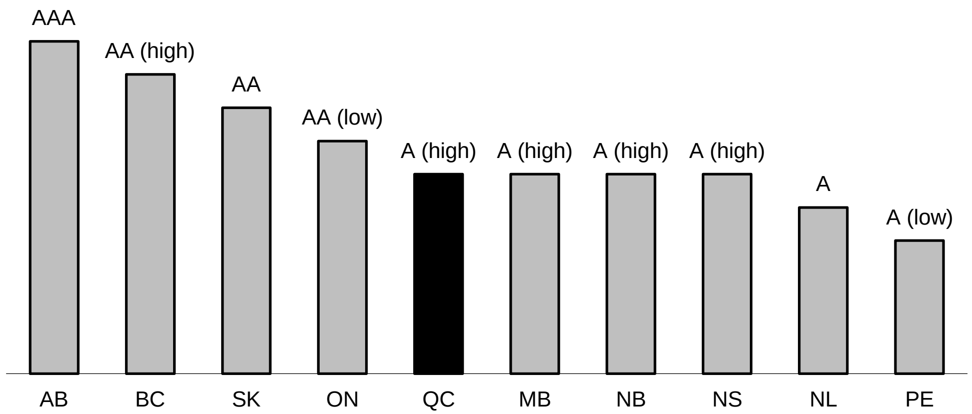
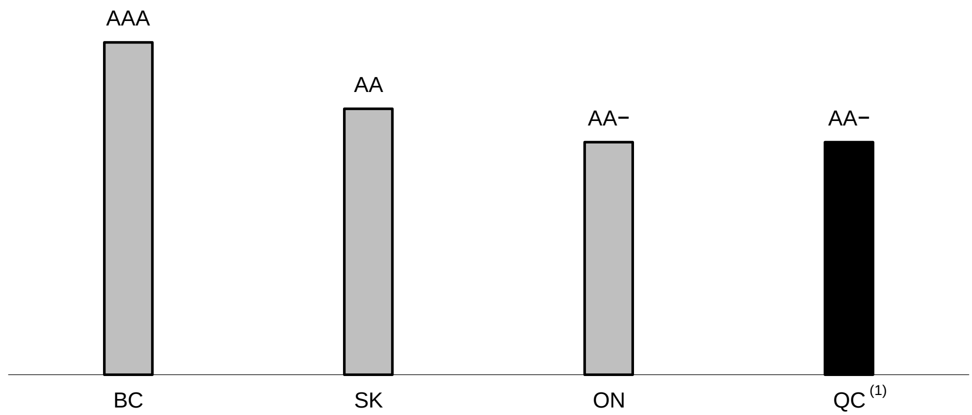


CHART E.24

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.

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