Update
on Québec's Economic and Financial Situation

Fall 2018

Québec

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Finances Québec

Update on Québec's Economic and Financial Situation – Fall 2018

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UPDATE ON QUÉBEC'S ECONOMIC AND FINANCIAL SITUATION – FALL 2018

Section A

OVERVIEW

FOREWORD

The government has committed itself to demonstrating transparency in its actions and in the sharing of information.

Accordingly, the presentation of the information in the *Update on Québec's Economic and Financial Situation* has been reviewed with respect to previous years.

These improvements aim to make it easier to read and understand the information made public.

This document is divided into five sections:[1]

— Section A "Overview" presents the initiatives announced by the government and provides a summary of Québec's economic and financial situation;

— Section B "Immediate Actions for Québec" provides the details of the announced initiatives;

— Section C "The Québec Economy: Recent Developments and Outlook for 2018 and 2019" includes the update on Québec's economic situation;

— Section D "Québec's Financial Situation" lays out the fiscal policy directions and the financial framework;

— Section E "The Québec Government's Debt" presents the government's policy directions for the debt and its repayment.

Additional information is available online and may be consulted on the Ministère des Finances website: www.finances.gouv.qc.ca.

1 Unless otherwise indicated, this document is based on data available as at November 21, 2018. The budgetary data presented for 2017-2018 are actual data that have been reclassified according to the 2018-2019 budgetary structure. Those presented for 2018-2019 and subsequent years are forecasts.

INTRODUCTION

As of last October, the government made a commitment to manage Quebecers' money in an efficient and disciplined manner. It also pledged to put money back in the pockets of Quebecers, particularly families and low-income seniors.

Furthermore, the government wants to grow Québec's economic potential over the coming years by implementing the required strategic measures.

The *Update on Québec's Economic and Financial Situation* allows the government to specify its economic and fiscal policy directions and to announce the first initiatives that will benefit all Quebecers.

The government's economic and fiscal policy directions include:

- initiatives to put money back in the pockets of families and seniors;
- encouragement of business investment to increase Québec's wealth while fostering Québec's transition to a greener economy;
- accelerated repayment of the debt, along with continued deposits of dedicated revenues in the Generations Fund;
- maintenance of a balanced budget in 2018-2019 and for the coming years;
- effective and efficient management of public finances to provide quality public services;
  - The tabling of Budget 2019-2020 will be an opportunity for the government to outline the initiatives announced in education and health.
- maintenance of a high level of public capital investments to ensure the renewal of infrastructure.

Thus, nearly $3.3 billion over five years will be allocated to achieving a higher standard of living for Quebecers and to supporting the economy.

1. IMMEDIATE ACTIONS FOR QUÉBEC

The *Update on Québec's Economic and Financial Situation* allows the government to immediately address its commitment to improving financial assistance for families and seniors. Actions are also planned to stimulate business investment while promoting Québec's transition toward a greener economy.

The government will give back to families and seniors nearly $1.7 billion over five years. To do so, it is planning on the following:

— payment of a more generous family allowance for families with two or more children beginning in 2019;

— freeze on the additional contribution for subsidized childcare as of 2019;

— introduction of an assistance amount for low-income seniors aged 70 or over as of 2018.

Furthermore, initiatives of nearly $1.6 billion are being implemented to encourage businesses to invest in order to increase their productivity, namely:

— measures to accelerate depreciation of capitalizable commercial property to spur greater businesses investment following the initiatives announced by the federal government;

— introduction of a permanent additional capital cost allowance of 30% for certain types of investments;

— extension of the electricity discount programs for customers billed at Rate L and for greenhouses, and their broadening to include large businesses served by Hydro-Québec's off-grid systems.

The government also reiterates its intention to continue the fight against climate change by encouraging the acquisition of electric vehicles by March 31, 2019.

These immediate actions are funded through improvements to the financial framework, in particular interest savings resulting from the accelerated repayment of the debt. They fall within the scope of an approach to improve Quebecers' quality of life and collective wealth.

— These additional initiatives total nearly $3.3 billion over five years.

TABLE A.1

Financial impact of the measures in the *Update on Québec's Economic and Financial Situation*

(millions of dollars)

	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	Cumul. 5 years	Ref. pages
Putting money back in the pockets of families and seniors							
Payment of a more generous family allowance	–61.9	–249.6	–256.6	–263.1	-270.1	–1 101.3	B.9
Freeze on the additional contribution for subsidized childcare	–0.2	–1.2	–2.2	–3.3	–4.5	–11.4	B.16
Introduction of the senior assistance amount	–102.4	–107.6	–113.6	–118.6	-123.6	–565.8	B.18
Subtotal	**–164.5**	**–358.4**	**–372.4**	**–385.0**	**-398.2**	**–1 678.5**	
Ensuring an environment conducive to business investment							
Accelerated depreciation to encourage businesses to invest more	–44.0	–443.0	–320.0	–292.0	-256.0	–1 355.0	B.21
New permanent additional capital cost allowance of 30%	—	–5.0	–37.0	–80.0	-109.0	–231.0	B.26
Extension and broadening of electricity discount programs	—	—	—	—	—	—	B.31
Subtotal	**–44.0**	**–448.0**	**–357.0**	**–372.0**	**-365.0**	**–1 586.0**	
Continuing efforts to fight climate change							
Encouragement of acquisition of electric vehicles	–20.7	—	—	—	—	–20.7	B.34
TOTAL	**–229.2**	**–806.4**	**–729.4**	**–757.0**	**-763.2**	**–3 285.2**	

❑ Putting money back in the pockets of families and seniors

The government is taking its first actions to put money back in the pockets of families and seniors.

Three actions are announced as part of the *Update on Québec's Economic and Financial Situation*.

- The family allowance will be implemented to improve tax assistance for families with two or more children.
  - The maximum allowance will increase by $500 for a family with two children and by $1 000 for a family with three or more children.
- The additional contribution required from parents of a child in subsidized childcare will stay at the same level as in 2018.
  - The freeze of the additional contribution is consistent with the desire to gradually eliminate it over the coming years.
- The senior assistance amount will be introduced to bolster assistance for low-income seniors aged 70 or over.
  - This new refundable tax credit will be up to $200 for a single senior or $400 for a senior couple.

Overall, these initiatives represent additional investments of nearly $1.7 billion more over five years to further support families and seniors.

❑ Ensuring an environment conducive to business investment

An environment conducive to investment is crucial for encouraging Québec businesses to invest to boost their productivity.

Following the initiatives announced by the federal government and to further promote business investment, the government is announcing:

- an increase to 100% in the depreciation rate applicable in respect of computer hardware, manufacturing and processing equipment, clean energy generation equipment and intellectual property;
- introduction of an enhanced capital cost allowance in respect of all other types of investment;
- implementation of a permanent additional capital cost allowance of 30% for investments in computer hardware, manufacturing and processing equipment, clean energy generation equipment and intellectual property;
- extension of the electricity discount programs for customers billed at Rate L and for greenhouses, and their broadening to include large businesses served by Hydro-Québec's off-grid systems.

Overall, these actions represent investment support of nearly $1.6 billion over five years to encourage businesses to increase their productivity.

❑ Encouraging the acquisition of electric vehicles

Given the popularity of electric vehicles with Quebecers, the government is announcing additional funding of nearly $21 million for rebate programs for the purchase of new and used electric vehicles by March 31, 2019.

This investment will encourage the acquisition of over 3 350 electric vehicles more and 1 200 charging stations more.

Furthermore, the parameters of the Drive Electric program, the amount of financial assistance to be paid and the kinds of vehicles covered will be looked at before the next budget.

2. QUÉBEC'S ECONOMIC SITUATION

❑ Favourable economic conditions

Québec, like Canada, saw robust economic growth in 2017. Québec real GDP rose by 2.8% in 2017, after increasing by 1.4% in 2016.[2]

Households and business investment will continue to drive real GDP growth in the coming years. Despite continued favourable economic conditions, growth is expected to be more moderate.

— Real GDP is expected to grow by 2.5% in 2018 and 1.8% in 2019.

A number of factors will contribute to the moderation in economic growth.

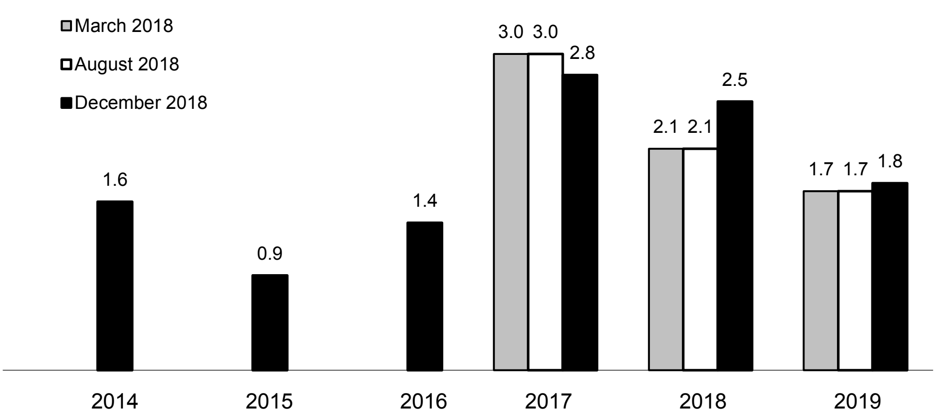
— Job creation will continue but at a more moderate pace, curbed by the already low unemployment rate and the anticipated decrease in the potential labour pool.

— Interest rate hikes in Canada will contribute to a slowdown in household consumption and residential investment.

— In addition, the level of business investment per worker lags that of Québec's main trading partners. This under-investment limits Québec's economic potential.

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.

2 The data presented on pages A.11 to A.15 and A.30 reflect provincial economic accounts of Statistics Canada published on November 8, 2018. The forecast is based on the information available before that date. In addition, the economic forecast does not take into account the most recent budgetary and fiscal measures in the *Update on Québec's Economic and Financial Situation*.

❑ Less synchronized global growth

After broad-based global growth in 2017, signs of less synchronized growth have been observed.

— After strong expansion posted in 2017, economic activity decreased in several major economies during 2018, including the euro area, the United Kingdom and China.

According to the International Monetary Fund, the share of countries that will see accelerated growth should decrease from 58% in 2017 to 54% in 2019.

— Moreover, the economic weight of these countries in the global economy should decrease from 75% in 2017 to 32% in 2019.

❑ Moderate growth of global trade and investment

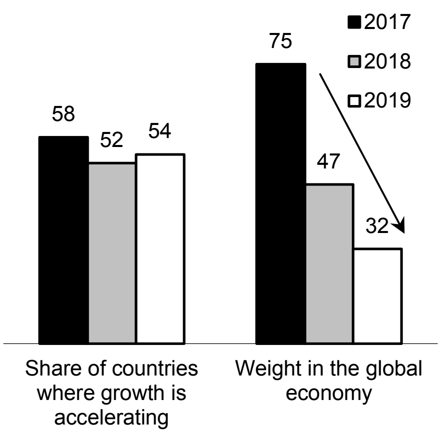
Growth in global trade posted a 3.6% year-over-year change in the second quarter of 2018, compared with 4.6% on average in 2017. A slowdown in investment was also observed.

— Customs duties imposed on the exports of certain major economies could have limited global trade because of, in particular, uncertainty on investment.

Escalation of trade tensions between the United States and its trading partners is the main risk to global trade.

CHART A.2

Share and weight of countries where economic growth is accelerating
(per cent)

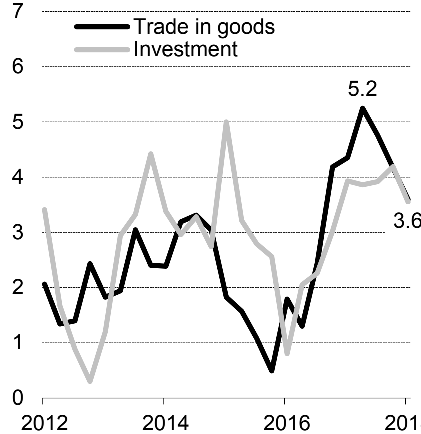


Source: International Monetary Fund.

CHART A.3

Global trade and investment

(percentage change, in real terms)



Note: Year-over-year change in quarterly data.
Sources: CPB Netherlands Bureau for Economic Policy Analysis, Datastream and Ministère des Finances du Québec.

❑ Productivity gains are needed to support economic growth in Québec

The growth in economic activity in recent years has raised Quebecers' standard of living. Real GDP growth depends on the following factors:

— demographic trends, indicated by changes in the population aged 15-64, which constitutes the main pool of potential workers;

— employment growth, reflected in a higher employment rate, that is, the total number of workers in relation to the population aged 15-64;

— productivity growth, that is, the increase in output per worker.

Québec's aging population has led to a shrinking labour pool in recent years. Demographics stopped contributing to real GDP growth in 2014. In addition, significant rises in the employment rate have reduced the number of available workers, which will curtail potential gains.

Against this backdrop, economic expansion and improvement in the standard of living in Québec will be more dependent on productivity gains. As a result, Québec businesses will be called on to invest more heavily in increasing their productivity.

TABLE A.2

Contribution of economic growth factors in Québec
(average annual percentage change and contribution in percentage points)

	Historical			Forecast			
	1982-2010	2011-2016	2017	2018	2019	2020	2021-2022
Real GDP (percentage change)	2.0	1.3	2.8	2.5	1.8	1.5	1.3
Growth factors (contribution):							
Potential labour pool(1)	0.6	0.1	−0.1	0.0	−0.1	−0.3	−0.2
Employment rate(2)	0.6	0.7	2.3	1.0	1.0	0.9	0.7
Productivity(3)	0.8	0.5	0.6	1.5	0.8	1.0	0.8
Standard of living(4)	**1.3**	**0.7**	**1.9**	**1.4**	**1.1**	**0.8**	**0.6**

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

■ Standard of living and productivity gaps to be eliminated

Québec's real GDP per capita rose substantially between 2007 and 2017. The faster improvement in Québec than in Canada and Ontario narrowed standard of living gaps. Despite this good performance, however gaps remain.

— In 2017, the standard of living was 19.2% higher in Canada than in Québec. The standard of living gap with Ontario was 17.2%.

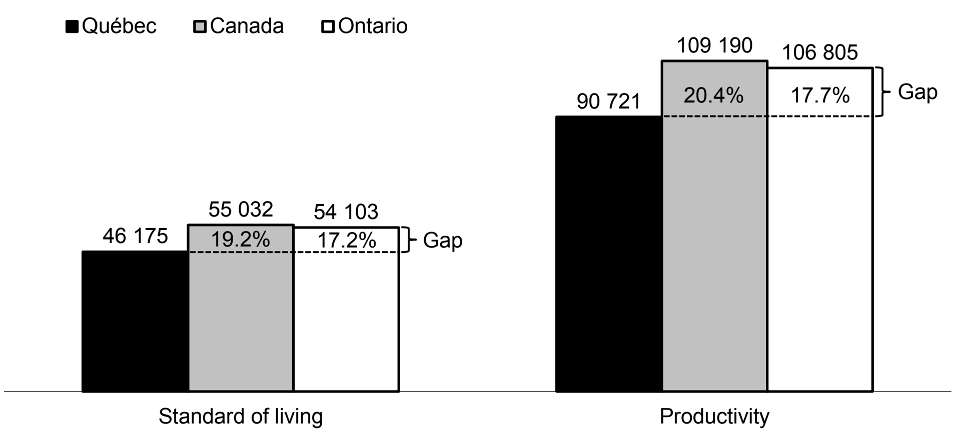
In the current context of an aging population, productivity gains, measured by real GDP per job, are crucial to increasing Quebecers' standard of living. However, Québec trails Canada and Ontario in productivity.

— In 2017, Canada's productivity was 20.4% higher than Québec's. Québec's productivity gap with Ontario was 17.7%.

The productivity gap can be eliminated by increasing non-residential business investment, a key determinant of future economic growth.

CHART A.4

Standard of living and productivity, 2017(1)
(in constant 2012 dollars, gap in per cent)



(1) Standard of living as measured by real GDP per capita and productivity as measured by real GDP per job.
Sources: Statistics Canada and Ministère des Finances du Québec.

■ Québec must catch up to Ontario in business investment

Québec has yet to achieve its full potential on the business investment front. In 2017, non-residential business investment stood at $11 158 per private-sector job. This was less than in Ontario ($13 409 per private-sector job) and Canada ($17 266 per private-sector job).

— If Québec wants to achieve the same level of investment per private-sector job as in Ontario in 2017, Québec businesses need to increase their investments by nearly $7 billion, or around 20%.

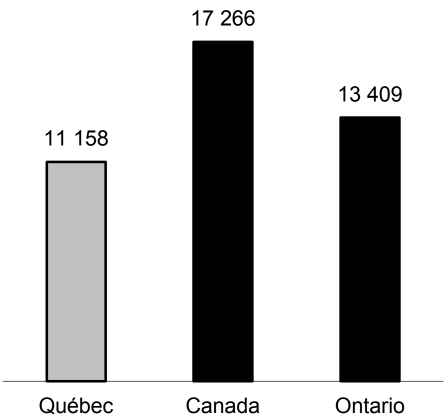
The gap between Québec and Ontario is primarily due to an under-investment in machinery and equipment, the key determinant of productivity.

— In 2017, the level of Québec business investment in machinery and equipment lagged behind Ontario by $1 432 per private-sector job.

The gap between Québec and Ontario was narrower for the other investment components, that is, non-residential structures and intellectual property products.

CHART A.5

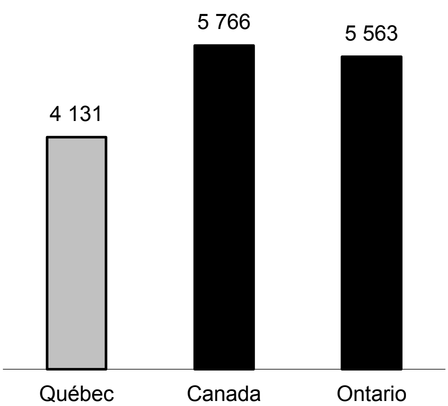
Non-residential business investment per private-sector job, 2017
(current dollars)



Sources: Statistics Canada and Ministère des Finances du Québec.

CHART A.6

Investment in machinery and equipment per private-sector job, 2017
(current dollars)



Sources: Statistics Canada and Ministère des Finances du Québec.

3. QUÉBEC'S FINANCIAL SITUATION

❑ Québec's financial framework is balanced

Consolidated revenue is $112.5 billion in 2018-2019, up 3.8% from the previous year. In 2019-2020, it will grow by 2.2%.

Consolidated expenditure is $108.0 billion in 2018-2019, with growth of 4.3%. In 2019-2020, it will grow by 4.1%.

Deposits in the Generations Fund amount to $2.9 billion in 2018-2019 and will reach $2.5 billion in 2019-2020.

The financial framework indicates a budgetary balance within the meaning of the *Balanced Budget Act* of $1.7 billion in 2018-2019, zero in 2019-2020 and $0.2 billion in 2020-2021.

TABLE A.3

Consolidated summary financial framework – December 2018 update
(billions of dollars)

	2018-2019	2019-2020	2020-2021
Own-source revenue	88.5	89.7	92.7
% change	*3.0*	*1.4*	*3.3*
Federal transfers	24.0	25.2	25.5
% change	*6.7*	*5.1*	*1.2*
Consolidated revenue	**112.5**	**115.0**	**118.2**
% change	***3.8***	***2.2***	***2.8***
Mission expenditures	–98.8	–103.1	–105.8
% change	*4.9*	*4.4*	*2.6*
Debt service	–9.1	–9.2	–9.5
% change	*–1.2*	*1.0*	*3.0*
Consolidated expenditure	**–108.0**	**–112.4**	**–115.3**
% change	***4.3***	***4.1***	***2.6***
Contingency reserve	—	–0.1	–0.1
SURPLUS	**4.5**	**2.5**	**2.8**
BALANCED BUDGET ACT			
Deposits of dedicated revenues in the Generations Fund	–2.9	–2.5	–2.7
BUDGETARY BALANCE(1)	**1.7**	**—**	**0.2**

Note: Totals may not add due to rounding.
(1) Budgetary balance within the meaning of the *Balanced Budget Act*.

■ Improvements in the financial framework since March 2018

The strong performance of the economy resulted in upward adjustments to the financial framework for 2018-2019 and subsequent years relative to March 2018.

— In particular, the upward adjustment of economic growth since March 2018 contributed to a greater-than-expected increase in the government's tax revenues.

Overall, adjustments related to the economic and budgetary situation, after elimination of the use of the stabilization reserve, total $1.9 billion in 2018-2019, $806 million in 2019-2020 and $879 million in 2020-2021.

These adjustments are primarily attributable to:

— positive adjustments to tax revenue of $1.5 billion for 2018-2019 and $1.6 billion for 2019-2020 and 2020-2021 owing to the recurrence of the more-favourable-than-anticipated results for 2017-2018;

— positive adjustments of $325 million in 2018-2019, $451 million in 2019-2020 and $218 million in 2020-2021 to federal transfers because of, among other things, the signing of the integrated bilateral agreement for the federal infrastructure plan, Investing in Canada;

— a decrease in debt service of $248 million in 2018-2019, $201 million in 2019-2020 and $37 million in 2020-2021 primarily due to the savings from the accelerated repayment of the debt.

The positive adjustments to the financial framework make it possible for the government to eliminate the use of the stabilization reserve and to fund initiatives, while maintaining budgetary balance.

— Additional investments total $229 million in 2018-2019, $806 million in 2019-2020 and $729 million in 2020-2021.

TABLE A.4

Adjustments to the financial framework since March 2018
(millions of dollars)

	2018-2019	2019-2020	2020-2021
BUDGETARY BALANCE[1] – MARCH 2018	**—**	**—**	**—**
ADJUSTMENTS TO THE ECONOMIC AND BUDGETARY SITUATION			
Own-source revenue excluding revenue from government enterprises			
Tax revenue	1 489	1 586	1 625
Other revenue	795	–80	–147
Subtotal	2 284	1 506	1 478
Revenue from government enterprises	308	95	42
Federal transfers	325	451	218
Mission expenditures	661	–719	–721
Debt service			
Savings generated by accelerated repayment of the debt	40	193	117
Other adjustments to debt service	208	8	–80
Subtotal	248	201	37
Deposits of dedicated revenues in the Generations Fund	–360	208	304
Subtotal for improvements	3 466	1 742	1 358
Elimination of the use of the stabilization reserve	–1 587	–936	–479
Subtotal[2]	**1 879**	**806**	**879**
DECEMBER 2018 INITIATIVES			
Further support for families	–62	–251	–259
Introduction of the senior assistance amount	–102	–108	–114
Acceleration of business investment	–44	–448	–357
Encouragement of acquisition of electric vehicles	–21	—	—
Subtotal	**–229**	**–806**	**–729**
BUDGETARY BALANCE[1] – DECEMBER 2018 UPDATE	**1 650**	**—**	**150**

Note: Totals may not add due to rounding.
(1) Budgetary balance within the meaning of the *Balanced Budget Act*, after use of the stabilization reserve, where applicable.
(2) These amounts represent improvements after elimination of the use of the stabilization reserve.

Adjustments to the financial framework since the pre-election report

The acceleration in the economy has led to positive adjustments to the financial framework for fiscal 2018-2019 and subsequent years relative to the data presented in the August 2018 pre-election report.

- Overall, adjustments related to the economic and budgetary situation, after elimination of use of the stabilization reserve, total $1.9 billion in 2018-2019, $792 million in 2019-2020 and $408 million in 2020-2021.

These improvements to the financial framework, including the interest savings from accelerated repayment of the debt, allow the funding of initiatives totalling $229 million in 2018-2019, $806 million in 2019-2020 and $729 million in 2020-2021.

Adjustments to the financial framework since the pre-election report
(millions of dollars)

	2018-2019	2019-2020	2020-2021
BUDGETARY BALANCE(1) – AUGUST 2018	**—**	**14**	**471**
ADJUSTMENTS TO THE ECONOMIC AND BUDGETARY SITUATION			
Own-source revenue excluding revenue from government enterprises			
Tax revenue	640	745	725
Other revenue	725	–172	–249
Subtotal	1 365	573	476
Revenue from government enterprises	301	102	49
Federal transfers	329	871	480
Mission expenditures	727	–1 023	–747
Debt service			
Savings arising from accelerated repayment of the debt	40	193	117
Other adjustments to debt service	114	–132	–271
Subtotal	154	61	–154
Deposits of dedicated revenues in the Generations Fund	–360	208	304
Subtotal for improvements	2 516	792	408
Elimination of the use of the stabilization reserve	–637	—	—
Subtotal(2)	**1 879**	**792**	**408**
DECEMBER 2018 INITIATIVES			
Further support for families	–62	–251	–259
Introduction of the senior assistance amount	–102	–108	–114
Acceleration of business investment	–44	–448	–357
Encouragement of acquisition of electric vehicles	–21	—	—
Subtotal	**–229**	**–806**	**–729**
BUDGETARY BALANCE(1) – DECEMBER 2018 UPDATE	**1 650**	**—**	**150**

Note: Totals may not add due to rounding.
(1) Budgetary balance within the meaning of the *Balanced Budget Act,* after use of the stabilization reserve, where applicable.
(2) These amounts represent improvements after elimination of the use of the stabilization reserve.

A surplus of $2.6 billion in 2017-2018

The results published in *Public Accounts 2017-2018* show a $2.6-billion surplus after deposits in the Generations Fund. This surplus made it possible to reduce the gross debt in 2017-2018.

– This is a positive adjustment of $1.8 billion relative to the forecast of March 2018.

Consolidated revenue amounts to $108.4 billion, which represents an increase of 5.2% compared to 2016-2017.

– Revenue has been adjusted upward by $1.2 billion since March 2018 owing mainly to the good economic performance, which supported tax revenues.

Consolidated expenditure totals $103.5 billion, which corresponds to an increase of 4.8% relative to the previous year.

– Expenditure has been adjusted downward by $565 million since March 2018, primarily because of a difference between planned expenditures and those incurred by bodies and special funds, particularly in municipal infrastructure projects.

Actual results in 2017-2018 relative to those of March 2018
(millions of dollars)

	2017-2018		
	March 2018	**Adjustments**	**Actual results**
Consolidated revenue	107 196	1 208	108 404
% change			*5.2*
Consolidated expenditure	–104 054	565	–103 489
% change			*4.8*
SURPLUS	**3 142**	**1 773**	**4 915**
BALANCED BUDGET ACT			
Deposits of dedicated revenues in the Generations Fund	–2 292	–1	–2 293
BUDGETARY BALANCE(1)	**850**	**1 772**	**2 622**

Note: The adjustments recorded since the pre-election report show a $319-million increase in the budgetary surplus.
(1) Budgetary balance within the meaning of the *Balanced Budget Act*.

Toward more efficient and more transparent management of public finances

As soon as it took office last October, the government made a commitment to manage public finances in an efficient and transparent manner.

That is why the Ministère des Finances and the Secrétariat du Conseil du trésor are currently working to rapidly put the following improvements in place:

- more frequent reporting on changes in the annual budgetary balance;
- strengthening of the approval process for the budgetary forecasts of bodies.

More frequent reporting on changes in the annual budgetary balance

With a view to transparency and making the most recent information on the budgetary balance for the current year available on a regular basis, the government plans to:

- add, every quarter, a preliminary estimate of the budgetary balance for the current year in the monthly report on financial transactions;
- as of next year, release a monthly report on a fully consolidated basis, comparable to the annual budget and the public accounts.

Strengthening of the approval process for the budgetary forecasts of bodies

To bolster synchronization between the government's budget planning and that of public bodies prior to budget approval, in keeping with government policy directions, the government will amend the rules for adopting the budgets of these bodies based on best practices.

These changes will allow for better integration of the government budget preparation process, in keeping with the principles of governance of public bodies.

4. DEBT REDUCTION

❑ Acceleration of debt repayment

In the *Update on Québec's Economic and Financial Situation*, the government provides for accelerated debt repayment.

A sum of $8 billion from the Generations Fund will be used by spring 2019 to repay borrowings on financial markets.

— With the $2-billion repayment at the beginning of fiscal 2018-2019, $10 billion from the Generations Fund will have been used to reduce the debt on the financial markets by spring 2019.

This accelerated debt repayment generates interest savings of $332 million over five years.

— In total, over five years, the debt repayments frees up $1.4 billion that can be used to fund public services.

The Generations Fund will continue to receive revenues allocated to debt reduction every year, as provided for in the *Act to reduce the debt and establish the Generations Fund*.

TABLE A.5

Use of the Generations Fund for debt repayment
(millions of dollars)

	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	Total
Book value, beginning of year	**10 523**	**12 816**	**7 667**	**8 166**	**10 853**	**13 806**	
Revenues dedicated to the Generations Fund	2 293	2 851	2 499	2 687	2 953	3 245	
Use of the Generations Fund to repay borrowings	—	–8 000	–2 000	—	—	—	**–10 000**
BOOK VALUE, END OF YEAR	**12 816**	**7 667**	**8 166**	**10 853**	**13 806**	**17 051**	

❑ Maintenance of the debt reduction objectives

The *Act to reduce the debt and establish the Generations Fund* provides that for fiscal 2025-2026, the gross debt may not exceed 45% of GDP, and the debt representing accumulated deficits may not exceed 17% of GDP.

The *Update on Québec's Economic and Financial Situation* confirms that these objectives are being maintained:

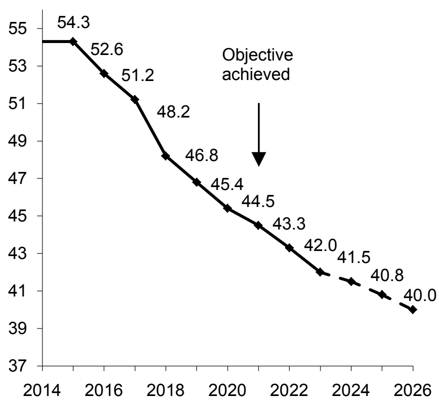
— objective of reducing gross debt to 45% of GDP will be achieved in 2020-2021, or five years earlier than planned;

— objective of reducing debt representing accumulated deficits to 17% of GDP will be achieved in 2025-2026, as provided for in the Act.

CHART A.7

Gross debt as at March 31

(percentage of GDP)

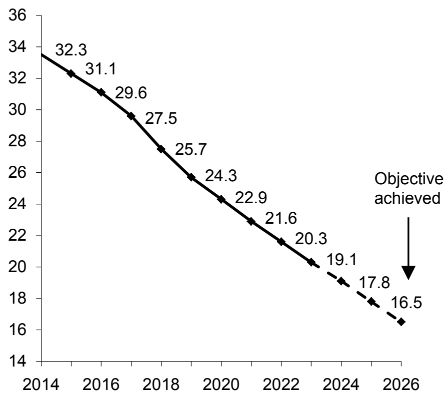


Note: These are projections as of 2024.

CHART A.8

Debt representing accumulated deficits as at March 31

(percentage of GDP)



Note: These are projections as of 2024.

APPENDIX: MAIN FINANCIAL FRAMEWORK TABLES

TABLE A.6

Consolidated financial framework, 2017-2018 to 2022-2023
(millions of dollars)

	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
Consolidated revenue						
Personal income tax	29 528	31 196	32 502	33 809	35 203	36 567
Contributions for health services	6 221	6 171	6 333	6 481	6 619	6 763
Corporate taxes	8 142	8 521	8 099	8 335	8 530	8 742
School property tax	2 243	1 860	1 738	1 811	1 892	1 976
Consumption taxes	20 329	21 040	21 792	22 230	22 717	23 359
Duties and permits	3 965	4 192	4 060	4 203	4 310	4 415
Miscellaneous revenue	10 398	10 851	10 659	11 010	11 470	11 888
Government enterprises	5 093	4 640	4 565	4 828	5 109	5 472
Own-source revenue	**85 919**	**88 471**	**89 748**	**92 707**	**95 850**	**99 182**
% change	***3.6***	***3.0***	***1.4***	***3.3***	***3.4***	***3.5***
Federal transfers	22 485	23 999	25 215	25 514	25 562	26 212
% change	*11.4*	*6.7*	*5.1*	*1.2*	*0.2*	*2.5*
Total consolidated revenue	**108 404**	**112 470**	**114 963**	**118 221**	**121 412**	**125 394**
% change	***5.2***	***3.8***	***2.2***	***2.8***	***2.7***	***3.3***
Consolidated expenditure						
Mission expenditures	–94 249	–98 837	–103 143	–105 789	–108 286	–111 418
% change	*5.7*	*4.9*	*4.4*	*2.6*	*2.4*	*2.9*
Debt service	–9 240	–9 132	–9 221	–9 495	–9 673	–9 981
% change	*–3.0*	*–1.2*	*1.0*	*3.0*	*1.9*	*3.2*
Total consolidated expenditure	**–103 489**	**–107 969**	**–112 364**	**–115 284**	**–117 959**	**–121 399**
% change	***4.8***	***4.3***	***4.1***	***2.6***	***2.3***	***2.9***
Contingency reserve	—	—	–100	–100	–100	–100
SURPLUS	**4 915**	**4 501**	**2 499**	**2 837**	**3 353**	**3 895**
BALANCED BUDGET ACT						
Deposits of dedicated revenues in the Generations Fund	–2 293	–2 851	–2 499	–2 687	–2 953	–3 245
BUDGETARY BALANCE(1)	**2 622**	**1 650**	**—**	**150**	**400**	**650**

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

TABLE A.7

Consolidated revenue, 2017-2018 to 2020-2021
(millions of dollars)

	2017-2018	2018-2019	2019-2020	2020-2021
Personal income tax	29 528	31 196	32 502	33 809
% change	*1.0*	*5.6*	*4.2*	*4.0*
Contributions for health services	6 221	6 171	6 333	6 481
% change	*4.2*	*–0.8*	*2.6*	*2.3*
Corporate taxes	8 142	8 521	8 099	8 335
% change	*8.9*	*4.7*	*–5.0*	*2.9*
School property tax	2 243	1 860	1 738	1 811
% change	*3.4*	*–17.1*	*–6.6*	*4.2*
Consumption taxes	20 329	21 040	21 792	22 230
% change	*5.4*	*3.5*	*3.6*	*2.0*
Duties and permits	3 965	4 192	4 060	4 203
% change	*20.1*	*5.7*	*–3.1*	*3.5*
Miscellaneous revenue	10 398	10 851	10 659	11 010
% change	*–1.5*	*4.4*	*–1.8*	*3.3*
Government enterprises	5 093	4 640	4 565	4 828
% change	*4.0*	*–8.9*	*–1.6*	*5.8*
Own-source revenue	**85 919**	**88 471**	**89 748**	**92 707**
% change	***3.6***	***3.0***	***1.4***	***3.3***
Federal transfers	22 485	23 999	25 215	25 514
% change	*11.4*	*6.7*	*5.1*	*1.2*
TOTAL	**108 404**	**112 470**	**114 963**	**118 221**
% change	***5.2***	***3.8***	***2.2***	***2.8***

TABLE A.8

Mission expenditures, 2017-2018 to 2020-2021
(millions of dollars)

	2017-2018	2018-2019	2019-2020	2020-2021
Health and Social Services	40 176	42 094	43 857	45 639
% change	*3.7*	*4.8*(1)	*4.2*	*4.1*
Education and Culture	22 780	23 788	24 603	25 422
% change	*4.4*	*4.0*(1)	*3.4*	*3.3*
Economy and Environment	14 459	14 974	15 927	15 518
% change	*17.0*	*3.6*	*6.4*	*–2.6*
Support for Individuals and Families	9 816	10 225	10 602	10 825
% change	*2.4*	*5.0*(1)	*3.7*	*2.1*
Administration and Justice(2)	7 018	7 756	8 154	8 385
% change	*4.9*	*10.5*	*5.1*	*2.8*
TOTAL	**94 249**	**98 837**	**103 143**	**105 789**
% change	***5.7***	***4.9***	***4.4***	***2.6***

Note: Mission expenditures do not take into consideration the initiatives in education and health that will be announced in Budget 2019-2020.
(1) To assess growth in 2018-2019 based on comparable spending levels, the percentage changes for 2018-2019 were calculated by excluding, from 2017-2018 expenditures, transfers from the provision for francization attributed to the Health and Social Services mission ($12 million) and the Support for Individuals and Families mission ($75 million) and including them in the 2017-2018 expenditures of the Education and Culture mission.
(2) These amounts include the Contingency Fund reserve.

TABLE A.9

Margins of prudence
(millions of dollars)

	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	Total
Contingency reserve	—	100	100	100	100	**400**
Contingency Fund reserve	100	300	300	300	300	**1 300**
Debt service reserve	—	150	150	150	150	**600**
Subtotal – Reserves	**100**	**550**	**550**	**550**	**550**	**2 300**
Stabilization reserve as at March 31, 2019						**8 824**
TOTAL	**100**	**550**	**550**	**550**	**550**	**11 124**

TABLE A.10

Margins of prudence and main risks to Québec's financial situation

Margins of prudence	Risks	Estimated impact	Ref. pages
Financial framework			
– Contingency reserve: ▪ $100 million a year from 2019-2020 to 2022-2023 – Stabilization reserve: ▪ $8.8 billion as at March 31, 2019	– Generalized global slowdown		
	▪ Change of 1 percentage point in Québec's GDP	– $725-million impact on own-source revenue	D.38
	▪ Typical recession (average)	– $8.1-billion impact on own-source revenue	D.18
	– Specific economic risks		
	▪ Faster-than-expected tightening of monetary policy		
	▪ Change in the price of oil and other commodities		
	▪ Bigger-than-anticipated slowdown of Canada's residential sector	▪ 0.1 GDP point	
	▪ Customs duties on steel and aluminum	▪ 0.3 GDP point	
	– Government enterprises		
	▪ Hydro-Québec (e.g. variation of 1 °C in winter temperatures compared to normal temperatures)	– Impact of nearly $50 million on Hydro-Québec's net earnings	D.41
	– Federal transfers (relative change of Québec's population in Canada)	– $110 million with a change of 0.1 percentage point	D.44
Expenditure			
– Contingency Fund reserve: ▪ $100 million in 2018-2019 ▪ $300 million per year from 2019-2020 to 2022-2023	– Cover unforeseen expenditure under government programs	– Undetermined	
	– Change in target clienteles	– $580 million with a change of 1 percentage point in the total population	D.50
	– Technological changes	– $275 million with an increase in technology-related costs for healthcare of 1.0%	
	– Change in general level of prices	– $270 million with a change of 1 percentage point in prices	D.50
	– Natural disaster	– Undetermined	
	– Public capital investment completion rate for a given year (5% difference)	– $40-million on expenditure (depreciation and interest)	
	– Shortfall to be offset		
Debt service			
– Debt service reserve: ▪ $150 million a year from 2019-2020 to 2022-2023	– Higher-than-anticipated rise in interest rates	– $250 million with a change of 1 percentage point	D.52
	– Lower-than expected return of the Retirement Plans Sinking Fund	– $20 million with a change of 1 percentage point	D.52

TABLE A.11

Economic outlook for Québec, 2017 to 2022
(percentage change, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022
Output						
Real gross domestic product	2.8	2.5	1.8	1.5	1.3	1.3
– *March 2018*	*3.0*	*2.1*	*1.7*	*1.5*	*1.3*	*1.3*
Nominal gross domestic product	5.0	4.4	3.5	3.2	3.0	3.0
– *March 2018*	*4.4*	*3.5*	*3.3*	*3.2*	*3.0*	*3.0*
Components of GDP (in real terms)						
Household consumption	3.2	2.4	2.0	1.5	1.4	1.3
– *March 2018*	*3.3*	*2.7*	*1.8*	*1.5*	*1.4*	*1.3*
Government spending and investment	2.8	3.4	1.1	0.8	0.7	0.8
– *March 2018*	*1.7*	*1.7*	*1.1*	*0.6*	*0.2*	*0.6*
Residential investment	7.3	5.8	–1.4	–0.8	0.1	0.2
– *March 2018*	*7.5*	*3.7*	*–2.2*	*0.3*	*0.1*	*0.2*
Non-residential business investment	2.5	6.0	4.7	2.8	2.2	2.1
– *March 2018*	*5.0*	*5.1*	*3.1*	*2.4*	*2.2*	*2.1*
Exports	1.2	2.3	2.3	2.4	2.2	2.0
– *March 2018*	*1.7*	*2.7*	*2.4*	*2.2*	*2.1*	*1.9*
Imports	3.9	3.2	1.4	1.8	1.7	1.6
– *March 2018*	*3.7*	*2.3*	*1.8*	*1.7*	*1.6*	*1.6*
Labour market						
Job creation (thousands)	90.2	43.7	40.2	25.1	20.7	20.0
– *March 2018*	*90.2*	*60.6*	*30.1*	*23.6*	*20.2*	*20.0*
Unemployment rate (%)	6.1	5.5	5.4	5.3	5.3	5.2
– *March 2018*	*6.1*	*5.4*	*5.3*	*5.3*	*5.2*	*5.1*
Other economic indicators (in nominal terms)						
Household consumption excluding food and rent	4.4	4.6	3.5	2.9	2.7	2.8
– *March 2018*	*4.8*	*4.5*	*3.3*	*3.0*	*2.8*	*2.8*
Wages and salaries	4.8	4.9	3.2	3.1	3.0	3.0
– *March 2018*	*4.3*	*4.1*	*3.2*	*3.0*	*3.0*	*3.0*
Household income	4.3	4.6	3.5	3.3	3.1	3.1
– *March 2018*	*3.8*	*3.7*	*3.3*	*3.2*	*3.1*	*3.2*
Net operating surplus of corporations	11.7	4.8	4.7	4.3	3.5	3.5
– *March 2018*	*11.9*	*4.9*	*4.8*	*4.3*	*3.5*	*3.5*

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

Section B

IMMEDIATE ACTIONS FOR QUÉBEC

INTRODUCTION

The fall 2018 *Update on Québec's Economic and Financial Situation* is the government's first opportunity to put money back in the pockets of families and seniors so that they have more resources to meet their needs.

In addition, in order to develop faster, Québec businesses need a competitive business environment in order to be able to invest so they can seize growth opportunities.

— To that end, immediate action is being taken to incentivize businesses to invest more.

To help fight climate change, the government intends to encourage acquisition of electric vehicles and support businesses in their greenhouse gas (GHG) reduction efforts.

The government is upholding its commitment to fight tax evasion and abusive tax avoidance and, to that end, is continuing the initiatives in the Tax Fairness Action Plan.

The measures presented in the *Update on Québec's Economic and Financial Situation* will help meet those objectives and enable Quebecers to enjoy a better quality of life.

❑ Putting money back in the pockets of families and seniors

The government is announcing the introduction of a family allowance to enhance the assistance provided to families with two or more children, as well as a freeze on the additional contribution for subsidized childcare as of 2019.

To help seniors, the government is introducing a new tax measure as of 2018—the senior assistance amount—to strengthen the support provided to low-income taxpayers aged 70 or over.

— In addition, the government intends to review the tax assistance for seniors so as to better meet their needs.

These measures will put more money in the pockets of Québec families and seniors, representing nearly $1.7 billion over five years.

❑ Ensuring an environment conducive to business investment

Offering a business environment that is conducive to economic development is a priority for the government. Businesses need to have favourable conditions for investment in order to increase their productivity.

Following the initiatives taken by the federal government, the Québec government is announcing the following measures to spur business investment:

— an increase to 100% in the depreciation rate applicable in respect of computer hardware, manufacturing and processing equipment, clean energy generation equipment and intellectual property;

— the introduction of enhanced capital cost allowance in respect of all other types of investment;

— the implementation of a new permanent additional capital cost allowance of 30% applicable in respect of computer hardware, manufacturing and processing equipment, clean energy generation equipment and intellectual property.

The government also plans to extend and establish programs to foster business investment.

— The electricity discount programs for customers billed at Rate L and for greenhouses will be extended by one year.

— An electricity discount program for large businesses served by Hydro-Québec's off-grid systems will be established.

Together, these actions will represent nearly $1.6 billion in tax relief over five years in favour of businesses that invest.

❑ Continuing efforts to fight climate change

The government recognizes the importance of fighting climate change.

Through the fall 2018 *Update on Québec's Economic and Financial Situation*, the government intends to continue the efforts on climate change by:

— encouraging acquisition of electric vehicles by funding rebate programs for the purchase or leasing of new and used electric vehicles by March 31, 2019;

— supporting businesses in their efforts to reduce GHG emissions.

This update is also an opportunity to reiterate Québec's climate change commitments, in particular the approach to and means of tackling climate change.

These actions are part of a long-term process in keeping with the government's sustainable development goals.

❑ Ensuring tax fairness

To ensure fairness for all taxpayers, the government is supporting the fight against tax evasion led by Revenu Québec and the concerted action committees to counter the underground economy.

In addition, to minimize tax losses, the government will continue implementing the Tax Fairness Action Plan.

SUMMARY OF THE FINANCIAL IMPACT OF MEASURES

TABLE B.1

Financial impact of the measures in the *Update on Québec's Economic and Financial Situation*
(millions of dollars)

	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	Total
Putting money back in the pockets of families and seniors						
Payment of a more generous family allowance	–61.9	–249.6	–256.6	–263.1	–270.1	–1 101.3
Freeze on the additional contribution for subsidized childcare	–0.2	–1.2	–2.2	–3.3	–4.5	–11.4
Introduction of the senior assistance amount	–102.4	–107.6	–113.6	–118.6	–123.6	–565.8
Subtotal	**–164.5**	**–358.4**	**–372.4**	**–385.0**	**–398.2**	**–1 678.5**
Ensuring an environment conducive to business investment						
Accelerated depreciation to encourage businesses to invest more	–44.0	–443.0	–320.0	–292.0	–256.0	–1 355.0
New permanent additional capital cost allowance of 30%	—	–5.0	–37.0	–80.0	–109.0	–231.0
Extension and broadening of electricity discount programs	—	—	—	—	—	—
Subtotal	**–44.0**	**–448.0**	**–357.0**	**–372.0**	**–365.0**	**–1 586.0**
Continuing efforts to fight climate change						
Encouragement of acquisition of electric vehicles	–20.7	—	—	—	—	–20.7
TOTAL	**–229.2**	**–806.4**	**–729.4**	**–757.0**	**–763.2**	**–3 285.2**

1. PUTTING MONEY BACK IN THE POCKETS OF FAMILIES AND SENIORS

The government pledged to put money back in the pockets of Québec households in order to better support families and help improve the quality of life for seniors.

Through the fall 2018 *Update on Québec's Economic and Financial Situation*, the government will give a total of over $350 million a year back to parents and seniors as of 2019-2020.

1.1 Payment of a more generous family allowance

Since 2005, Québec families with children under the age of 18 have received a refundable tax credit for child assistance to help them provide for the needs of their minor children. This is one of the main tax assistance measures granted to Québec families.

However, the maximum amount of the child assistance payment is not nearly as generous for the second and third children as it is for the other children.

By way of illustration, the maximum amount a couple could have received for its second or third child in 2019 would have been $1 235, half the amount granted for the first child, which is $2 472.

That is why the government pledged to correct the situation by granting, when fully implemented, the same maximum amount for every child in order to give more support to families.

The government is immediately taking the first step toward that end by raising the maximum amount granted for the second and third children.

Concretely, over 423 000 families will receive additional tax assistance of up to $1 000 a year. This enhancement represents more than $250 million a year in additional assistance for Québec families.

❑ Increase of $500 in the maximum amount granted for the second and third children as of 2019

More specifically, two changes are being made to the child assistance payment starting in 2019.

— The maximum amount granted for the second and third children will be raised by $500, from $1 235 to $1 735, and will continue to be indexed thereafter.

— The child assistance payment will be renamed “family allowance.”

TABLE B.2

Increase in the maximum amount granted for the second and third children – 2019
(dollars)

Maximum amount	Child assistance payment	Family allowance	Increase
First child	2 472	2 472	—
Second child	1 235	1 735	**500**
Third child	1 235	1 735	**500**
Fourth child and subsequent children	1 852	1 852	—

❑ A gain of up to $1 000 per family

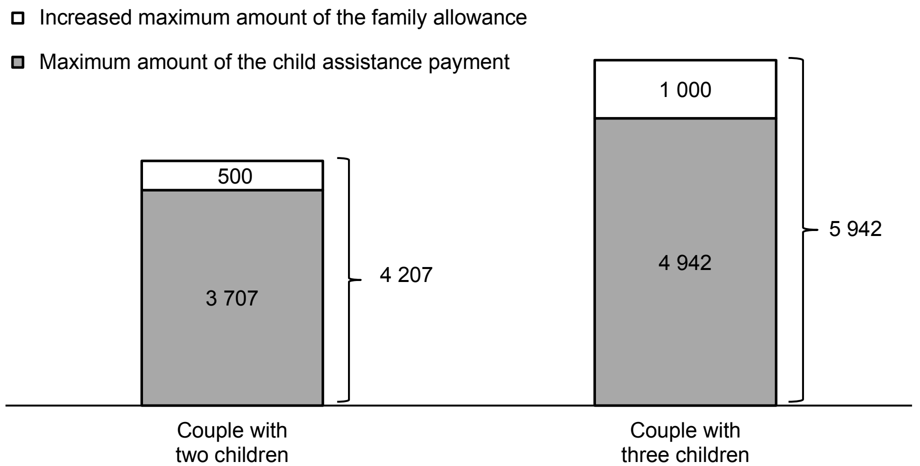
The family allowance will be higher for families with more than one child to enable them to provide for their children.

By way of illustration, the enhancement will raise the maximum amount of the allowance:

- from $3 707 to $4 207 for couples with two children, representing a gain of $500;
- from $4 942 to $5 942 for couples with three children, representing a gain of $1 000.

CHART B.1

Illustration of the maximum amount of the family allowance – 2019
(dollars)



Family allowance starting in 2019

The amount of the family allowance depends on the number of children under the age of 18, the family situation and the family income.

- The maximum amount will be $2 472 for the first child, $1 735 for the second and third children and $1 852 for the fourth child and subsequent children. Single-parent families will continue to receive a supplement of up to $867.
- The maximum amount will still be reducible at a rate of 4% based on family income. The reduction threshold will be $35 680 for single-parent families and $49 044 for couples.

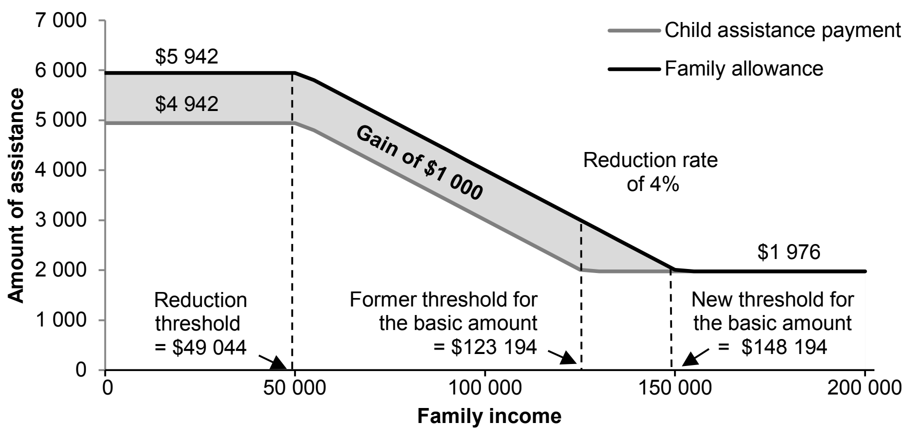
However, parents will receive the same minimum allowance regardless of their income. The minimum allowance will be $694 for the first child and $641 for every other child. The minimum supplement granted to single-parent families will be $346.

Illustration of the increase in the allowance for a couple with three children

The increase of up to $1 000 is aimed at families who need it most.

A couple with three children will receive a more generous allowance, up to a family income of $148 194. Above that income threshold, the same household will receive the basic amount of $1 976.

Illustration of the family allowance for a couple with three children – 2019
(dollars)



❑ A more generous allowance for families

Households with at least two dependent children will see an increase in their child benefit.

Couples with two children will see a maximum gain of $500 up to a family income of $108 344.

Couples with three children will see a maximum gain of $1 000 up to a family income of $123 194.

TABLE B.3

Gain from the increased maximum amount granted for the second and third children – 2019
(dollars)

	Couple with two children			Couple with three children		
Family income[1]	**Child assistance payment**	**Family allowance**	**Gain**	**Child assistance payment**	**Family allowance**	**Gain**
40 000 or less	3 707	4 207	**500**	4 942	5 942	**1 000**
50 000	3 669	4 169	**500**	4 904	5 904	**1 000**
60 000	3 269	3 769	**500**	4 504	5 504	**1 000**
70 000	2 869	3 369	**500**	4 104	5 104	**1 000**
80 000	2 469	2 969	**500**	3 704	4 704	**1 000**
90 000	2 069	2 569	**500**	3 304	4 304	**1 000**
100 000	1 669	2 169	**500**	2 904	3 904	**1 000**
125 000	1 335	1 335	**—**	1 976	2 904	**928**
145 000	1 335	1 335	**—**	1 976	2 104	**128**
150 000	1 335	1 335	**—**	1 976	1 976	**—**
175 000	1 335	1 335	**—**	1 976	1 976	**—**
200 000 or more	1 335	1 335	**—**	1 976	1 976	**—**

(1) Family income corresponds to employment income less the deduction for workers and the deduction for additional contributions to the Québec Pension Plan.

❑ Payment of the increased amount starting in April 2019

The increased maximum amount granted for the second and third children applies as of January 2019.

However, to give Retraite Québec the time to make all of the necessary changes, the increased amounts will be paid starting in April 2019. The first payment will include the increased amount payable in the first quarter, that is, January to March 2019.

By way of illustration, for the 2019 taxation year, a family that receives quarterly payments will see:

— a total gain of $500, in the case of a couple with two children. The first payment in April will be $250 higher and the other quarterly payments, $125 higher;

— a total gain of $1 000, in the case of a couple with three children. The family will receive $500 more in April and $250 more in July and October.

Starting in 2020, the increased family allowance will be spread in equal amounts over the year, whether the allowance is paid quarterly or monthly.

TABLE B.4

Illustration of the increase in family allowance payments in 2019
(dollars)

	Quarterly payments(1)				
	January	April	July	October	Total
Couple with two children					
Maximum amount	927	927	927	927	3 707
Increase	—	250	125	125	500
Increased maximum amount	**927**	**1 177**	**1 052**	**1 052**	**4 207**
Couple with three children					
Maximum amount	1 236	1 236	1 236	1 236	4 942
Increase	—	500	250	250	1 000
Increased maximum amount	**1 236**	**1 736**	**1 486**	**1 486**	**5 942**

Note: Totals may not add due to rounding.
(1) Quarterly payments are made in the first month of the quarter. For example, the payment in January includes the amounts for January, February and March.

❑ Over $250 million a year in additional assistance for families

This first step will provide Québec families with additional financial assistance of nearly $62 million in 2018-2019 and nearly $250 million as of 2019-2020.

The family allowance will increase the benefit paid to over 423 000 families, helping more than a million dependent children.

TABLE B.5

Financial impact of the increase in the family allowance
(millions of dollars)

	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	Total
Payment of a more generous family allowance	–61.9(1)	–249.6	–256.6	–263.1	–270.1	–1 101.3

(1) The amounts represent the higher amounts paid for the first quarter of 2019, that is, January to March.

1.2 Freeze on the additional contribution for childcare

The government is reiterating its commitment to eliminate the additional contribution payable by parents whose children attend a subsidized childcare service and to do so during its first mandate.

The government is acting swiftly in taking the first step by announcing that the amount of the additional contribution will be frozen at the 2018 amount starting in 2019.

— The minimum amount of the additional contribution will remain at $0.70.

— The maximum amount of the additional contribution will remain at $13.90.

Over 140 000 families with young children will pay the same additional contribution for childcare in 2019 as they would have paid in 2018.

Legislative amendments will be made in 2019 so that parents can benefit from the freeze on the additional contribution when they file their 2019 income tax return in early 2020.

— Parents who have chosen to include the additional contribution in their source deductions will see savings throughout 2019.

TABLE B.6

Financial impact of the freeze on the additional contribution for childcare
(millions of dollars)

	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	Total
Freeze on the additional contribution for childcare	–0.2	–1.2	–2.2	–3.3	–4.5	–11.4

Additional contribution for childcare

In 2019, the daily rate for subsidized childcare will consist of:

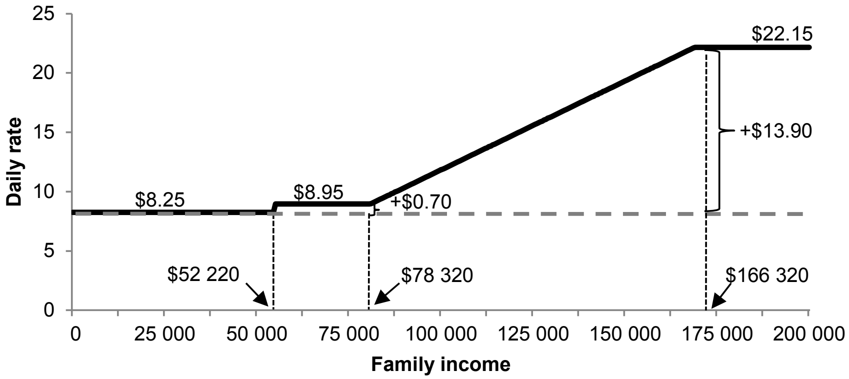
– a basic contribution of $8.25 payable to the childcare service;[1]

– an additional contribution payable when parents file their income tax return. The amount of the contribution ranges from $0.70 to $13.90 based on income, for a daily rate of between $8.95 and $22.15.

The additional contribution of $0.70 per day will be payable by families with an income of $52 220 to $78 320. Above a family income of $78 320, the additional contribution will gradually increase, reaching $13.90 for a family income of $166 320.

The additional contribution is reduced by half for the second child and no additional contribution is payable in respect of the third child and subsequent children.

Illustration of the additional contribution for childcare – 2019
(dollars)



1 Estimate of the basic contribution payable to the childcare service. In accordance with the *Reduced Contribution Regulation* (CQLR, c. S-4.1.1, r.1), the amount of the basic contribution will be indexed on January 1, 2019. The Minister of Families will publish the result of the indexation by a notice in the *Gazette officielle du Québec*.

1.3 Better support for seniors

The government is taking immediate action to provide more assistance to seniors, in keeping with its desire to put money back in the pockets of Quebecers.

The government is immediately introducing the senior assistance amount to help more people aged 70 or over with a limited budget. This tax assistance will be granted in the form of a new refundable tax credit of up to $200 for single seniors and $400 for senior couples in which both spouses are 70 or over.

In addition, the government will begin looking at the tax measures for seniors to make sure they are effective and meet seniors' needs.

1.3.1 A new tax assistance measure for seniors aged 70 or over

To support low-income seniors, the government is announcing the introduction of the senior assistance amount.

The amount of this new refundable tax credit will be $200 for a low-income senior aged 70 or over and will take effect in 2018.

— Seniors will be able to claim the tax credit when they file their next income tax return in spring 2019.

The refundable tax credit is designed to improve the support provided to seniors the most in need. It will be reduced at a rate of 5% starting at a family income of:

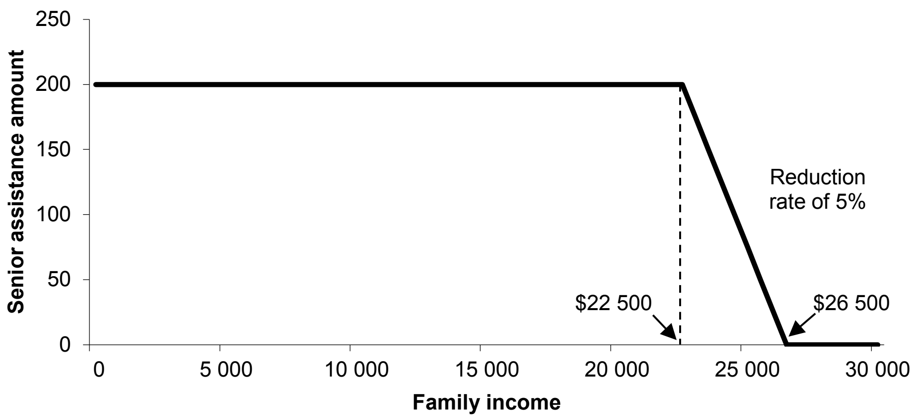
— $22 500, in the case of single seniors aged 70 or over;

— $36 600, in the case of senior couples in which one of the spouses is aged 70 or over.

As of 2019, the parameters of the measure will be indexed annually.

CHART B.2

Illustration of the senior assistance amount for a single senior – 2018
(dollars)



❑ A measure intended for low-income households

This new assistance will help, in particular, seniors who have no income tax payable.

Single seniors aged 70 or over will receive the full amount of $200 up to a family income of $22 500. Above that income threshold, the assistance will be gradually reduced up to an income of $26 500.

Senior couples in which both spouses are 70 or over will receive an amount of $400 up to a family income of $36 600. Above that income threshold, the assistance will be gradually reduced up to a family income of $44 600.

TABLE B.7

Illustration of the new senior assistance amount – 2018
(dollars)

Family income(1)	Single senior	Senior couple(2)
20 000 or less	200	400
22 500	200	400
23 000	175	400
24 000	125	400
25 000	75	400
26 000	25	400
26 500	**—**	400
35 000	—	400
36 600	—	400
40 000	—	230
42 500	—	105
44 000	—	30
44 600 or more	—	**—**

(1) Illustration of pension income that includes the Old Age Security pension and the Guaranteed Income Supplement.
(2) Couple composed of two seniors aged 70 or over.

❑ A measure that will benefit more than 570 000 seniors

The new senior assistance amount will provide more than 570 000 people aged 70 or over with financial assistance totalling upward of $100 million a year starting in 2018-2019.

TABLE B.8

Financial impact of the senior assistance amount
(millions of dollars)

	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	Total
Introduction of the senior assistance amount	–102.4	–107.6	–113.6	–118.6	–123.6	–565.8

1.3.2 Review of the tax assistance for seniors

The Ministère des Finances will review Québec tax assistance for seniors with the aim of increasing the effectiveness of tax measures and ensuring that seniors have access to the measures to which they are entitled.

Current tax measures in respect of seniors

In Québec, the government offers various tax measures to financially support seniors and caregivers.

Basic tax measures

The government offers basic tax assistance to seniors primarily in the form of the non-refundable tax credit in respect of age, the non-refundable tax credit for retirement income, and pension income splitting. In addition, seniors who receive the Guaranteed Income Supplement or the Spouse's Allowance do not pay tax on these benefits.

This is in addition to the non-refundable tax credit for experienced workers aimed at encouraging seniors to remain in or re-enter the labour market.

Tax measures to cover certain expenses

The government offers a refundable tax credit for home-support services for seniors to help older persons who want to stay in their homes longer.

Seniors can also claim the non-refundable tax credit for medical expenses and the refundable tax credit for a stay in a functional rehabilitation transition unit to offset a portion of the expenses incurred for medical or dental care, the purchase of medical equipment and care in a nursing home.

In addition, seniors receive various types of tax assistance to meet specific needs, such as the refundable tax credit for the acquisition or rental of property intended to help seniors live independently longer, the refundable tax credit for seniors' activities and the grant for seniors to offset a municipal tax increase.

Tax measures for caregivers

Furthermore, Québec's tax system recognizes the contribution of caregivers, in particular through the refundable tax credit for caregivers of persons of full age, the refundable tax credit for volunteer respite services and the refundable tax credit for respite of caregivers.

2. ENSURING AN ENVIRONMENT CONDUCIVE TO BUSINESS INVESTMENT

In order to develop faster, Québec businesses need a competitive business environment to be able to invest so they can seize growth opportunities.

2.1 Accelerated depreciation to encourage businesses to invest more

Following the initiatives announced by the federal government, the Québec government is announcing the following measures to further spur business investment:

— an increase to 100% in the depreciation rate applicable in respect of computer hardware, manufacturing and processing equipment, clean energy generation equipment and intellectual property;

— the introduction of enhanced depreciation through an enhancement of the usual accelerated capital cost allowance in the year of acquisition in respect of all other types of investment;

— the implementation of a new permanent additional capital cost allowance of 30% applicable in respect of computer hardware, manufacturing and processing equipment, clean energy generation equipment and intellectual property.

Encouraging businesses to invest to reduce their environmental footprint

In raising the depreciation rate in respect of clean energy generation and energy conservation equipment, the government is encouraging businesses to reduce their environmental footprint.

To that end, businesses will receive additional support for the acquisition of, among other things:

– an electric vehicle charging station;

– solar heating equipment;

– a wind energy conversion system;

– heat recovery equipment.

❑ Increase to 100% in the depreciation rate for certain property to boost productivity

To further encourage businesses to invest, the government is announcing that, up until 2024, they will be able to immediately write off the full cost of investments in:

- computer hardware;
- manufacturing and processing equipment;
- clean energy generation equipment;
- intellectual property.

Under the current tax legislation, in the first taxation year in which a property is used, the capital cost allowance can be claimed for only half of the cost of the acquired property (half-year rule).

To enable businesses to write off 100% of the value of their investments in the first year, the half-year rule will no longer apply in respect of eligible investments.

Support intended solely for businesses that invest

The government can spur business investment either by reducing businesses' tax burden through lower tax rates or by putting targeted measures in place to boost investment.

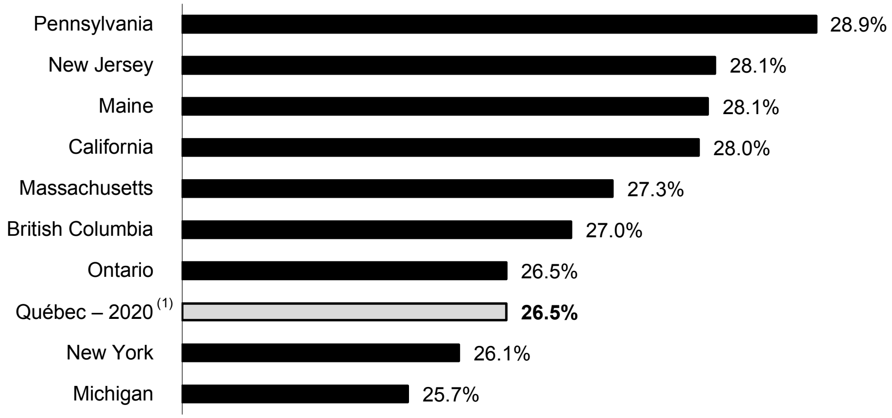
– Despite the U.S. tax reform, Québec still has one of the most competitive corporate tax systems in North America, which reduces the attractiveness of lowering corporate tax rates as a means of spurring investment.

– In addition, lowering the corporate tax rate has only a partial impact on business investment. In fact, some companies may decide to increase the dividends paid to shareholders rather than invest more in their productive capital.

In this context, the government has opted for accelerated depreciation measures with major advantages.

Accelerated depreciation, applicable in respect of capitalizable commercial property, directly contributes to greater investment in Québec.

Combined corporate income tax rate – Québec and selected jurisdictions



(1) In Budget 2015-2016, the government announced a gradual reduction of the general corporate tax rate from 11.9% to 11.5% by 2020.

Source: Compilation by the Ministère des Finances.

❑ Introduction of enhanced capital cost allowance to foster development of all businesses that invest

Following the initiatives announced by the federal government, and to encourage businesses to increase their investments in Québec, the government is introducing an enhanced capital cost allowance.

— Businesses will be able to claim up to three times the amount of the capital cost allowance normally applicable in the first year for all types of investments not covered by the increase in the depreciation rate to 100%.

This new measure will apply to all businesses that make investments in any sector of the economy and in any region.

— It applies to property acquired after November 20, 2018 and before 2028.

The enhanced capital cost allowance can be claimed only for the taxation year in which the property becomes available for use.

Significantly accelerated capital cost allowance in respect of investments

By taking steps to accelerate depreciation as a means of driving business investment, the government is substantially lowering the cost of investments for Québec businesses.

Impact of the announced measures on certain depreciation rates

	Before the changes		After the new measures	
	Year of acquisition(1)	Other years(2)	Year of acquisition(3)	Other years(2)
Increase in the depreciation rate to 100%				
– Computer hardware	27.5%	55%	100%	55%(4)
– Manufacturing and processing equipment	25%	50%	100%	50%(4)
– Clean energy generation equipment	15% / 25%	30% / 50%	100%	30% / 50%(4)
– Intellectual property	Variable(5)	Variable(5)	100%	Variable(5)
Enhanced depreciation				
– Software	50%	100%	100%	100%(4)
– Motor vehicles	15%	30%	45%	30%
– Data network infrastructure equipment	15%	30%	45%	30%
– Office equipment	10%	20%	30%	20%
– Fibre-optic cables	6%	12%	18%	12%
– Buildings used for manufacturing and processing activities	5%	10%	15%	10%
– Other non-residential buildings	3%	6%	9%	6%

(1) The tax rules provide for application of the half-year rule in the year of acquisition.
(2) Rate applicable to the undepreciated capital cost.
(3) The half-year rule will not apply.
(4) In the event that a corporation does not write off the full capital cost in the year of acquisition, the normal rate will apply to the undepreciated capital cost.
(5) The depreciation rate is determined on the basis of the useful life of the intellectual property.

❑ New permanent additional capital cost allowance of 30%

To further reduce the cost of investments by Québec businesses, the government is announcing a new permanent additional capital cost allowance of 30% for investments in:

— computer hardware;

— manufacturing and processing equipment;

— clean energy generation equipment;

— intellectual property.

This new measure will allow businesses to claim an amount equal to 30% of the capital cost allowance in the previous year in respect of certain investments made to improve productivity.

Together with the increase in the depreciation rate to 100%, the new additional capital cost allowance will allow businesses to deduct 130% of the value of their eligible investment in computing their taxable income.

❑ 90 000 businesses will benefit from the tax measures to spur investment

The new tax measures to spur investment will benefit 90 000 businesses in Québec every year. All told, the measures represent nearly $1.6 billion in tax relief over the next five years.

TABLE B.9

Financial impact of the measures to accelerate depreciation for business investment
(millions of dollars)

	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	Total
Accelerated depreciation to encourage businesses to invest more	−44.0	−443.0	−320.0	−292.0	−256.0	−1 355.0
New permanent additional capital cost allowance of 30%	—	−5.0	−37.0	−80.0	−109.0	−231.0
TOTAL	**–44.0**	**–448.0**	**–357.0**	**–372.0**	**–365.0**	**–1 586.0**

Illustration of the impact of the measures to accelerate depreciation in respect of an investment in manufacturing and processing equipment

Through the initiatives announced by the government in respect of depreciation of investment costs, a manufacturing business that invests $100 000 in manufacturing and processing equipment will benefit from a cumulative deduction of $130 000 after two years.

Illustration of the capital cost allowance calculated according to the new initiatives announced by the government – Investment in manufacturing and processing equipment
(thousands of dollars)

		Year of acquisition	Year 2	Year 3	Year 4
A.	Undepreciated capital cost	100	—	—	—
B.	Accelerated capital cost allowance (A x 100%)	100	—	—	—
C.	Additional deduction (accelerated capital cost allowance in the previous year x 30%)	—	30	—	—
	Total deduction in the year (B + C)	**100**	**30**	**—**	**—**
	Total cumulative deduction	*100*	*130*	*130*	*130*

Note: To illustrate, the business claims the full amount of the accelerated capital cost allowance in the year the property was acquired.

❑ Ensuring a competitive global business environment

With the temporary and permanent tax measures announced by the federal and Québec governments to support investment growth, Québec's marginal effective tax rate (METR)[1] will average 8.5% in 2018 and compare favourably with the rates of its Canadian and international trading partners.

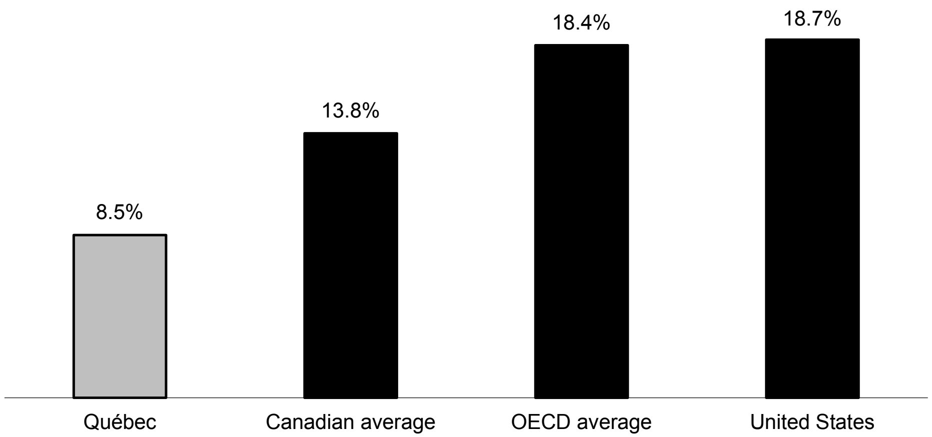
By comparison, the METR for 2018 will average:

- 13.8% in Canada;
- 18.4% in OECD countries;
- 18.7% in the United States.

Québec businesses will thus benefit from one of the most competitive METRs in industrialized countries.

CHART B.3

Comparison of the METR in Québec and selected jurisdictions – 2018



Source: Compilation by the Ministère des Finances.

1 METRs are a quantitative representation of all tax rules, rates and measures applicable to a marginal business investment. A low METR reflects an investment-friendly tax system.

❑ $6 billion in additional investments by 2024

The immediate measures being taken by the government to spur business investment are aimed primarily at increasing the profitability of investment projects by reducing the related tax costs for businesses.

They will raise non-residential business investment by a further 3.8% in 2024 and 2.6% over the long term.

— The acceleration represents additional investments totalling $6 billion by 2024.

CHART B.4

Effect of the announced tax measures on non-residential business investment
(per cent)

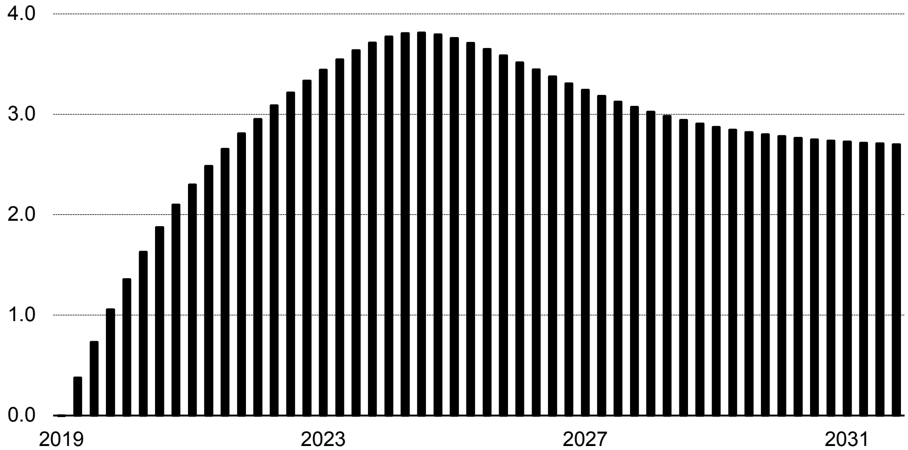


Illustration of the effect of the tax measures to spur investment for an acquisition of manufacturing and processing equipment

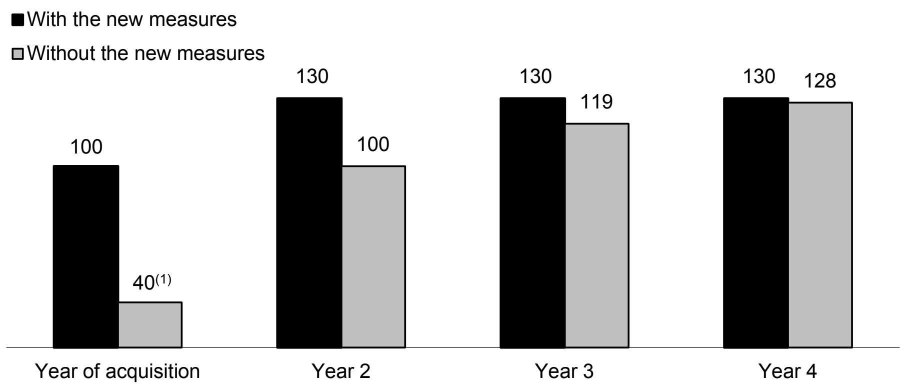
By raising the depreciation rate to 100%, the government will allow businesses to write off the full cost of the investment in manufacturing and processing equipment in the year of acquisition.

- By comparison, without this initiative, businesses would have written off just 40% of the cost of the investment in the year of acquisition.
- As a result, businesses will see a significant increase in their short-term liquidity, making their investment more profitable.

In addition, the new permanent additional capital cost allowance of 30% will allow businesses to claim, in the second year, a capital cost allowance equal to 130% of the cost of the investment.

The new permanent capital cost allowance will replace the temporary additional deduction of 60% applicable to the acquisition of cutting-edge technologies.

Illustration of the combined effect of the increase in the depreciation rate to 100% and the new additional capital cost allowance of 30% – Investment in manufacturing and processing equipment
(accumulated capital cost allowance as a percentage of acquisition cost)



(1) The total capital cost allowance of 40% represents the sum of the regular capital cost allowance of 25% under the half-year rule and the additional capital cost allowance of 60%.

2.2 Extension and broadening of electricity discount programs

The Electricity Discount Program Applicable to Consumers Billed at Rate L and the Electricity Discount Program to Promote Greenhouse Development support business investment projects, including conversion of production processes, start-up or increase of production, and improvement of business productivity.

Since 2016, these programs have enabled numerous investment projects and proved to be important levers for Québec's economic development.

— As of November 1, 2018, some 50 businesses have filed applications related to projects totalling investments of nearly $2.2 billion, in the case of large businesses, and over $50 million, in the case of greenhouses.

To continue fostering investments in large industrial businesses and greenhouses, the government, through the fall 2018 *Update on Québec's Economic and Financial Situation*, plans to:

— extend the deadline for applying for the programs by one year to give businesses until December 31, 2019 to submit applications for investment projects that started as of 2019;

— extend the end of the investment period by one year, to December 31, 2021;

— establish a new electricity discount program for large businesses served by Hydro-Québec's off-grid systems.

Projects that start before January 1, 2019 must be submitted by December 31, 2018 to be eligible for the existing programs. They will benefit from the extension of the investment period to December 31, 2021. Projects that start on or after January 1, 2019 can be submitted by December 31, 2019 and implemented by December 31, 2021.

The one-year extension of the deadline for applying for the programs and the end of the investment period for the electricity rebate programs will enable businesses to be more competitive. The impact of these changes has already been factored into the government's financial framework.

❑ New electricity discount program for businesses served by off-grid systems

Hydro-Québec's off-grid systems serve, among others, remote regions that are not connected to its main grid. Like businesses supplied with power from the main grid, businesses supplied by power from off-grid systems must be able to count on financial support for investment.

To support the investments of large businesses served by off-grid systems, the government, through the fall 2018 *Update on Québec's Economic and Financial Situation*, plans to establish an electricity discount program specifically for such systems.

Under the new program, large businesses served by off-grid systems will be able to receive a maximum annual electricity discount of 20% for four years, which will allow a reimbursement of up to 40% of the eligible investments made.

— The duration of the electricity discount can be six years for projects totalling $250 million or more.

— The reimbursement may be as much as 50% of eligible investments if the project involves production methods that help to reduce GHG emissions.

It is anticipated that the new program could spur investments totalling $5.0 million between January 1, 2019 and December 31, 2021.

Off-grid systems
An off-grid system is a power generation and distribution system that belongs to Hydro-Québec but is not connected to the main grid. There are currently 24 off-grid generating stations spread over five areas: Basse-Côte-Nord, Schefferville, Îles-de-la-Madeleine, Nunavik and Haute-Mauricie. – These systems are generally run by thermal generation.

Main parameters of the new electricity discount program for Hydro-Québec's off-grid systems

The electricity discount program for large power consumers served by off-grid systems grants, for eligible projects, a maximum electricity discount of 20% over a period of four years, providing a maximum reimbursement of 40% of eligible investments made.

- The maximum rebate period for eligible investment projects worth $250 million or more will be six years.
- Projects that reduce the intensity of greenhouse gas emissions by 20% can recover up to 50% of eligible investments.

To be eligible for electricity discounts, business projects must be carried out in Québec and meet a minimum investment threshold, corresponding to the lesser of:

- 40% of the annual electricity cost;
- $40 million in investments.

Projects must be initiated after December 31, 2018, be submitted by December 31, 2019 and be implemented by December 31, 2021.

The discount application period ends on December 31, 2028.

3. CONTINUING EFFORTS TO FIGHT CLIMATE CHANGE

The government is continuing its efforts to fight climate change to ensure that Quebecers have a healthy environment and a green future.

3.1 Encouragement of acquisition of electric vehicles

The government has various levers at its disposal to help meet the target of 100 000 electric vehicles on Québec roads by 2020. They include:

— rebate programs for the purchase or leasing of electric vehicles: the Drive Electric program, which offers a rebate of up to $8 000 on the purchase of a new vehicle, and the pilot project that offers a rebate of up to $4 000 on the acquisition of a used electric vehicle;[2]

— the zero-emission vehicles standard, which aims to stimulate the supply of zero- or low-emission vehicles.

Rebates on the acquisition of electric vehicles

Drive Electric program

This program reduces the cost of acquiring an electric vehicle, as well as the cost of acquiring and installing a 240-volt home charging station. The rebates can be up to:

– $8 000 for all-electric vehicles, rechargeable hybrid vehicles and fuel-cell (hydrogen-powered) vehicles;

– $600 for the acquisition and installation of a 240-volt home charging system.

Pilot project to promote the acquisition of used electric vehicles

For the owner to obtain the rebate offered under the pilot project, the used vehicle must meet the following requirements:

– be fully electric, three or four years old and associated with a make, model and version of the most recent equivalent new vehicle on which the manufacturer's suggested retail price is less than $125 000;

– be purchased or leased for at least 36 months from a car dealer with an establishment in Québec and be registered for the first time in Québec at the time of the transaction between April 1, 2017 and March 31, 2019;[1]

– at the time of acquisition, be covered by a full vehicle warranty of at least three years or 40 000 km, whichever comes first and have been inspected and have obtained certification by an automaker or an independent car dealer.

1 Includes the changes announced in the fall 2018 *Update on Québec's Economic and Financial Situation*.
Source: www.vehiculeselectriques.gouv.qc.ca.

2 The programs are administered by Transition énergétique Québec.

3.1.1 Funding for rebate programs for the acquisition of electric vehicles by March 31, 2019

There has been a rapid increase in applications for rebates on the acquisition of new electric vehicles under the Drive Electric program in recent months.

In addition, the pilot project to promote the acquisition of used electric vehicles will end on December 31, 2018. An assessment of the effectiveness of the pilot project is planned.

Given how popular the two programs have been, the government is announcing additional funding of $20.7 million to cover applications for rebates on the acquisition of electric vehicles up until March 31, 2019:

— $17.8 million for the rebate program for the acquisition of new electric vehicles;

— $2.9 million for rebates paid to buyers of used electric vehicles.

The measure will encourage the acquisition of over 3 350 electric vehicles more and 1 200 home charging stations more. The sums required to provide additional funding for rebates on the acquisition of electric vehicles will be drawn from the Green Fund.

TABLE B.10

Additional funding for rebate programs for the acquisition of electric vehicles until March 31, 2019
(millions of dollars, unless otherwise indicated)

	Financial impact in 2018-2019(1)	Increase in the number of vehicles(2)	Increase in the number of home charging stations(3)
Drive Electric – New vehicles	–17.8	2 622	1 202
Extension of the pilot project – Used vehicles	−2.9	732	—
TOTAL	**–20.7**	**3 354**	**1 202**

(1) The $20.7 million in additional funding will be drawn from the Green Fund.
(2) As of September 30, 2018, 35 905 electric vehicles were registered in Québec.
(3) As of September 30, 2018, the program had provided financial assistance for 12 800 charging stations.

3.1.2 Review of funding for electric vehicles

In the coming months, the government will look into the funding in respect of rebate programs for the acquisition of electric vehicles.

— The results of the pilot project for the acquisition of used vehicles will be assessed based on data compiled on the fleet of eligible vehicles as at December 31, 2018. This will enable the government to determine the advisability of offering a rebate on the acquisition of used electric vehicles.

— Furthermore, the parameters of the Drive Electric program, the amount of financial assistance to be paid and the kinds of vehicles covered will be looked at before the next budget.

3.2 Support for businesses in their efforts to reduce GHG emissions

❑ Québec's industrial sector is particularly exposed to world trade

Tackling climate change, and doing so with a view to sustainable development, is a challenge for all economic players.

Québec's industrial businesses operate in a global context and are therefore particularly exposed to global competition.

— They export a significant portion of their output to foreign markets and have little control over the price of their products, which are set on world markets.

Some regions Québec competes against have established carbon pricing systems, whereas carbon pricing is not as important in other states and provinces.

Issues related to carbon pricing can therefore be significant for some Québec industries.

■ Give the industrial sector adequate support in the transition to a low-carbon economy

The competitive pressure on industries from carbon pricing, which will only get stronger in the future, could call into question the business model of certain businesses and, in the long term, jeopardize jobs.

Faced with this challenge, the Québec government wants to ensure that the existing measures to support businesses are effective, and has undertaken work to that end. If needed, the government will put more measures in place or enhance existing measures to enable the industrial sector to reduce its GHG emissions.

— This work is part of the process to establish the rules of the greenhouse gas emission cap-and-trade (CaT) system that will apply after 2023.

The government will be consulting the industrial sector in 2019 so that it fully understands their challenges and needs and can address them in such a way that Québec can reduce its GHG emissions while enabling the industrial sector to remain competitive.

3.3 Québec's GHG reduction commitments

The reality of climate change is being confirmed year after year by studies from around the world, backed by ample scientific analysis.

Climate change directly affects Québec and is one of most serious challenges facing humanity.

Faced with this reality, Québec has taken the means necessary to reduce GHG emissions, limit the scale of climate change and adapt to climate changes and mitigate their impacts, especially on Québec's infrastructure and economy.

— Québec has taken on major commitments, setting GHG reduction targets of 20% below the 1990 level in 2020 and 37.5% below in 2030.

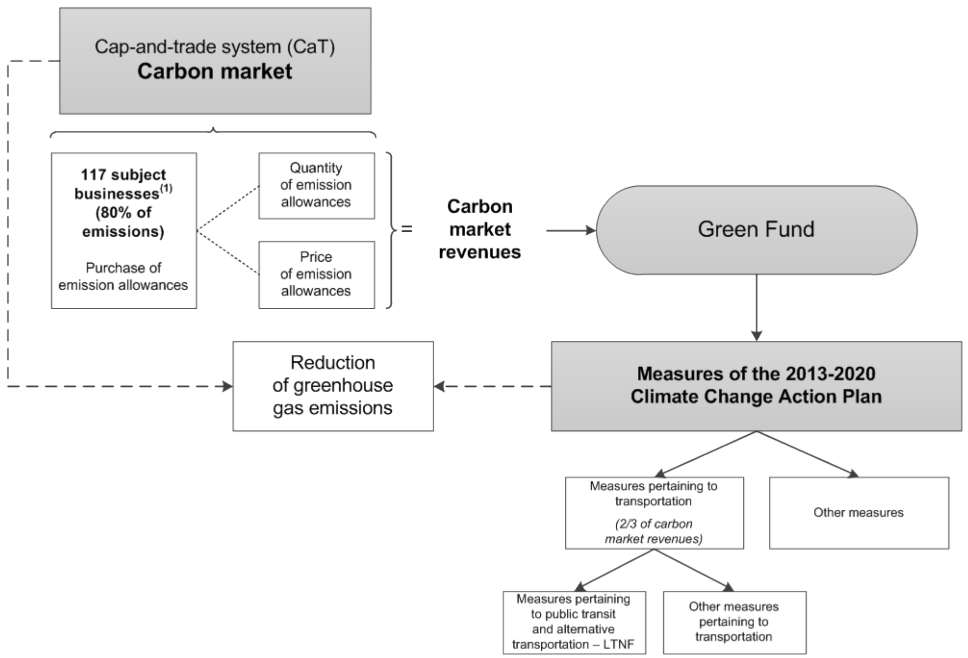
❑ An integrated approach

To reduce its GHG emissions, Québec is taking an integrated approach that includes the CaT system and reinvestment of all of the revenue from that system in fighting climate change.

Revenue from the CaT system funds the different climate change action plans implemented by the government.

CHART B.5

An integrated approach to fighting climate change



LTNF: Land Transportation Network Fund.
(1) Number of businesses in 2017.
Sources: Ministère de l'Environnement et de la Lutte contre les changements climatiques and Ministère des Finances du Québec.

❑ Greenhouse gas emission cap-and-trade system

The main features of the cap-and-trade system are:

— an emission cap, set by the government, for economic sectors subject to the system, which encourages businesses and individuals to reduce their GHG emissions;

— the option of purchasing and trading emission allowances on a carbon market to allow emitters to maintain a sufficient number of emission allowances.

The price of emission allowances is primarily determined by supply and demand.

— The supply of emission allowances is essentially equal to the emission cap set by the government.

— The demand for emission allowances corresponds to emitters' need to purchase emission allowances, reflecting the level of emissions covered by the system.

Each emitter subject to the cap-and-trade system is required to give the government one emission allowance for each tonne of GHGs emitted into the atmosphere during a given period.

— For that purpose, emitters can purchase emission allowances from the government when they are auctioned, or acquire them from other emitters. They can also receive emission allowances for free.

— To fulfil their obligations, industrial emitters subject to the system can also reduce their GHG emissions and thereby reduce their need to purchase emission allowances.

❑ GHG emission reduction at a lower cost

To make Québec's cap-and-trade system more efficient and give the economy the leeway needed to achieve the climate targets, Québec's system is linked to California's system, creating the largest carbon market in North America.

Given that Québec already has an enviable GHG balance sheet, in particular because it largely produces electricity through renewable sources, the cost of reducing GHG emissions may be relatively higher for Québec in the short term than in other regions.

— Thanks to Québec and California's linked systems, participants in the common carbon market, including Québec emitters, can reduce their emissions or trade emission allowances to cover their GHG emissions at lower cost.

Québec essentially has two options for meeting its reduction targets:

— reduce GHG emissions in Québec;

— take advantage of the reductions that will be made in California at lower cost by purchasing GHG emission allowances there.

❑ Maintenance of Québec's cap-and-trade system and its link to California's

Québec's cap-and-trade system has two major advantages.

— By definition, it makes it possible to achieve a certain level of GHG emissions in the sectors of activity it covers, over the set period, by setting declining caps, which is the system's founding principle.

— The system reduces the costs associated with reducing GHG emissions by encouraging emission reduction where it is least costly to do so, within the common carbon market with California.

Considering these significant advantages for the Québec economy, and faced with the scope of the climate challenge, the government is reiterating its intention to maintain Québec's cap-and-trade system and keep it linked to California's system, as well as develop more links to systems in other regions.

❑ Effective ways to reduce GHG emissions

Its cap-and-trade system and the various complementary measures in the climate change action plans will enable Québec to contribute to the fight against climate change in order to achieve the 2020 and 2030 reduction targets through the most effective means, such as:

— making vehicles more efficient by promoting the electrification of transportation and developing public and active transit;

— making industrial processes and buildings more energy efficient;

— fostering the use of clean energy sources in all sectors of activity;

— adopting cutting-edge technologies and environmentally responsible practices;

— using best practices in agriculture and residual materials management;

— purchasing emission allowances outside Québec.

To honour its commitments, the government will assess its options and determine the best way to ensure maximum positive impacts and foster sustainable development in Québec—economic, environmental and social.

Against this backdrop, it is imperative that Québec fight and adapt to climate change in the most effective way possible.

4. TAX FAIRNESS ACTION PLAN

4.1 Ongoing fight against tax evasion and abusive tax avoidance

The government is continuing the initiatives to fight tax evasion and abusive tax avoidance in order to ensure the integrity of the tax system and a fair economic environment for all taxpayers.

To that end, the government is supporting the efforts of Revenu Québec and the concerted action committees to counter the underground economy (ACCES).[3] In addition, it recently ramped up its efforts by creating the ACCES cannabis committee.

Activities carried out by ACCES cannabis

Despite the recent legalization of cannabis, criminal networks involved in trafficking are very active in Québec. The mission of the ACCES cannabis committee,[1] which recently begun operating, is to combat the illicit trade in cannabis and thereby:

– reduce access to cannabis for young people in order to protect them from the risks of using this substance;

– direct current adult consumers to a safe, legal market.

The $10.7 million in funding allocated in 2018-2019 will help around a hundred police officers across Québec combat cannabis trafficking at every stage of the supply chain, from illegal growers to neighbourhood dealers.

A number of police forces have already conducted investigations following the legalization of cannabis, including the Service de police de la Ville de Montréal, which ran a major operation in November to dismantle an illegal cannabis network. The police seized 970 cannabis plants.

– The operation was conducted with assistance from the Sûreté du Québec, the Service de police de Laval, the Service de police de l'agglomération de Longueuil, the Service de la sécurité publique de la Ville de Mascouche and Hydro-Québec.

1 The members of the ACCES cannabis committee are the Ministère de la Sécurité publique, the Sûreté du Québec, the Service de police de la Ville de Montréal, the Service de police de la Ville de Québec, the Association des directeurs de police du Québec, the École nationale de police du Québec and the Ministère des Finances du Québec.

Furthermore, to address the use of tax havens, the government has implemented the Tax Fairness Action Plan.

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3 ACCES committees include ACCES tobacco, ACCES construction, ACCES alcohol, Actions concertées contre les crimes économiques et financiers (concerted action against economic and financial crime, ACCEF) and ACCES cannabis.

4.2 Continuation of the Tax Fairness Action Plan

The government will continue the initiatives provided for in the Tax Fairness Action Plan. The plan includes, among other initiatives:

— creating the Special Task Force on International Tax Planning;

— ensuring collection of Québec sales tax on purchases from suppliers outside Québec;

— strengthening tax and corporate transparency;

— rewarding certain informants who provide information about aggressive tax planning.

The government's action to fight tax evasion and abusive tax avoidance is part of an evolving approach that takes into account federal initiatives and international advances in information exchange.

❑ Creating the Special Task Force on International Tax Planning

Access to information is an important issue when it comes to fighting tax evasion and abusive tax avoidance. That is why the Québec government asked the federal government to send it the information obtained under bilateral and multilateral tax treaties.

The Government of Canada responded by agreeing to amend the Agreement Concerning the Exchange of Information Regarding Taxes and Other Duties to give Québec access to data gathered through:

— country-by-country reporting under the BEPS[4] action;

— bilateral tax treaties between Canada and other countries;

— international electronic funds transfer reporting;

— the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information.

The Québec government announced the creation of the Special Tax Force on International Tax Planning to study the information it receives.

[4] Base Erosion and Profit Shifting.

When fully up and running, the task force will have 75 specialized resources at its disposal and will work closely with the Canada Revenue Agency on cases involving complex tax evasion and abusive tax avoidance schemes as well as problems related to transfer pricing.

— Currently, nearly 60 resources have already joined the Special Task Force on International Tax Planning.

❑ Ensuring the collection of Québec sales tax on purchases from suppliers outside Québec

A portion of tax losses is attributable to the non-collection of sales tax on properties and services purchased by Quebec consumers from suppliers outside Québec.

— In addition to reducing government revenue, this situation is unfair to Québec businesses that are required to collect and remit the tax.

Following the OECD's recommendation, the Québec government has decided to require foreign suppliers of properties and services to collect and remit Québec sales tax when they sell taxable supplies to Québec consumers.

Effective January 1, 2019, foreign companies that sell more than $30 000 in taxable supplies per year of incorporeal property or services to Québec consumers will be required to register for the Québec sales tax, collect the Québec sales tax and remit it to Revenu Québec.

Owing to the high number of foreign suppliers of corporeal property and the existence of a collection mechanism at borders, this requirement does not apply to such suppliers in the short term. To improve at-the-border collection of sales tax on corporeal property from abroad, a pilot project involving Revenu Québec, the Canada Border Services Agency and Canada Post began on October 2018.

Effective September 1, 2019, Canadian companies without a physical or significant presence in Québec that sell more than $30 000 in taxable supplies per year to Québec consumers will be required to register for the Québec sales tax, collect the Québec sales tax and remit it to Revenu Québec.

❑ Strengthening tax and corporate transparency

One of the difficulties governments have encountered in combatting the use of tax havens is the growing use of shell companies for the purposes of tax evasion and abusive tax avoidance. To address the matter, the Québec government will make it easier to access and share information contained in the Québec enterprise register.

The government set up two technology development projects that started in 2018:

— a search tool for querying data in the Québec enterprise register (ORDRE project);

— a project to link Canadian business registers (LIREC project).

The ORDRE project entails the development of an authenticated and secure electronic service delivery system that will allow investigators in particular to do advance searches in the register in real time.

— The project will make it easier for regulatory bodies to use the Québec enterprise register and, thereby, increase their investigative capacity.

The goal of the LIREC pilot project, which is being coordinated by the federal government, is to determine the feasibility of the multiple-register access service. The service should make it possible to:

— link all provincial and territorial business registers under a Canada-wide system;

— search the registers for information on businesses that do business in Canada.

❑ Rewarding certain informants on aggressive tax planning

The Tax Fairness Action Plan includes the establishment of a tax informant reward program for the disclosure of information on aggressive tax planning.

— This program complements the federal program and targets transactions covered by the general anti-avoidance rule and sham transactions.

— The reward paid to an eligible informant may be up to 15% of the duties, not including penalties and interest, recovered by Revenu Québec further to the information disclosed.

The program took effect in June 2018 and has already led to dozens of denunciations.

❑ Other initiatives to come

The government is in the process of studying various proposals for more effectively stemming tax evasion and abusive tax avoidance.

Section C

THE QUÉBEC ECONOMY: RECENT DEVELOPMENTS AND OUTLOOK FOR 2018 AND 2019

1. THE ECONOMIC SITUATION IN QUÉBEC

1.1 Favourable economic conditions in Québec

Québec, like Canada, saw robust economic growth in 2017. Québec real GDP rose by 2.8% in 2017, after increasing by 1.4% in 2016.[1]

Households and business investment will continue to drive real GDP growth in the coming years. Despite continued favourable economic conditions, growth is expected to be more moderate.

— Real GDP is projected to grow by 2.5% in 2018 and 1.8% in 2019.

A number of factors will contribute to the moderation in economic growth.

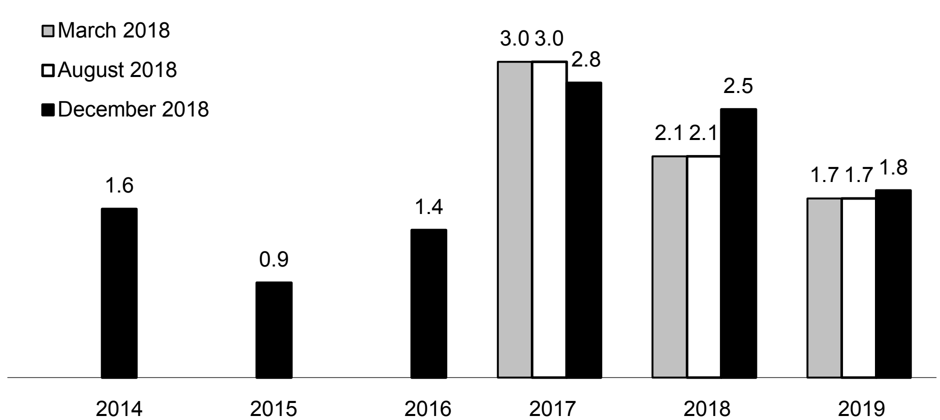
— Job creation will continue but at a more moderate pace, curbed by the already low unemployment rate and the anticipated decrease in the potential labour pool.

— Interest rate hikes in Canada will contribute to a slowdown in household consumption and residential investment.

— In addition, the level of business investment per worker lags Québec's major trading partners. This under-investment limits Québec's economic potential.

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 Unless otherwise indicated, this section contains data from the provincial economic accounts published by Statistics Canada on November 8. The forecast is based on the information available before that date. In addition, economic outlook does not take into account the most recent budgetary and fiscal measures in the *Update on Québec's Economic and Financial Situation*.

❑ Households and businesses will support economic growth in the coming years

Households have been the main driver of growth in recent years. They will continue contributing to economic activity in 2018 and 2019, but at a slower pace.

— Household consumption expenditure and residential investment will be sustained by the high employment level and rising wages. However, both will be curbed by higher borrowing costs. Moreover, the changes to mortgage rules by the federal government will contribute to limited residential investment.

On the business side, non-residential investment is expected to continue growing.

— Robust demand for Québec goods and services will prompt companies to increase their production capacity. At the same time, the pressures of an aging population on the labour market should encourage businesses to invest more in order to improve their productivity.

  — The anticipated growth in investment will also help drive Québec's future economic growth.

— In addition, the agreement in principle on the new United States–Mexico–Canada Agreement (USMCA) to replace the North American Free Trade Agreement (NAFTA) should ease uncertainty and spur investment.

A gain in exports is expected to be led by sustained demand from Québec's main trading partners, the favourable exchange rate and dwindling uncertainty over trade with the United States.

TABLE C.1

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

	2017	2018	2019
Contribution of domestic demand	**3.4**	**3.3**	**1.8**
– Household consumption	3.2	2.4	2.0
– Residential investment	7.3	5.8	−1.4
– Non-residential business investment	2.5	6.0	4.7
– Government spending and investment	2.8	3.4	1.1
Contribution of the external sector	**−1.4**	**−0.5**	**0.4**
– Exports	1.2	2.3	2.3
– Imports	3.9	3.2	1.4
Contribution of inventories	**0.8**	**−0.2**	**−0.4**
REAL GDP	**2.8**	**2.5**	**1.8**

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

❑ Job creation will continue but at a more moderate pace

The labour market progressed favourably in 2017, seeing the creation of 90 200 jobs on average.

— In addition, the unemployment rate fell to 6.1% in 2017, an annual record since Statistics Canada began its Labour Force Survey (LFS) in 1976. It was also lower than Canada's unemployment rate for the same year (6.3%).

The labour market is expected to continue performing well in the coming years, although job creation will be limited by an already low unemployment rate and the anticipated decrease in the potential labour pool due to the aging population.

— In the last year, more precisely between October 2017 and October 2018, 6 400 jobs were created. In addition, Québec's unemployment rate fell to 5.2% in October, below the rates in Ontario (5.6%) and Canada (5.8%).

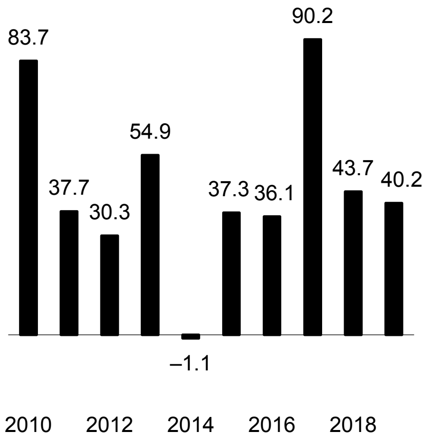
Job creation for the full year 2018 will be up 1.0%, averaging 43 700 jobs. In 2019, 40 200 jobs are expected to be added, an increase of 0.9%.

— The projected job creation and a tighter labour pool are expected to continue driving the unemployment rate down, to 5.5% in 2018 and 5.4% in 2019.

The anticipated low unemployment rate will require utilizing the full potential of the workforce in the coming years in order to sustain economic growth in all regions of Québec.

CHART C.2

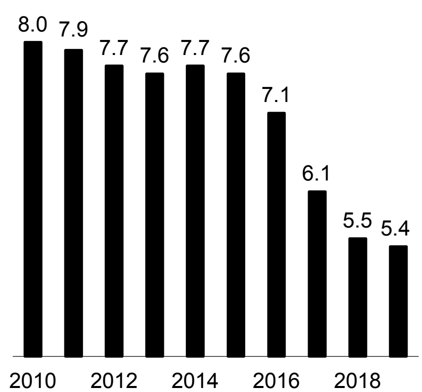
Job creation in Québec
(thousands)



Sources: Statistics Canada and Ministère des Finances du Québec.

CHART C.3

Unemployment rate in Québec
(per cent)



Sources: Statistics Canada and Ministère des Finances du Québec.

Job creation calculation methods

The Ministère des Finances produces its labour market forecasts using data from Statistics Canada's monthly Labour Force Survey (LFS). Statistics Canada also publishes annual data corresponding to the average of monthly statistics.

Annual job creation – different calculation methods

Various calculation methods can be used to measure year-over-year employment change.

The Ministère des Finances presents its labour market forecast using annual data.

– This method reduces monthly fluctuations related to cyclical components. It places greater emphasis on labour market trends as well as establishes a clearer link between economic activity and changes in the labour market.

  - Based on annual data, an average of 90 200 jobs were created in 2017.

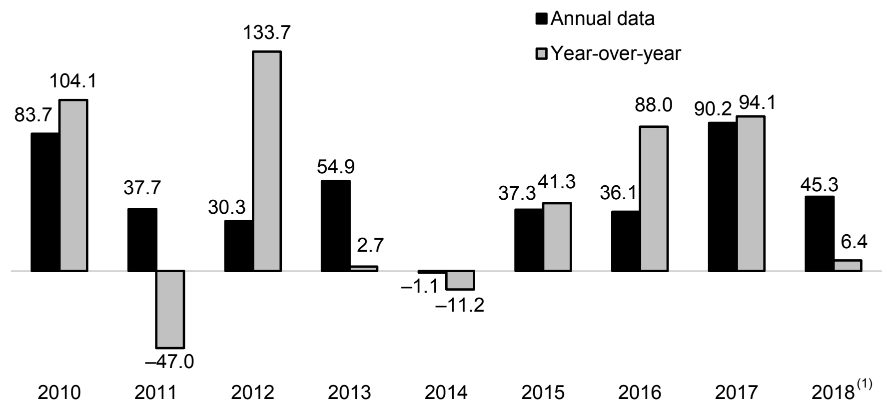
Another method consists in comparing a monthly statistic to the data of the corresponding period the previous year.

– This method, referred to as year-over-year comparison, quickly reveals trend changes. Based on this method, 94 100 jobs were created between December 2016 and December 2017.

The results obtained with these calculation methods may differ significantly.

– For example, an average of 37 700 jobs were created in 2011, whereas 47 000 positions were lost between December 2010 and December 2011. The same year, economic growth was positive, coming in at 1.9%.

Job creation in Québec according to different calculation methods
(thousands)



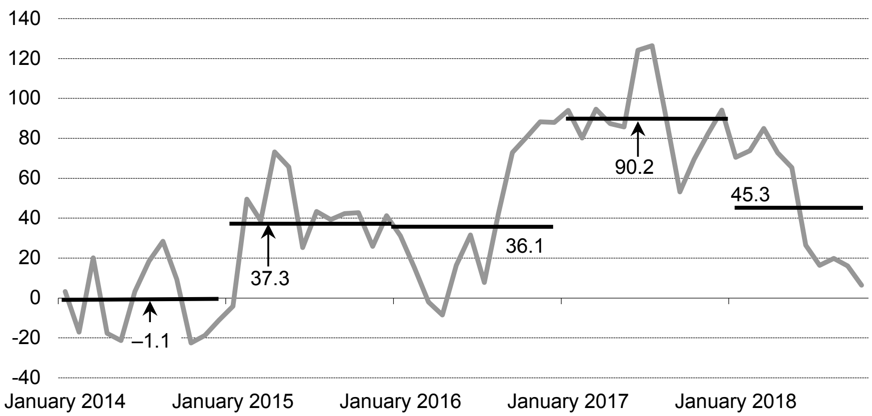
(1) Cumulative for the available months in 2018 and from October 2017 to October 2018 on a year-over-year basis.
Source: Statistics Canada.

Job creation calculation methods (cont.)

Each calculation method has its advantages and disadvantages.

Labour market trends should be studied using different methods to obtain the most accurate assessment of the state of the labour market and its impact on Québec's economy.

Change in employment on a year-over-year and annual average basis
(thousands)



Source: Statistics Canada.

A tightening Québec labour market

Population aging necessitates greater labour market participation

Québec is facing an aging population, which is leading to a decline in the number of people aged 15 and 64, who represent the largest pool of potential workers.

- In this context, increased labour market participation will be needed in the coming years to support economic growth and improve Quebecers' standard of living.

The share of people employed in Québec reaches a peak

The good labour market performance raised employment rates in Québec. In 2017, employment rates rose to record highs for each age cohort under 59, with the exception of the 15-24 age group.

- In 2017, the employment rates for cohorts between the ages of 15 and 59 were higher in Québec than in Canada. An increase, albeit limited, in the employment rates for these age groups is still possible.

Despite the good performance, the employment rate of the population aged 15 years and over was lower in Québec than in Canada in 2017. This is attributable to the fact that Québec has an older population than Canada.

- The employment rate drops quickly among the older age cohorts.
- Furthermore, employment rate gaps still exist with Canada and Ontario in respect of the population aged 60 and over. There is considerable room for improvement in these gaps.

Employment rate by age group, 2017
(per cent)

	Québec	Canada	Ontario
15-19 years	45.5	41.6	38.6
20-24 years	71.4	68.9	65.4
25-29 years	82.2	79.8	77.9
30-34 years	84.6	83.0	82.5
35-39 years	85.5	83.2	81.8
40-44 years	86.0	84.0	82.4
45-49 years	85.2	83.2	82.7
50-54 years	83.0	80.8	80.7
55-59 years	72.2	71.7	71.6
60-64 years	45.7	51.4	53.3
65-69 years	20.1	25.8	27.0
70+ years	5.5	7.4	8.1
15+ years	**60.9**	**61.6**	**61.0**
15-64 years	**74.8**	**73.4**	**72.3**

Source: Statistics Canada.

1.2 Household consumption expenditure will remain a driver of growth

Household consumption expenditure rose by 3.2% in real terms in 2017, contributing substantially to the increase in economic activity. Consumption will continue to increase in the coming years, but at a more moderate pace. The growth rate is expected to be 2.4% in 2018 and 2.0% in 2019, compared to 2.2% and 2.0% in Canada in 2018 and 2019, respectively.

— The low unemployment rate and anticipated decrease in the potential labour pool will continue to put pressure on wages and salaries in Québec, which are expected to rise by 4.9% in 2018 and 3.2% in 2019. The increases will support household spending.

  — Thus, Québec is on track to record higher growth in wages and salaries than Canada for the third year in a row in 2018.

    – In Québec, wages and salaries advanced by 2.2% in 2016 and 4.8% in 2017. They should advance by 4.9% in 2018.

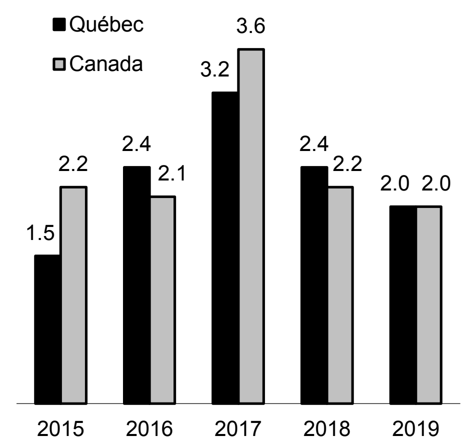
    – By comparison, in 2016 wages and salaries contracted by 0.5% in Canada. They subsequently rose by 4.5% in 2017 and are expected to increase further by 4.4% in 2018.

— Furthermore, households will continue to adjust to higher borrowing costs and inflation, which will limit their consumption.

CHART C.4

Household consumption expenditure

(percentage change, in real terms)

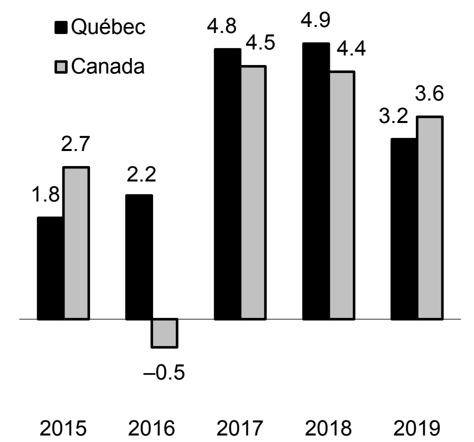


Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

CHART C.5

Wages and salaries

(percentage change, in nominal terms)



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

1.3 High level of activity in the residential sector

The residential sector is seeing a high level of activity, driven by the favourable economic conditions. Until now, the Québec real estate market differed from the rest of Canada, being only slightly affected by the tighter mortgage rules that came into effect on January 1, 2018, in particular due to the lower price of homes in Québec.

— Since January 2018, housing starts (+1.7%) and home resale transactions (+5.0%) have continued their upward trend in Québec. In Canada, housing starts (−2.3%) and home resale transactions (−10.3%) have dropped since the start of the year.

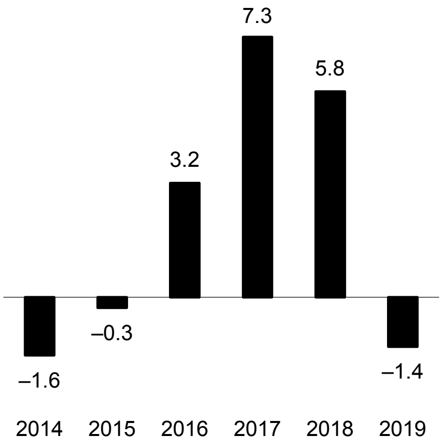
While remaining robust, residential activity is expected to cool starting in 2019 due to the combined effect of cumulative interest rate hikes and tighter mortgage rules. As a result, residential investment is projected to rise by 5.8% in real terms in 2018 and then decline by 1.4% in 2019. More specifically:

— in 2018, housing starts are expected to increase by 3.0% to 47 900 units, the highest level since 2011. In 2019, housing starts are forecast to decline by 9.0%, while remaining above 40 000 units for the third year in a row;

— home renovation spending is projected to rise in real terms by 1.9% in 2018 and 3.2% in 2019.

CHART C.6

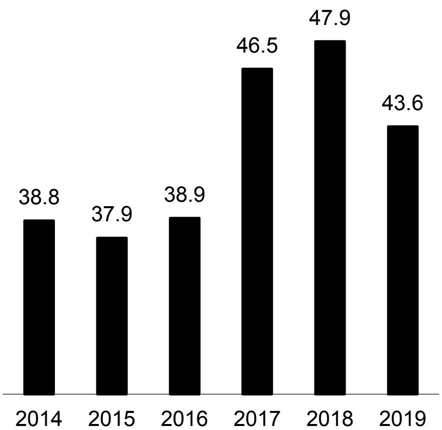
Residential investment in Québec
(percentage change, in real terms)



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

CHART C.7

Housing starts in Québec
(thousands of units)



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

Real estate transactions by foreign buyers in Québec as a whole and on the island of Montréal

According to Québec land register data compiled by JLR Solutions Foncières, on average between 2006 and 2018, foreign buyers[1] accounted for 0.7% of all home purchases in Québec, or roughly 840 transactions per year. On the island of Montréal,[2] foreign buyers accounted for 1.7% all home purchases, or slightly more than 400 transactions, over the same period.

The share of foreign buyer transactions varied between 2006 and 2017, but remained small.

– Foreign buyers' share of all home purchases in Québec as a whole fell from 0.8% in 2006 to 0.4% in 2010 and then rose to 1.0% in 2017.

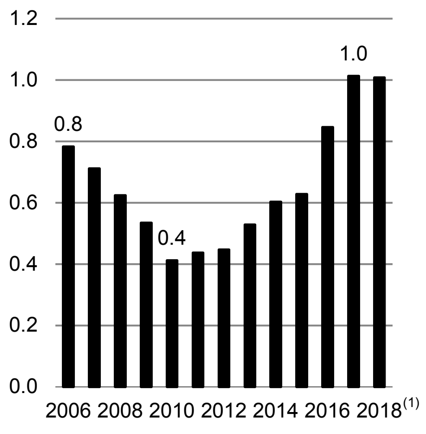
– On the island of Montréal, foreign buyers' share of all home purchases declined from 1.7% in 2006 to 0.9% in 2010 and 2.9% in 2017.

Thus, for both Québec as a whole and just the island of Montréal, real estate transactions were mostly by Québec buyers.

– In 2017, 94.4% of all real estate transactions on the island of Montréal were by Québec buyers.

Real estate transactions by foreign buyers in Québec

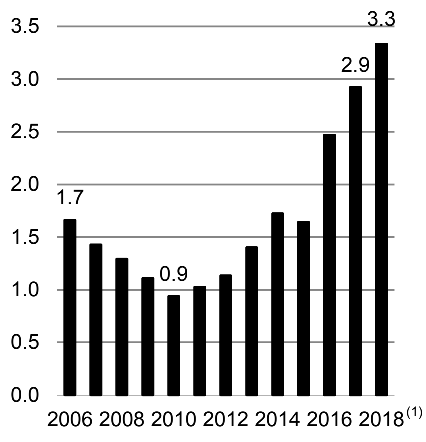
(percentage of total transactions)



(1) Cumulative for the first ten months available in 2018.
Sources: JLR Solutions Foncières and Ministère des Finances du Québec.

Real estate transactions by foreign buyers on the island of Montréal

(percentage of total transactions on the island of Montréal)



(1) Cumulative for the first ten months available in 2018.
Sources: JLR Solutions Foncières and Ministère des Finances du Québec.

1 "Foreign buyers" means buyers who, at the time of the real estate transaction, declared an address of residence outside Canada. This information, which appears in the notarial act, does not indicate the status of the buyer in relation to the Immigration and Refugee Protection Act.

2 Montréal administrative region.

Real estate transactions by foreign buyers in Québec as a whole and on the island of Montréal (cont.)

Recent statistics show a growing interest in the Montréal real estate market since the start of 2018, with foreign buyers' share of home purchases doubling in the last four years, from 1.6% in 2015 to 3.3% on average in 2018.

Foreign buyers are drawn to the island of Montréal primarily for:

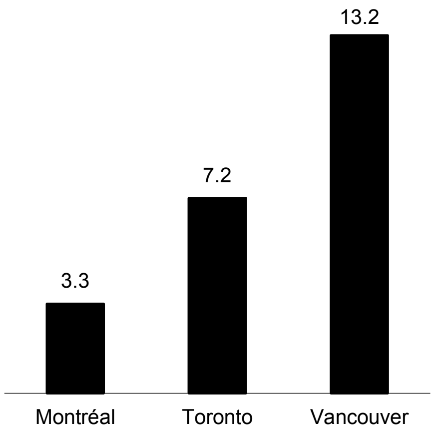
- the favourable economic conditions in Québec;
- the lower price of homes in Montréal than in Toronto and Vancouver;
- the quality of life and the large number of universities in Montréal.

Despite the growing interest, the share of foreign buyers in all real estate transactions on the island of Montréal remains significantly lower than in Toronto and Vancouver.

Montréal's strong residential market is attributable to the increase in transactions by Québec homebuyers.

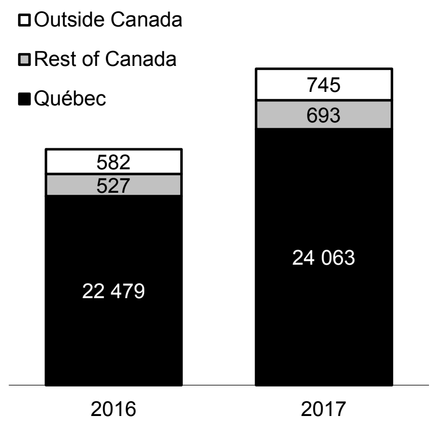
- The number of property transactions by Québec residents rose from 22 479 in 2016 to 24 063 in 2017, an increase of around 1 580 transactions.

Real estate transactions involving foreign buyers on the island of Montréal and in Toronto and Vancouver[(1)]
(percentage of all real estate transactions)



(1) The reference period is January to October 2018 for Montréal, April 24 to May 26, 2017 for Toronto, and June and July 2016 for Vancouver.
Sources: JLR Solutions Foncières, Ontario Ministry of Finance, British Columbia Ministry of Finance and Ministère des Finances du Québec.

Transactions on the island of Montréal, by buyers' place of residence
(number of real estate transactions)



Sources: JLR Solutions Foncières and Ministère des Finances du Québec.

1.4 Growth in non-residential business investment to continue in 2018

Following a 2.5% increase in 2017, growth in non-residential business investment, in real terms, is expected to continue, rising by 6.0% in 2018 and then moderating to 4.7% in 2019. All investment components will see an increase in the coming years.

- Investment in machinery and equipment, the main determinant of productivity, will be especially strong again in 2018, growing by 9.4%. In 2019, the growth rate should stand at 5.9%.
- Investment in non-residential structures is expected to increase by 2.4% in 2018 and 3.7% in 2019, while investments in intellectual property products will see 7.7% and 5.0% growth, respectively.

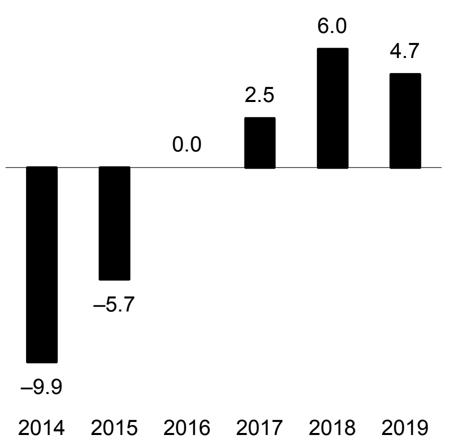
A number of factors will contribute to investment growth in Québec.

- Strong demand for Québec goods and services should encourage businesses to expand their production capacity. In addition, the agreement reached on the new United States–Mexico–Canada Agreement has eased uncertainties and their dampening effects on investment.
- The low unemployment rate should also prompt businesses to invest to improve their productivity.

However, despite the projected growth, investments per job will remain lower in Québec that in Ontario and Canada.

CHART C.8

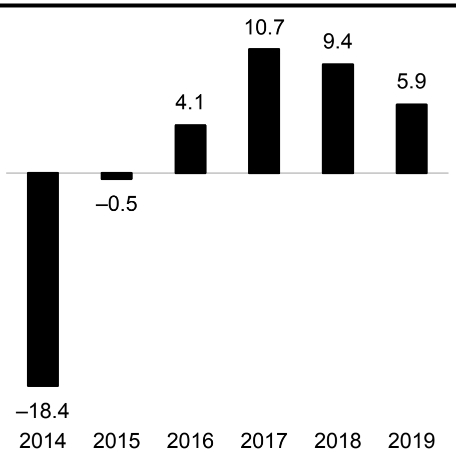
Total non-residential business investment in Québec
(percentage change, in real terms)



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

CHART C.9

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



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

❑ Government investments to increase in the coming years

The public administration sector, in particular the Québec government, municipalities and the federal government, will raise investments in Québec to a high level in the coming years.

— In 2017, the value of investments by all levels of government reached $16.6 billion.

— It is expected to rise to $17.5 billion in 2018 and $18.3 billion in 2019.

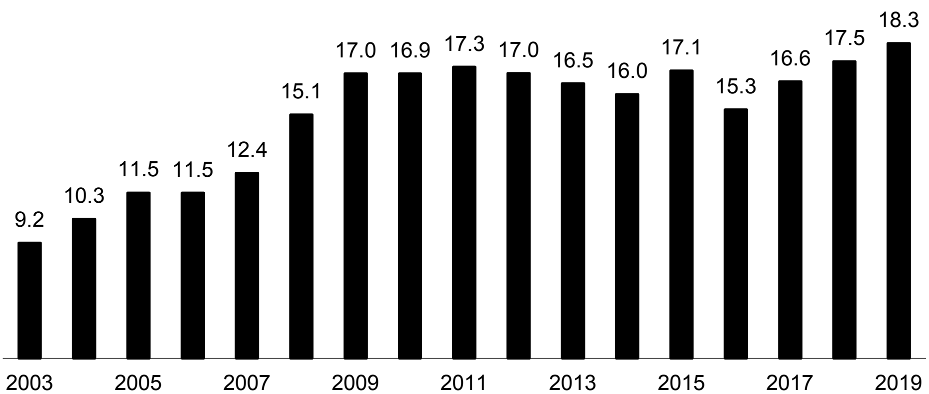
Government investments are an important economic engine, making it possible to upgrade public infrastructure for the benefit of citizens and businesses.

More specifically, the Québec government will continue to make substantial investments under the Québec Infrastructure Plan (QIP), totaling more than $100 billion over ten years, or roughly $10 billion a year from 2018-2019 to 2027-2028.

— In 2018-2019, the QIP will account for nearly 60% of total public investment in Québec and for 2.3% of Québec's GDP.

CHART C.10

Government investments[1] in Québec
(billions of dollars, in nominal terms)



(1) Includes investments by the Québec government, the federal government, local public administrations and Aboriginal public administrations.
Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

1.5 Exports will benefit from favourable global conditions

Québec exports are projected to grow by 2.3% in 2018 and 2019, after increasing by 1.2% in 2017. The growth is mainly attributable to:

— continued economic growth in Canada and the United States, Québec's largest trading partners;

  — In particular, the agreement in principle on the United States–Mexico–Canada Agreement reached in 2018 will reduce uncertainties over the investment and export growth outlooks for Québec.

— the favourable Canadian dollar exchange rate;

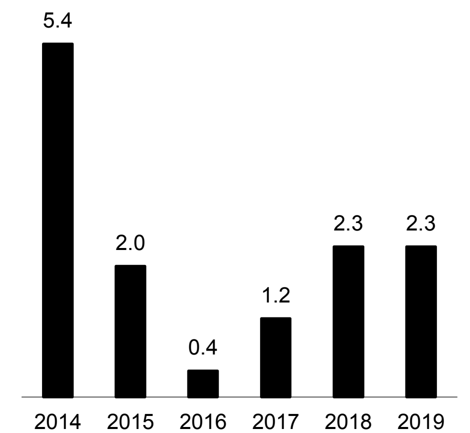
— the new trade agreements, in particular the Canada-European Union Comprehensive Economic and Trade Agreement (CETA) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which will remove some barriers to exports to a number of countries.

However, the rise in global protectionism and the adoption of certain restrictive trade measures will continue to present risks for Québec exports.

Slower growth is expected in imports owing to moderation in domestic demand. Import growth is forecast to decelerate from 3.9% in 2017 to 3.2% in 2018 and 1.4% in 2019 in real terms.

CHART C.11

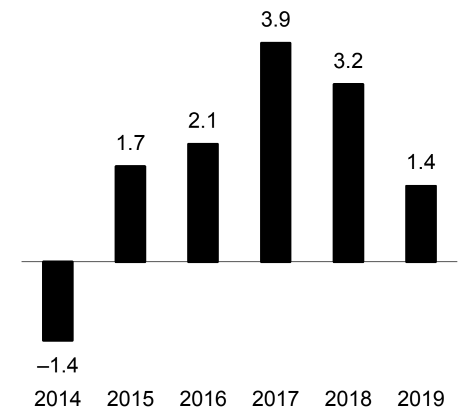
Québec's total exports
(percentage change, in real terms)



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

CHART C.12

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



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

1.6 Nominal GDP growth is decelerating

Real GDP growth combined with a rise in the GDP deflator should increase nominal GDP by 4.4% in 2018 and 3.5% in 2019. The nominal GDP growth rate in 2017 was 5.0%.

Note that the GDP deflator, the index that measures changes in GDP prices, is determined by two factors:

- domestic demand prices of which the consumer price index (CPI) is an important indicator;
- the ratio between export prices and import prices, that is, the terms of trade.

The GDP deflator will increase at a slower pace in 2018 than in 2017 due to less favourable terms of trade, as higher crude oil prices will result in a faster increase in import prices compared to 2017.

- Thus, after increasing by 2.1% in 2017, the GDP deflator will rise by 1.8% in 2018 and 1.7% in 2019.
- The CPI will trend in the opposite direction, rising from an increase of 1.0% in 2017 to a 2.0% increase in 2018 and 2019.
  - An increase in oil prices, which is figured into the price of gas at the pump, raises the consumer price index.

TABLE C.2

Nominal GDP growth in Québec
(percentage change)

	2014	2015	2016	2017	2018	2019
Real GDP	1.6	0.9	1.4	2.8	2.5	1.8
Prices – GDP deflator	1.4	2.0	1.4	2.1	1.8	1.7
NOMINAL GDP	**3.0**	**2.9**	**2.8**	**5.0**	**4.4**	**3.5**

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

❑ Upturn in consumer price growth

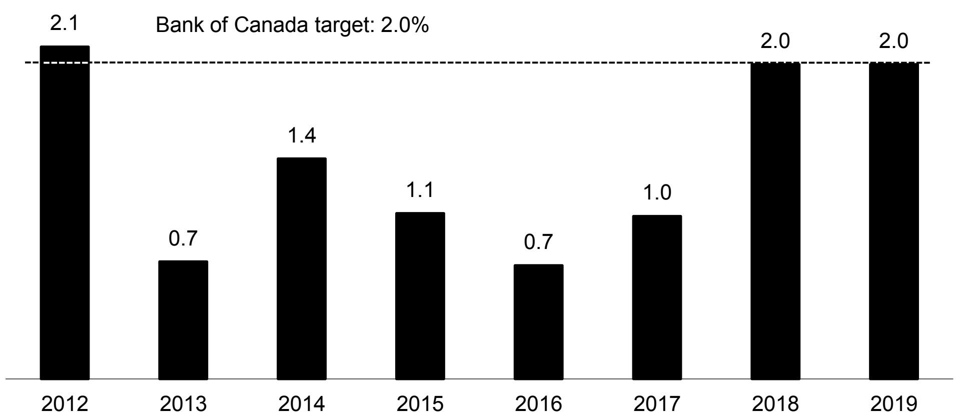
Québec has seen low inflation over the last few years. Between 2013 and 2017, total consumer price index (CPI) inflation in Québec was below the Bank of Canada's target rate of 2.0%.

Total CPI growth in Québec will firm up in the coming years and will stand at 2.0% in 2018 and 2019.

- The shrinking pool of available workers will put upward pressure on wages.
  - Wage growth generally leads to faster growth in household consumption expenditure, which pushes prices up, particularly in a context of full utilization of production capacity.
- An inflation rate close to 2.0% is consistent with an economy that is growing near potential.

CHART C.13

Total consumer price index in Québec
(percentage change)



Sources: Statistics Canada and Ministère des Finances du Québec.

1.7 Comparison with private sector forecasts

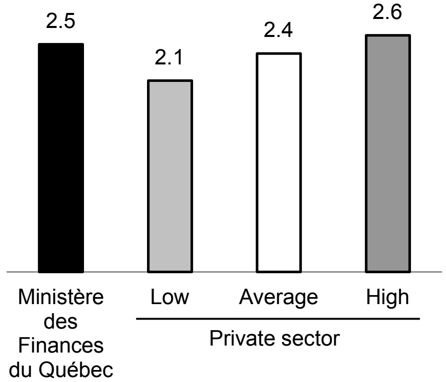
The Ministère des Finances du Québec's economic growth outlook for 2018 and 2019 is comparable to the average private sector forecast.

— For 2018, the real GDP growth forecast is 2.5%, which is slightly higher than the average private sector forecast of 2.4% growth.

— In 2019, real GDP is expected to expand by 1.8%, which is slightly below the average private sector forecast of 1.9% growth.

CHART C.14

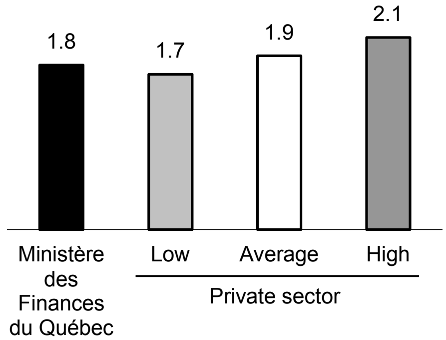
Economic growth in Québec, 2018
(real GDP, percentage change)



Source: Ministère des Finances du Québec summary as of November 13, 2018, which includes the forecasts of 11 private sector institutions.

CHART C.15

Economic growth in Québec, 2019
(real GDP, percentage change)



Source: Ministère des Finances du Québec summary as of November 13, 2018, which includes the forecasts of 11 private sector institutions.

TABLE C.3

Economic outlook for Québec

(percentage change, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022
Output						
Real gross domestic product	2.8	2.5	1.8	1.5	1.3	1.3
– March 2018	*3.0*	*2.1*	*1.7*	*1.5*	*1.3*	*1.3*
Nominal gross domestic product	5.0	4.4	3.5	3.2	3.0	3.0
– March 2018	*4.4*	*3.5*	*3.3*	*3.2*	*3.0*	*3.0*
Components of GDP (in real terms)						
Household consumption	3.2	2.4	2.0	1.5	1.4	1.3
– March 2018	*3.3*	*2.7*	*1.8*	*1.5*	*1.4*	*1.3*
Government spending and investment	2.8	3.4	1.1	0.8	0.7	0.8
– March 2018	*1.7*	*1.7*	*1.1*	*0.6*	*0.2*	*0.6*
Residential investment	7.3	5.8	–1.4	–0.8	0.1	0.2
– March 2018	*7.5*	*3.7*	*–2.2*	*0.3*	*0.1*	*0.2*
Non-residential business investment	2.5	6.0	4.7	2.8	2.2	2.1
– March 2018	*5.0*	*5.1*	*3.1*	*2.4*	*2.2*	*2.1*
Exports	1.2	2.3	2.3	2.4	2.2	2.0
– March 2018	*1.7*	*2.7*	*2.4*	*2.2*	*2.1*	*1.9*
Imports	3.9	3.2	1.4	1.8	1.7	1.6
– March 2018	*3.7*	*2.3*	*1.8*	*1.7*	*1.6*	*1.6*
Labour market						
Job creation (thousands)	90.2	43.7	40.2	25.1	20.7	20.0
– March 2018	*90.2*	*60.6*	*30.1*	*23.6*	*20.2*	*20.0*
Unemployment rate (%)	6.1	5.5	5.4	5.3	5.3	5.2
– March 2018	*6.1*	*5.4*	*5.3*	*5.3*	*5.2*	*5.1*
Other economic indicators (in nominal terms)						
Household consumption excluding food and rent	4.4	4.6	3.5	2.9	2.7	2.8
– March 2018	*4.8*	*4.5*	*3.3*	*3.0*	*2.8*	*2.8*
Wages and salaries	4.8	4.9	3.2	3.1	3.0	3.0
– March 2018	*4.3*	*4.1*	*3.2*	*3.0*	*3.0*	*3.0*
Household income	4.3	4.6	3.5	3.3	3.1	3.1
– March 2018	*3.8*	*3.7*	*3.3*	*3.2*	*3.1*	*3.2*
Net operating surplus of corporations	11.7	4.8	4.7	4.3	3.5	3.5
– March 2018	*11.9*	*4.9*	*4.8*	*4.3*	*3.5*	*3.5*

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

1.8 Five-year economic outlook for 2018-2022

The Ministère des Finances du Québec's five-year forecasts are similar to the average private sector forecasts for real GDP growth, price inflation and nominal GDP growth.

- For real GDP, the Ministère des Finances du Québec forecasts an average growth rate of 1.7% from 2018 to 2022, which is similar to the average private sector growth forecast.
- For nominal GDP, the Ministère des Finances du Québec forecasts an average growth rate of 3.4% from 2018 to 2022, which is slightly below the average private sector growth forecast of 3.6%.

TABLE C.4

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

	2017	2018	2019	2020	2021	2022	Average 2018-2022
Real GDP							
Ministère des Finances du Québec	2.8	2.5	1.8	1.5	1.3	1.3	1.7
Private sector average	—	2.4	1.9	1.5	1.4	1.4	1.7
Prices – GDP deflator							
Ministère des Finances du Québec	2.2	1.8	1.7	1.7	1.7	1.7	1.7
Private sector average	—	1.8	2.0	1.9	1.8	1.8	1.9
Nominal GDP							
Ministère des Finances du Québec	5.0	4.4	3.5	3.2	3.0	3.0	3.4
Private sector average	—	4.2	3.9	3.5	3.2	3.3	3.6

Note: Totals and averages may not add due to rounding.
Source: Ministère des Finances du Québec summary as of November 13, 2018, which includes the forecasts of 11 private sector institutions.

2. THE SITUATION OF QUÉBEC'S MAIN ECONOMIC PARTNERS

❑ Québec's economic activity is influenced by the situation of its main trading partners

In 2017, over 45% of Québec's nominal GDP was derived from products and services exports around the world. The same year, 79% of Québec's total goods exports went to its main trading partners, namely, Canada and the United States. Trends in Québec exports and economic activity are thus largely influenced by the economic situation of the province's main trading partners.

— In **Canada**, the 3.0% jump in real GDP in 2017 should be followed by 2.1% growth in 2018 and 1.8% growth in 2019.

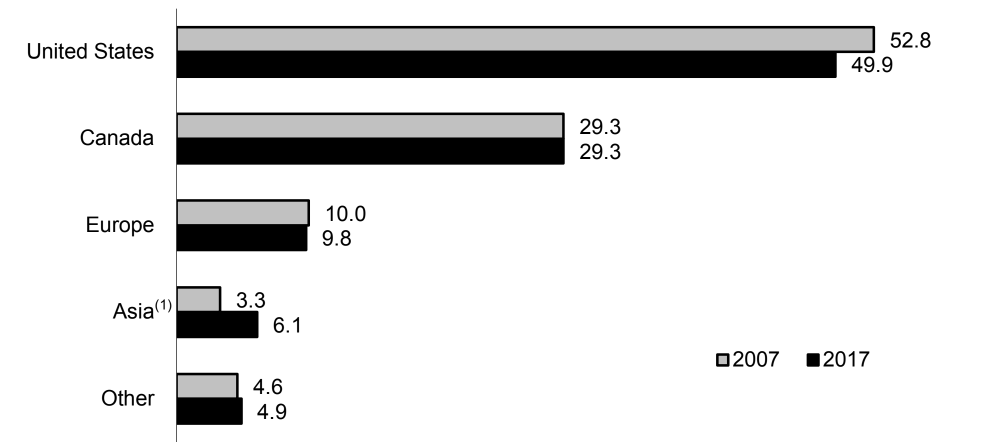
— In the **United States**, real GDP growth should come in at 2.8% in 2018 and 2.5% in 2019, after seeing an increase of 2.2% in 2017.

In addition, Québec will benefit from the robust growth in the global economy.

— Economic activity will also be supported by the entry into force of new trade agreements, including the Canada-European Union Comprehensive Economic and Trade Agreement and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, which will open doors to new business opportunities for Québec exporters. The agreement reached on the new United States–Mexico–Canada Agreement will ease uncertainties for Canadian exporters.

CHART C.16

Québec goods exports, by destination
(percentage of total goods exports, in nominal terms)



(1) Asia excluding the Middle East.
Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

2.1 The economic situation in Canada

❑ Real GDP returns to a more moderate pace of growth

Canadian economic growth accelerated sharply in 2017, with real GDP expanding by 3.0%. The upturn occurred after two years of weak growth, when Canada's economy was negatively affected by the drop in global oil prices.

Real GDP is expected to return to a more moderate pace of growth in the coming years, advancing by 2.1% in 2018 and 1.8% in 2019.

— Consumer spending will continue to support economic activity but see less robust growth.

— The residential sector will see a slowdown due to the stricter housing-market regulations that took effect on January 1, 2018 and to the increase in mortgage rates.

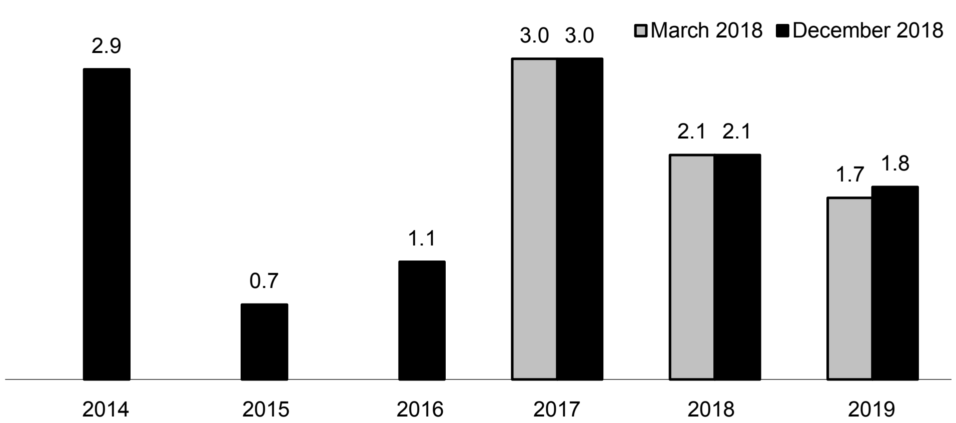
— Business investment will continue climbing, buoyed by higher spending in the non-energy sector.

— Public spending will remain high with the federal government continuing to fund infrastructure projects under the Investing in Canada Plan.

— Furthermore, exports are projected to continue their upward trend due to the strong demand from non-Canadian businesses and households.

CHART C.17

Economic growth in Canada
(real GDP, percentage change)



Sources: Statistics Canada and Ministère des Finances du Québec.

The following table presents the main elements of Canada's economic outlook.

TABLE C.5

Economic outlook for Canada
(percentage change, unless otherwise indicated)

	2017	2018	2019
Output			
Real gross domestic product	3.0	2.1	1.8
Components of GDP (in real terms)			
Household consumption	3.6	2.2	2.0
Government spending and investment	2.7	2.6	1.2
Residential investment	2.4	−1.0	−2.5
Non-residential business investment	2.2	6.9	4.5
Exports	1.1	2.8	2.6
Imports	4.2	3.5	2.2
Labour market			
Job creation (thousands)	336.5	224.4	178.1
Unemployment rate (%)	6.3	5.9	5.7
Other economic indicators			
Housing starts (thousands of units)	219.8	214.1	196.6
Consumer price index	1.6	2.5	2.2

Sources: Statistics Canada, Canada Mortgage and Housing Corporation and Ministère des Finances du Québec.

❑ Household consumption is expected to cool

Household consumption expenditure saw strong growth in 2017. It rose by 3.6% in real terms, driven by large employment gains.

Household consumption is expected to continue driving economic growth moving forward. However, it is forecast to rise at more moderate rates of 2.2% in 2018 and 2.0% in 2019.

— The deceleration is essentially due to slower job creation. Whereas 336 500 jobs were created in 2017 (+1.9%), the Canadian economy is expected to add 224 400 jobs in 2018 (+1.2%) and 178 100 jobs in 2019 (+1.0%).

❑ Canada's residential sector is undergoing a period of adjustment

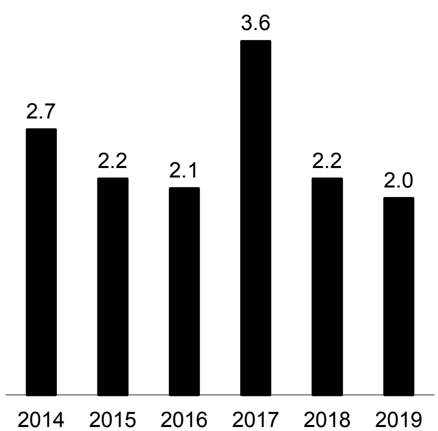
Canada's residential sector is undergoing a period of adjustment as a result of the stricter mortgage rules that took effect in January 2018. One of the goals of the new rules is to cool home resale activity, particularly in Ontario and British Columbia. Moreover, the anticipated rise in interest rates and the slowdown in job creation will continue tempering housing demand.

Following the very robust activity in 2017, the residential market is expected to start contracting in the coming years.

— A gradual downturn in housing starts is forecast, with 214 100 new units in 2018 and 196 600 units in 2019.

CHART C.18

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

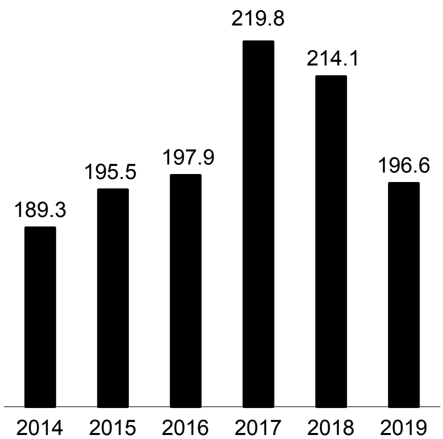


Sources: Statistics Canada and Ministère des Finances du Québec.

CHART C.19

Housing starts in Canada

(thousands of units)



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

❑ Continued recovery in investment

After increasing by 2.2% in 2017, in real terms, non-residential business investment in Canada is expected to continue its upward trend, climbing by 6.9% in 2018 and 4.5% in 2019. The growth will be driven primarily by spending in non-energy sector.

— Growth in non-residential investment in the non-energy sector will be fuelled by strong domestic and foreign demand, which exerts pressure on production capacity. The industrial capacity utilization rate is close to the peak levels seen prior to the 2008-2009 recession.

— However, energy investment continues to moderate owing to, in particular, the weak price of Canadian oil and constraints related to transportation capacities.

❑ Continued growth in exports

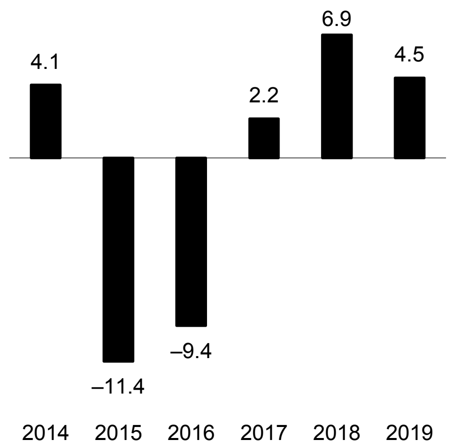
Exports should stay on a growth path, increasing by 2.8% in 2018 and 2.6% in 2019 in real terms.

— The dynamic U.S. economy as well as the favourable global economic climate will boost demand for Canadian products. Moreover, the Canadian dollar exchange rate should continue to be good for exports.

— In addition, the agreement reached on the United States–Mexico–Canada Agreement is easing uncertainty for Canadian exporters. However, U.S. tariffs on Canadian steel and aluminum are still in place.

CHART C.20

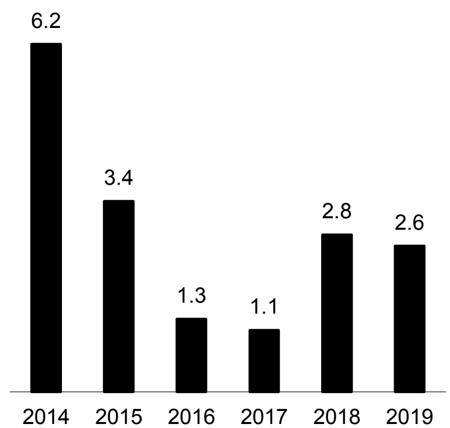
Non-residential business investment in Canada
(percentage change, in real terms)



Sources: Statistics Canada and Ministère des Finances du Québec.

CHART C.21

Canadian exports
(percentage change, in real terms)



Sources: Statistics Canada and Ministère des Finances du Québec.

2.2 The economic situation in the United States

❑ Robust economic growth in the United States

After standing at 2.2% in 2017, economic growth is expected to accelerate in the United States, to 2.8% in 2018 and 2.5% in 2019.

The U.S. economy will be supported primarily by stronger domestic demand and benefit from favourable economic fundamentals:

— the unemployment rate is likely to continue decreasing and wage growth should accelerate;

— business investment will continue its upward trend;

— spending by the U.S. federal government will increase substantially under the budget agreement signed in February 2018.

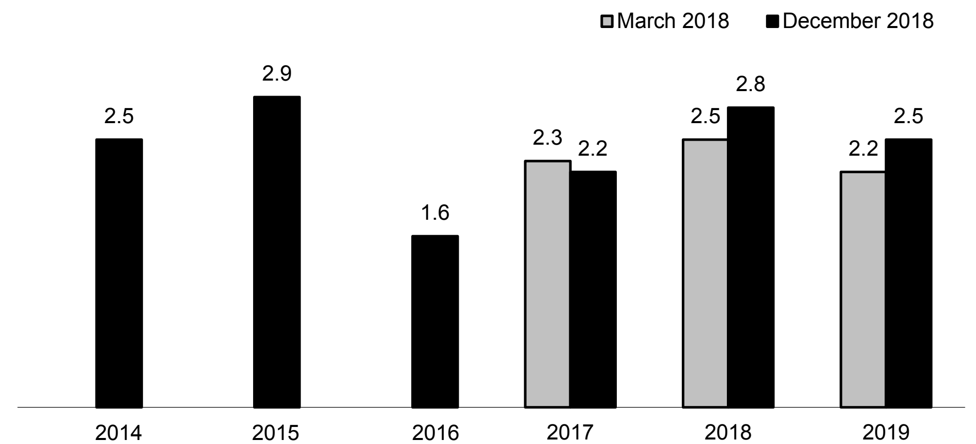
As well, the tax reform that took effect in early 2018 has optimism among households and businesses at an all-time high.

However, trade tensions and the strong U.S. dollar should curtail export growth in the coming quarters.

Furthermore, interest rate hikes by the U.S. Federal Reserve should moderate growth in sectors of the U.S. economy that are more sensitive to interest rate fluctuations, particularly the residential sector.

CHART C.22

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



Sources: IHS Markit and Ministère des Finances du Québec.

Sharp increase in federal spending in 2018 and 2019

U.S. fiscal policy should stimulate economic activity

At the start of 2018, the U.S. federal government adopted major budget and tax expenditure measures that are expected to stimulate economic growth in 2018 and 2019. More specifically, the U.S. government:

– passed a tax reform, which took effect in January 2018, aimed at lowering personal and corporate income tax rates;

– passed in February 2018, a spending plan that would raise the spending caps by a total of nearly US$300 billion for 2018 and 2019.

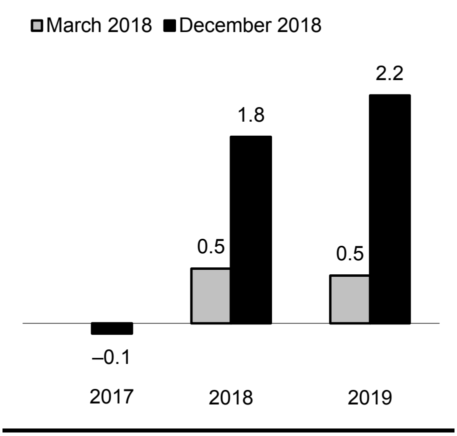
The Congressional Budget Office, a federal agency that provides non-partisan analysis to Congress, projects that the budget and tax measures represent an estimated US$271 billion and US$459 billion in spending in 2018 and 2019, respectively, an amount equivalent to 1.3% and 2.1% of U.S. GDP.

As a result, after contracting by 0.1% in 2017, spending by all levels of government in the United States is projected to increase by 1.8% in 2018 and 2.2% in 2019, making a significant contribution to economic growth.

– In particular, federal spending is forecast to grow by 3.7% in 2018 and 4.5% in 2019.

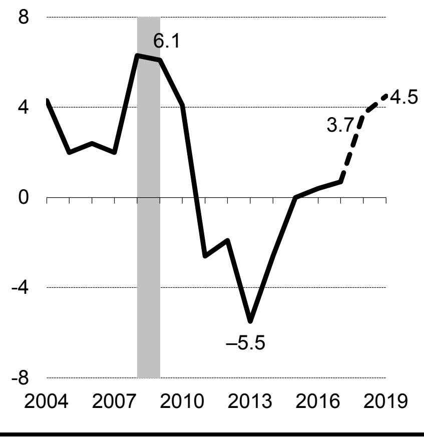
– This would be the biggest growth in U.S. federal government spending since the sharp increase during the 2008-2009 recession.

Spending by all levels of government in the United States
(percentage change, in real terms)



Sources: IHS Markit and Ministère des Finances du Québec.

U.S. federal government spending
(percentage change, in real terms)



Note: The shaded area represents the 2008-2009 recession.
Sources: IHS Markit and Ministère des Finances du Québec.

The following table shows the detailed economic outlook for the United States.

TABLE C.6

Economic outlook for the United States
(percentage change, unless otherwise indicated)

	2017	2018	2019
Output			
Real gross domestic product	2.2	2.8	2.5
Components of GDP (in real terms)			
Household consumption	2.5	2.5	2.5
Non-residential business investment	5.3	7.0	4.1
Residential investment	3.3	0.9	2.2
Government spending	−0.1	1.8	2.2
Exports	3.0	4.5	3.3
Imports	4.6	4.5	4.8
Labour market			
Job creation (millions)	2.3	2.3	2.1
Unemployment rate (%)	4.4	3.9	3.6
Average hourly wage – private sector	2.5	3.0	3.3
Other economic indicators			
Housing starts (millions of units)	1.2	1.3	1.3
Consumer price index	2.1	2.5	2.2

Sources: IHS Markit and Ministère des Finances du Québec.

❑ Consumption buoyed by the strong labour market

Growth in household consumption expenditure should hold steady at 2.5% in both 2018 and 2019, driven primarily by:

— the strong labour market, with an expected acceleration in wage growth and a forecast unemployment rate of 3.6% in 2019;

— consumer confidence, which is at an all-time high.

Households are still enjoying a good financial situation. Growth in real personal disposable income is gaining momentum. In addition, the share of income going to financial obligations, in particular mortgages, remains at a historically low level.

❑ Moderation in residential investment

After increasing by 3.3% in 2017, residential investment is expected to moderate, with projected increases of 0.9% in 2018 and 2.2% in 2019.

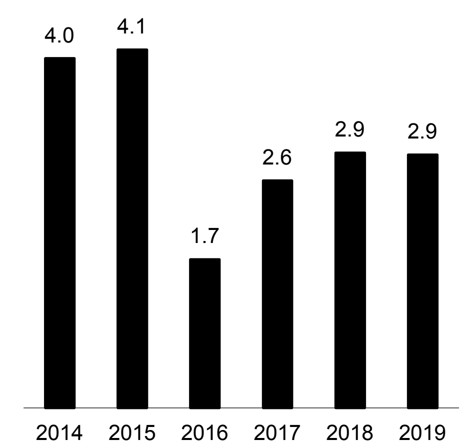
Expansion of the U.S. residential sector will be curtailed by a number of factors, in particular:

— a small resale housing stock and a labour shortage in the construction sector, which put upward pressure on property prices;

— higher mortgage rates, making homes less affordable for new buyers.

CHART C.23

Personal disposable income in the United States
(percentage change, in real terms)

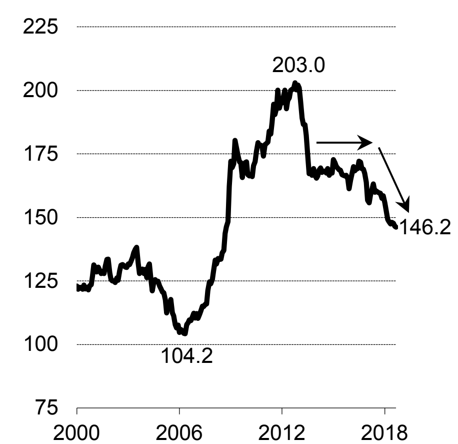


Sources: IHS Markit and Ministère des Finances du Québec.

CHART C.24

U.S. Housing Affordability Index[(1)]

(points)



(1) A decrease in the index value means housing is less affordable.
Source: IHS Markit.

❑ An increase in business investment

After growing by 5.3% in 2017, non-residential business investment is expected to rise by 7.0% in 2018 and 4.1% in 2019, fuelled by:

— the tax relief measures under the tax reform, such as tax cuts and accelerated depreciation of capital spending;

— the increase oil prices at the start of 2018, which spurred energy investment.

❑ Trade tensions will put pressure on the external sector

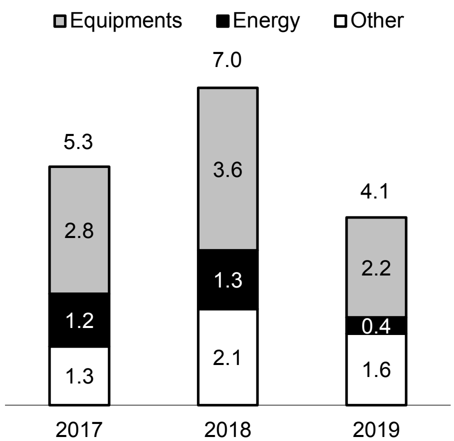
The external sector is expected to make a negative contribution to U.S. economic growth in 2019, with exports growing at a slower pace than imports.

— Export growth is forecast to stand at 4.5% in 2018 and 3.3% in 2019. It will be dampened by the tariffs imposed by the United States' trading partners, in particular China, as well as the strong U.S. dollar.

— Imports, for their part, are projected to expand by 4.5% in 2018 and 4.8% in 2019, spurred by robust domestic demand and already high production capacity utilization rate in the United States.

CHART C.25

Non-residential business investment in the United States
(percentage change and contribution to growth in percentage points, in real terms)

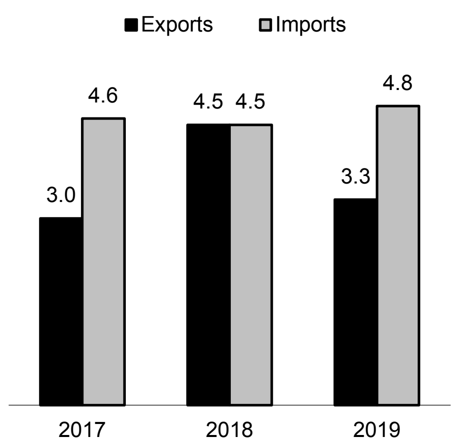


Note: Figures at the top indicate growth in non-residential business investment. Totals may not add due to rounding.
Sources: IHS Markit and Ministère des Finances du Québec.

CHART C.26

U.S. exports and imports

(percentage change, in real terms)



Sources: IHS Markit and Ministère des Finances du Québec.

3. DEVELOPMENTS ON FINANCIAL MARKETS

❑ The global economy's good performance is prompting interest rate hikes

The continued economic growth globally in recent months, especially in North America where growth was particularly robust, spurred interest rate hikes.

— The U.S. Federal Reserve and the Bank of Canada continued raising their key interest rates and more hikes are expected in the coming quarters.

Against this backdrop, bond yields have increased worldwide, reaching levels not seen since 2011 in the United States.

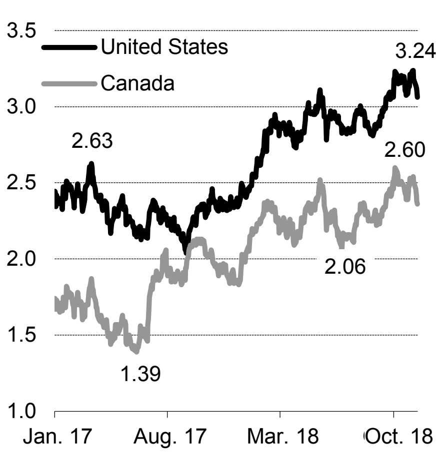
— This higher bond yields and the concerns about world trade fuelled a resurgence of volatility in stock markets in recent months.

Furthermore, global oil prices rose at the beginning of the year, primarily due to concerns about the global oil supply. The price of Canadian oil remained weak, hampered by transportation capacity constraints.

The Canadian dollar has been relatively stable in recent months, having not fully benefited from the increase in global oil prices. In addition, the U.S. dollar's broad-based appreciation had a negative impact on the Canadian dollar.

CHART C.27

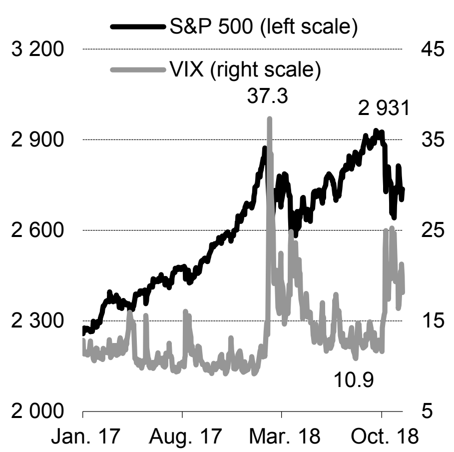
Yield on 10-year federal government bonds
(per cent)



Note: Data are updated to November 16, 2018.
Sources: Statistics Canada and Bloomberg.

CHART C.28

S&P 500 Index and Volatility Index (VIX)
(S&P 500 level and VIX in per cent)



Note: Data are updated to November 16, 2018.
Source: Bloomberg.

❑ Ongoing monetary tightening in North America

■ The U.S. Federal Reserve will continue gradually hiking its key interest rate

The U.S. Federal Reserve has raised its key interest rate by 25 basis points three times since the beginning of 2018. The rate has been in the range of 2.00%-2.25% since September 2018.

In addition, the U.S. economy is growing at full potential. With the labour market still robust, the unemployment rate fell to 3.7% in October, a nearly 50-year low.

— Continued tightening of labour market conditions should lead to an acceleration in wages and inflation.

Against this backdrop, the Federal Reserve is expected to raise its key interest rate by another 25 basis points in December, followed by three more hikes in 2019.

■ The Bank of Canada will continue raising its policy interest rate

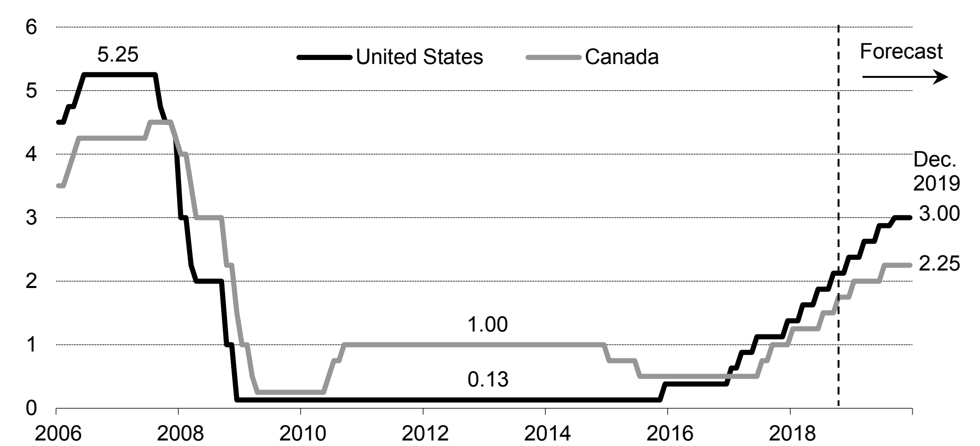
In October 2018, the Bank of Canada raised its benchmark interest rate for the third time since the beginning of 2018, bringing it to 1.75%.

— Canada's economy is growing near potential, whereas core inflation is close to the 2% target. In addition, the agreement on the United States–Mexico–Canada Agreement removed a large source of uncertainty.

As a result, the Bank of Canada is expected to continue raising its policy interest rate, with two more hikes foreseen in 2019.

CHART C.29

Key interest rates in the United States(1) and Canada
(federal fund target rate and target for the overnight rate, per cent)



(1) Mid-point of the target range.
Sources: Statistics Canada, Bloomberg and Ministère des Finances du Québec.

❑ Bond yields will continue to rise gradually

Bond yields have increased in most of the major advanced economies in recent months. In the United States, 10-year Treasury yields hit a high of over 3.20% in November, a yield not seen since 2011.

— The increase was fuelled by the robust U.S. economy, which buoyed financial market expectations regarding a faster-than-expected monetary tightening.

Canadian bond yields have increased in tandem with U.S. yields. They too have been buoyed by market expectations related to continued hikes in the Bank of Canada's policy interest rate.

Bond yields are forecast to continue rising gradually in North America in the coming quarters.

— Continued economic growth and the anticipated acceleration of inflation will prompt the U.S. Federal Reserve and the Bank of Canada to tighten their respective monetary policies.

Furthermore, the start of monetary policy normalization in the euro area will support bond yields around the world. The European Central Bank will end its asset purchase program in December 2018 and is expected to start raising its key interest rate in 2019.

TABLE C.7

Canadian financial markets
(average annual rate in per cent, unless otherwise indicated, end-of-the-year data in brackets)

	2017	2018	2019	2020
Target for the overnight rate	0.7 (1.0)	1.4 (1.8)	2.1 (2.3)	2.6 (2.8)
3-month Treasury bills	0.7 (1.1)	1.4 (1.8)	2.2 (2.5)	2.7 (2.8)
10-year bonds	1.8 (2.0)	2.3 (2.5)	2.8 (3.0)	3.2 (3.4)
Canadian dollar (in U.S. cents)	77.1 (79.5)	77.5 (77.3)	78.1 (78.7)	79.5 (80.0)

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

❑ The Canadian dollar will stay close to current levels

The Canadian dollar remained relatively stable in relation to the U.S. dollar in recent months, averaging 76.5 U.S. cents since June 2018.

- The Canadian dollar has not been fully supported by the increase in global oil prices owing to the weak price of Canadian oil.
- In addition, the uncertainty over North American trade policies, as well as the U.S. dollar's broad-based appreciation, have had a negative impact on the Canadian dollar.

A slight appreciation in the Canadian dollar is expected in the coming quarters, although it will stay close to current levels.

- On the one hand, the Canadian dollar will be supported by growth in the Canadian economy and by financial market expectations in respect of continued interest rate hikes in Canada.
- On the other, the dollar's appreciation will be limited by slightly faster monetary tightening in the United States than in Canada, as well as by weak Canadian oil prices.

Thus, after averaging 77.1 U.S. cents in 2017, the Canadian dollar is expected to average 77.5 U.S. cents in 2018 and 78.1 U.S. cents in 2019.

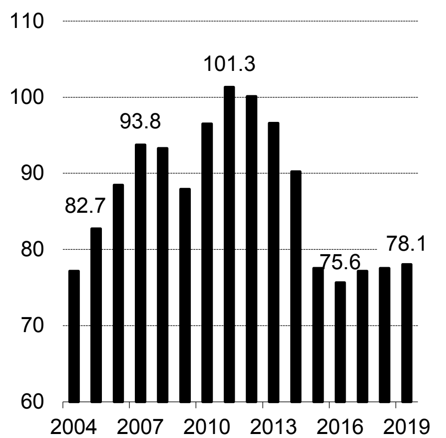
CHART C.30

Recent trends in the Canadian dollar
(U.S. cents)

Note: Data are updated to November 16, 2018.
Source: Bloomberg.

CHART C.31

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



Sources: Bloomberg and Ministère des Finances du Québec.

❑ Global oil prices are expected to stabilize

Oil prices have risen substantially in the last few months. The price of Brent crude has climbed by 17% since the start of the year, averaging US$81 a barrel in October, the highest price since 2014. The price increase was driven primarily by the uncertainty around the global oil supply owing, in particular, to:

— the anticipated impact of the U.S. sanctions on Iranian crude exports;

— disruptions in oil production in certain countries, particularly Venezuela, Libya and Nigeria.

However, oil prices have already decreased, as a result of, in particular, the anticipated slowdown in growth of global oil demand in 2019 as well as an increase in U.S. production to a projected record level of 12 million barrels a day.

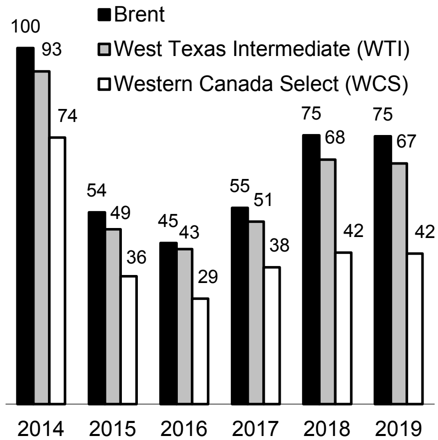
Furthermore, the price of WCS oil has dropped sharply in recent months. The price difference between WCS and WTI oil hit an all-time high in October as a result of weak U.S. demand related to maintenance at refineries and constraints related to transportation capacities. The situation is expected to be temporary, however.

Despite price fluctuations, Brent crude oil is projected to average US$75 a barrel in 2018 and 2019. The price of WTI is expected to be US$68 a barrel in 2018 and US$67 in 2019, while the price of WCS oil should average US$42 a barrel for the same two years.

CHART C.32

Brent, WTI and WCS oil prices

(annual averages in U.S. dollars per barrel)

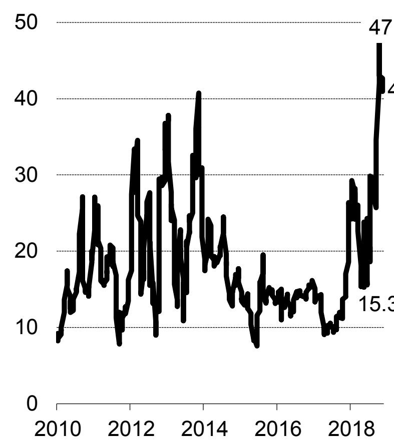


Sources: Bloomberg and Ministère des Finances du Québec.

CHART C.33

Spread between WTI and WCS prices

(weekly data in U.S. dollars per barrel)



Note: Data are updated to November 16, 2018.
Source: Bloomberg.

Québec imports oil primarily from Canada and the United States

Québec imports all of its oil, but the source of its oil supplies has changed over the last few years.

- Currently, Québec gets its oil primarily from the rest of Canada and the United States.

In 2016, Québec imported about 337 200 barrels of crude a day. The rest of Canada accounted for 36.5% of Québec's total crude oil imports, the United States, 27.0%, and other parts of the world, 36.5%.

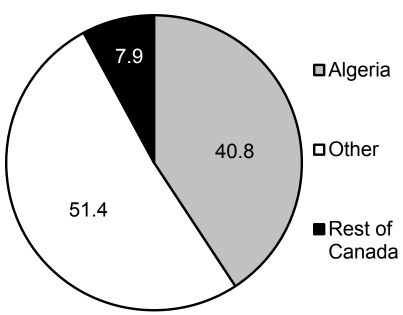
- By comparison, in 2012, Québec imported no more than 8.0% of its oil from the rest of Canada and only a negligible amount from the United States.

Data for 2017 show that Québec's international oil imports were down 26% from the previous year. However, the amount of oil imported from the United States rose from 43% to 68%.

This change in recent years has allowed Québec to increase its oil supplies from the rest of Canada and the United States. The change was occasioned:

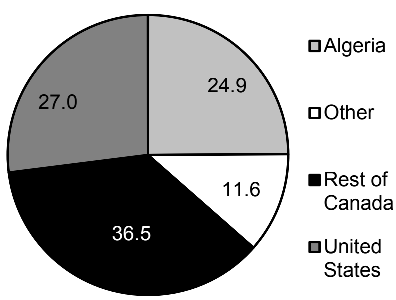
- by the reversal of the flow of oil through Enbridge's 9B pipeline between Ontario and Montréal in late 2015, which has a capacity of 300 000 barrels a day, as well as increased shipment by rail making it possible to move more oil from western Canada and the United States to Québec;
- by the sharp increase in U.S. oil production in recent years.

Sources of Québec's crude oil supplies – 2012
(per cent)



Source: Ministère de l'Énergie et des Ressources naturelles.

Sources of Québec's crude oil supplies – 2016
(per cent)



Sources: Statistics Canada and Canadian Energy Research Institute.

4. THE GLOBAL ECONOMIC SITUATION

❑ Continued global economic expansion despite significant risks

Global economic growth is expected to come in at 3.7% in 2018, the same rate as in 2017, and 3.6% in 2019. Expansion will remain robust, but will likely not be as well synchronized as in 2017.

— **Advanced economies** will continue to grow, driven by government measures in a number of countries, particularly the United States. The pace of growth is expected to be slightly slower, though, in response to the moderation in economic growth in the euro area and Japan.

— **Emerging economies** should also see continued growth despite more moderate support from world trade.

  — Robust growth is expected in India, outstripping economic growth in China. Economic activity is expected to pick up pace in Russia and Brazil, which will benefit from, in particular, higher commodity prices.

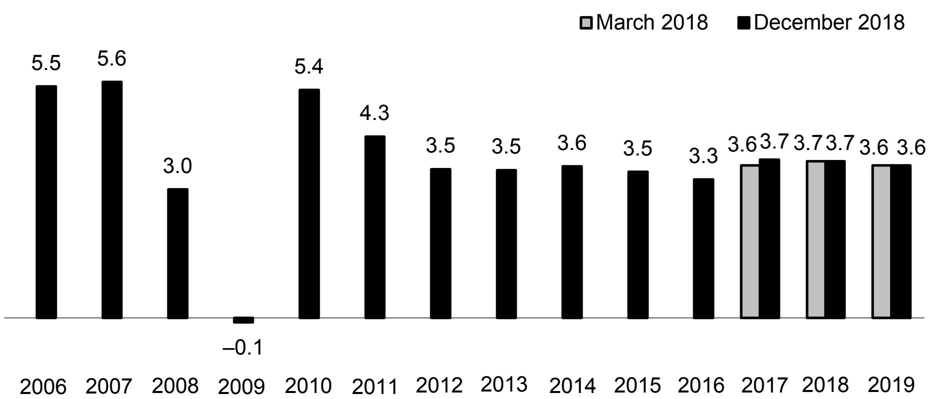
Although the global economy continues to expand, it is subject to several sources of increased tension, including:

— the uncertainty in Europe fuelled, in particular, by difficult Brexit negotiations and the budget dispute between the European Union and Italy;

— increased trade tensions between the United States and China, which risk dampening growth in world trade.

CHART C.34

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



Sources: International Monetary Fund, IHS Markit, Datastream, Eurostat and Ministère des Finances du Québec.

The following table shows the detailed global economic outlook by region and country.

TABLE C.8

Global economic growth outlook
(real GDP, percentage change)

	Weight[1]	2017	2018	2019
World[2]	**100.0**	**3.7**	**3.7**	**3.6**
– March 2018		*3.6*	*3.7*	*3.6*
Advanced economies[2]	**41.9**	**2.3**	**2.3**	**2.0**
– March 2018		*2.3*	*2.2*	*1.9*
Canada	1.4	3.0	2.1	1.8
– March 2018		*3.0*	*2.1*	*1.7*
United States	15.5	2.2	2.8	2.5
– March 2018		*2.3*	*2.5*	*2.2*
Euro area	11.8	2.4	1.9	1.6
– March 2018		*2.3*	*2.0*	*1.6*
United Kingdom	2.3	1.7	1.3	1.3
– March 2018		*1.7*	*1.3*	*1.6*
Japan	4.3	1.7	1.2	1.0
– March 2018		*1.7*	*1.4*	*0.9*
Emerging and developing economies[2]	**58.1**	**4.7**	**4.7**	**4.7**
– March 2018		*4.5*	*4.7*	*4.7*
China	17.7	6.9	6.5	6.2
– March 2018		*6.9*	*6.4*	*6.1*
India[3]	7.2	6.7	7.5	7.4
– March 2018		*6.6*	*7.3*	*7.4*

(1) Weight in global GDP in 2016.
(2) Data based on purchasing power parity.
(3) GDP calculated for the fiscal year (April 1 to March 31).
Sources: International Monetary Fund, IHS Markit, Datastream, Eurostat, Statistics Canada and Ministère des Finances du Québec.

❑ Continued growth in advanced economies…

Advanced economies are projected to expand by 2.3% in 2018 and 2.0% in 2019, compared to 2.3% growth in 2017.

— The U.S. economy will see robust growth with the government's spending plan and tax reform supporting domestic demand.

— The euro area is expected to experience a moderate pace of economic growth, supported by expansionary monetary and fiscal policies as well as job creation. Economic growth could, however, be slowed by uncertainty over Brexit and the Italian budget situation.

— In Japan, moderate economic activity will benefit from favourable financial conditions and government measures in particular.

❑ … and emerging economies

Real GDP growth in emerging and developing economies is projected to hold steady at 4.7% in 2018 and 2019, the same rate as in 2017.

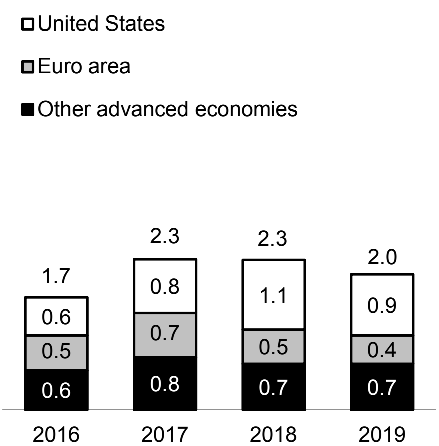
— The Chinese economy is expected to continue transitioning to a growth model centred on domestic demand. It will benefit from government measures in particular, but could be impacted by trade tensions.

— Economic expansion will likely continue in India owing to stronger domestic demand. The Brazilian and Russian economies will benefit from higher prices for oil and other commodities.

CHART C.35

Growth in advanced economies

(percentage change in real GDP and contribution in percentage point)

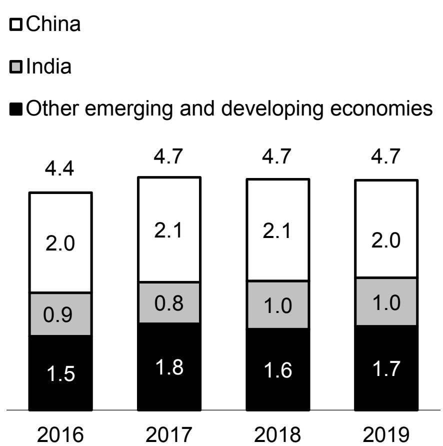


Note: Figures at the top indicate real GDP growth in purchasing power parity.
Sources: International Monetary Fund, IHS Markit, Eurostat and Ministère des Finances du Québec.

CHART C.36

Growth in emerging and developing economies

(percentage change in real GDP and contribution in percentage points)



Note: Figures at the top indicate real GDP growth in purchasing power parity.
Sources: International Monetary Fund, IHS Markit, Datastream and Ministère des Finances du Québec.

5. MAIN RISKS THAT MAY INFLUENCE THE FORECAST SCENARIO

The economic and financial forecasts used in the *Update on Québec's Economic and Financial Situation* are based on several assumptions, some of which are associated with risks that could affect the global economic and financial scenario and the anticipated developments in the Québec economy.

One such risk is a broad-based slowdown in the global economy, which recently faced heightened tensions that could lead to a bigger-than-anticipated slowdown in economic growth.

The main sources of uncertainty include:

— increased trade tensions between several major economies, which could slow trade expansion, investment and economic activity in the economies concerned. Such slowdowns would have impacts across the global economy;

— tensions in Europe fuelled by difficult negotiations on the United Kingdom's exit from the European Union and by concerns about the Italian budget situation;

— the speed of monetary tightening in the United States, where faster-than-expected hikes in the key interest rate could make things more difficult in some emerging economies whose debt is largely denominated in U.S. dollars;

— change in oil and other commodity price;

— heightened geopolitical tensions;

— the sharper slowdown in Canada's residential sector, which could lead to a nearly 0.1% drop in Québec's real GDP;

— how long U.S. tariffs on steel and aluminum will last. The maintenance of steel and aluminum tariffs could ultimately lead to a 0.3% decline in Québec's real GDP.

❑ Sensitivity analysis of economic variables

The economic outlook incorporates components of uncertainty that do not depend on the government directly, but which may cause actual results to differ from the forecasts.

■ Sensitivity of Québec's GDP to external variables

Given that the Québec economy is characterized by considerable openness to trade, its economic variables are influenced by a number of external factors.

— The most important factors are related to the economic activity of Québec's main trading partners, namely the United States and the Canadian provinces.

▪ Impact of external variables on the Québec economy

The results of an analysis conducted with a structural vector autoregression[2] model based on historical data show that a change of 1% in U.S. real GDP leads to an average change of 0.45% in Québec's real GDP.

— The maximum effect is felt after two quarters.

Based on the same model, a 1% change in Ontario's real GDP results in an average change of 0.42% in Québec's real GDP.

— The maximum effect is captured after one quarter.

Ontario is the Canadian province with which Québec has the most commercial ties, in addition to having a similar economic structure. In 2015, exports to Ontario accounted for more than 58% of Québec's interprovincial exports.

TABLE C.9

Impact of external shocks on Québec's real GDP growth rate

External shocks of 1%	Maturity(1) (quarters)	Impact on Québec's real GDP (percentage point)
U.S. real GDP	2	0.45
Ontario real GDP	1	0.42

(1) Maturity corresponds to the number of quarters needed for the greatest impact on Québec's real GDP, presented in the right-hand column, to be recorded.
Sources: Institut de la statistique du Québec, Ontario Ministry of Finance, IHS Markit, Statistics Canada, Bloomberg and Ministère des Finances du Québec.

2 This econometric technique is used to estimate, on the basis of numerous observations, the extent to which fluctuations in one economic variable affect another economic variable.

Section D

QUÉBEC'S FINANCIAL SITUATION

INTRODUCTION

As of last October, the government made a commitment to manage Quebecers' money in an efficient and disciplined manner. It also pledged to put money back in the pockets of Quebecers, particularly families and low-income seniors.

The tabling of the *Update on Québec's Economic and Financial Situation* is an opportunity for the government to present the most recent information on Québec's budgetary situation. This section provides an overview of Québec's economic and fiscal policy directions and its detailed financial framework. It discusses:

— Québec's fiscal policy directions;

— the first actions put forward to ensure more efficient and more transparent management of public finances;

— detailed revenue and expenditure forecasts.

1. QUÉBEC'S FISCAL POLICY DIRECTIONS

The *Update on Québec's Economic and Financial Situation* allows the government to specify its fiscal policy directions and announce the first initiatives that will benefit all Quebecers.

The government's economic and fiscal policy directions include:

- initiatives to put money back in the pockets of families and seniors;
- encouragement of business investment to increase Québec's wealth while fostering Québec's transition to a greener economy;
- accelerated repayment of the debt, along with continued deposits of dedicated revenues in the Generations Fund;
- maintenance of a balanced budget in the coming years;
- more effective and efficient management of public finances to provide quality public services;
  - The tabling of Budget 2019-2020 will be an opportunity for the government to outline the initiatives announced in education and health.
- maintenance of a high level of public capital investments to ensure the renewal of infrastructure.

A budget of $112.5 billion in 2018-2019

In 2018-2019, the government's consolidated revenue stands at $112.5 billion, making it possible to fund:

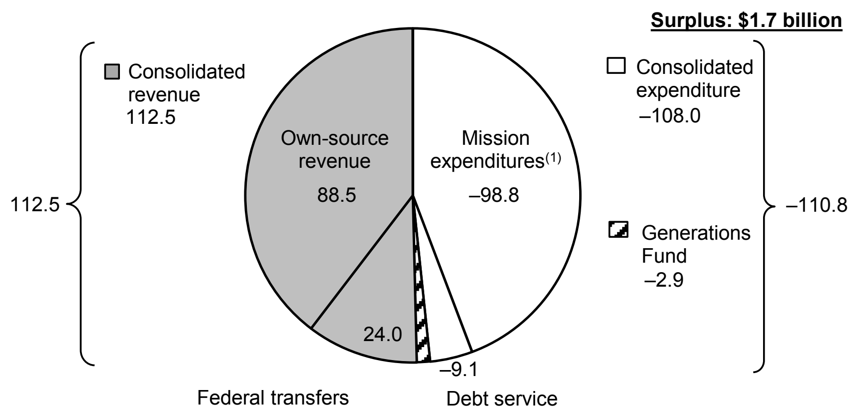
– expenditures for the government's missions, that is, spending for its primary functions, for a total of $98.8 billion;

– debt service, for a total of $9.1 billion;

– deposits in the Generations Fund, for a total of $2.9 billion.

A budgetary surplus of $1.7 billion is forecast for 2018-2019.

Québec's budget for 2018-2019
(billions of dollars)



Note: Totals may not add due to rounding.
(1) The missions represent the government's primary functions: Health and Social Services, Education and Culture, Economy and Environment, Support for Individuals and Families and Administration and Justice.

1.1 Recent developments in the budgetary situation

There have been positive adjustments in the financial framework since March 2018.

— A portion of these adjustments is being reinvested now in order to put money back in the pockets of Quebecers and spur business investment.

The Public Accounts report a budgetary surplus of $2.6 billion for 2017-2018.

Budgetary surpluses are forecast, in particular, for subsequent years, including a surplus of $1.7 billion for 2018-2019.

❑ Improvement of the budgetary situation since March 2018

The strong economic performance since March 2018 has, in particular, fostered a more-substantial-than-anticipated increase in tax revenues, generating leeway in the financial framework.

In particular, the pre-election report published in August 2018 reported improvements of $950 million a year from 2018-2019 to 2020-2021.

— With the adjustments recorded since the publication of the report, the changes in Québec's economic and budgetary situation generate, in the financial framework, after elimination of the use of the stabilization reserve, improvements of $1.9 billion in 2018-2019, $806 million in 2019-2020 and $879 million in 2020-2021.

TABLE D.1

Adjustments in the financial framework since March 2018
(millions of dollars)

	2017-2018	2018-2019	2019-2020	2020-2021
BUDGETARY BALANCE(1) – MARCH 2018	**850**	**—**	**—**	**—**
Improvements presented in the pre-election report	1 453	950	950	950
Improvements since the publication of the pre-election report	319	2 516	792	408
Elimination of the use of the stabilization reserve	—	–1 587	–936	–479
Total(2)	**1 772**	**1 879**	**806**	**879**
December 2018 initiatives	—	–229	–806	–729
BUDGETARY BALANCE(1) – DECEMBER 2018 UPDATE	**2 622**	**1 650**	**—**	**150**

(1) Budgetary balance within the meaning of the *Balanced Budget Act*, after use of the stabilization reserve, where applicable.
(2) These amounts represent improvements after elimination of the use of the stabilization reserve.

1.1.1 A budgetary surplus of $2.6 billion in 2017-2018

The results published in *Public Accounts 2017-2018* show a $2.6-billion surplus after deposits in the Generations Fund. This surplus made it possible to reduce the gross debt in 2017-2018.

— This is a positive adjustment of $1.8 billion relative to March 2018.

Consolidated revenue amounts to $108.4 billion, which represents an increase of 5.2% compared to 2016-2017.

— Revenue has been adjusted upward by $1.2 billion since March 2018 owing mainly to the good economic performance, which supported tax revenues.

Consolidated expenditure totals $103.5 billion, which corresponds to an increase of 4.8% relative to the previous year.

— Expenditure has been adjusted downward by $565 million since March 2018, primarily because of a difference between planned expenditures and those incurred by bodies and special funds, particularly in municipal infrastructure projects.

TABLE D.2

Actual results in 2017-2018 relative to those of March 2018
(millions of dollars)

	2017-2018		
	March 2018	**Adjustments**	**Actual results**
Consolidated revenue	107 196	1 208	108 404
% change			*5.2*
Consolidated expenditure	–104 054	565	–103 489
% change			*4.8*
SURPLUS	**3 142**	**1 773**	**4 915**
BALANCED BUDGET ACT			
Deposits of dedicated revenues in the Generations Fund	–2 292	–1	–2 293
BUDGETARY BALANCE(1)	**850**	**1 772**	**2 622**

Note: The adjustments recorded since the pre-election report show a $319-million increase in the budgetary surplus.
(1) Budgetary balance within the meaning of the *Balanced Budget Act*.

❑ Adjustments to consolidated revenue

Consolidated revenue totalled $108.4 billion in 2017-2018. It has been adjusted upward by $1.2 billion relative to the March 2018 forecast.

Own-source revenue excluding revenue from government enterprises shows a positive adjustment of $1.0 billion relative to the March 2018 forecast. These results can be explained by the fact that economic growth was more sustained than anticipated in 2017-2018, as well as by certain specific factors. More precisely:

- a $413-million upward adjustment in personal income tax revenue due to a higher-than-expected amount of income tax payable for the 2017 taxation year following processing of tax returns by Revenu Québec;
- a $172-million favourable difference in contributions for health services, resulting, in particular, from an upward adjustment of the growth in wages and salaries in 2017-2018;
- a $242-million positive adjustment in corporate income tax resulting, in particular, from favourable tax revenue monitoring at year-end, despite the weak downward adjustment in the growth of the net operating surplus of corporations (corporate profits) in 2017.

Revenue from government enterprises is adjusted upward by $358 million. This adjustment can be attributed, in particular, to Hydro-Québec's results, because of the colder-than-anticipated weather during the first few months of 2018 and increased electricity exports.

The $184-million downward adjustment in federal transfers stems primarily from a decrease in revenue from the Canada Health Transfer and the Canada Social Transfer, attributable in particular to the population estimates for the provinces in the 2016 Census.

TABLE D.3

Adjustments to consolidated revenue, 2017-2018
(millions of dollars)

MARCH 2018	**107 196**
Own-source revenue excluding revenue from government enterprises	
Personal income tax	413
Contributions for health services	172
Corporate taxes	242
Other	207
Subtotal	**1 034**
Revenue from government enterprises	358
Federal transfers	–184
Total adjustments	**1 208**
PUBLIC ACCOUNTS 2017-2018	**108 404**

❑ Adjustments to consolidated expenditure

Consolidated expenditure totalled $103.5 billion in 2017-2018. It has been adjusted downward by $565 million relative to the March 2018 forecast.

The difference is due mainly to reductions of:

- $240 million resulting from a decrease in expenditures related to doubtful tax accounts in respect of personal income tax, corporate taxes and the Québec sales tax;
- $142 million in the expenditures of the Société de financement des infrastructures locales du Québec caused primarily by lower transfers to municipal bodies due to the deferral, to subsequent years, of investments in municipal infrastructure;
- $106 million in provisions for losses on guaranteed financial initiatives of the Economic Development Fund;
- $104 million in the expenditures of the Société d'habitation du Québec stemming in particular from slower completion of projects, mainly under the AccèsLogis Québec program.

TABLE D.4

Adjustments to consolidated expenditure, 2017-2018
(millions of dollars)

MARCH 2018	**104 054**
Mission expenditures	
Expenditures related to doubtful tax accounts	–240
Société de financement des infrastructures locale du Québec	–142
Economic Development Fund	–106
Société d'habitation du Québec	–104
Other	24
Subtotal	**–568**
Debt service	**3**
Total adjustments	**–565**
PUBLIC ACCOUNTS 2017-2018	**103 489**

1.1.2 Main adjustments to the financial framework for 2018-2019 to 2020-2021

The strong performance of the economy resulted in positive adjustments to the financial framework for 2018-2019 and subsequent years relative to March 2018.

Overall, adjustments related to the economic and budgetary situation, after elimination of the use of the stabilization reserve, total $1.9 billion in 2018-2019, $806 million in 2019-2020 and $879 million in 2020-2021.

— Thanks to these improvements, initiatives are being announced as of 2018-2019.

TABLE D.5

Adjustments to the financial framework since March 2018
(millions of dollars)

	2018-2019	2019-2020	2020-2021
BUDGETARY BALANCE(1) – MARCH 2018	—	—	—
ADJUSTMENTS TO THE ECONOMIC AND BUDGETARY SITUATION			
Own-source revenue excluding revenue from government enterprises			
Tax revenue	1 489	1 586	1 625
Other revenue	795	–80	–147
Subtotal	2 284	1 506	1 478
Revenue from government enterprises	308	95	42
Federal transfers	325	451	218
Mission expenditures	661	–719	–721
Debt service			
Savings generated by accelerated repayment of the debt	40	193	117
Other adjustments to debt service	208	8	–80
Subtotal	248	201	37
Deposits of dedicated revenues in the Generations Fund	–360	208	304
Subtotal for improvements	3 466	1 742	1 358
Elimination of the use of the stabilization reserve	–1 587	–936	–479
Subtotal(2)	**1 879**	**806**	**879**
DECEMBER 2018 INITIATIVES			
Further support for families	–62	–251	–259
Introduction of the senior assistance amount	–102	–108	–114
Acceleration of business investment	–44	–448	–357
Encouragement of acquisition of electric vehicles	–21	—	—
Subtotal	**–229**	**–806**	**–729**
BUDGETARY BALANCE(1) – DECEMBER 2018 UPDATE	**1 650**	**—**	**150**

Note: Totals may not add due to rounding.
(1) Budgetary balance within the meaning of the *Balanced Budget Act*, after use of the stabilization reserve, where applicable.
(2) These amounts represent improvements after elimination of the use of the stabilization reserve.

❑ Adjustments related to the economic and budgetary situation

The adjustments related to the economic and budgetary situation are explained by:

- an increase of $2.3 billion in own-source revenue excluding revenue from government enterprises in 2018-2019 and roughly $1.5 billion in the next two years:
  - tax revenue, which includes, in particular, personal income tax and corporate taxes, is adjusted by $1.5 billion for 2018-2019 and $1.6 billion for 2019-2020 and 2020-2021 owing to the recurrence of the more-favourable-than-anticipated results for 2017-2018,
  - other revenue is adjusted upward by $795 million in 2018-2019 and downward by $80 million and $147 million in 2019-2020 and 2020-2021, respectively. This adjustment profile is explained in part by higher-than-anticipated results for carbon market auctions and an upward adjustment of the investment income of the Generations Fund in 2018-2019, two non-recurring factors for subsequent years;
- positive adjustments of $308 million in 2018-2019, $95 million in 2019-2020 and $42 million in 2020-2021 to revenue from government enterprises because of, in particular, an extraordinary gain in 2018-2019 tied to the partial disposal of the TM4 subsidiary by Hydro-Québec;
- positive adjustments of $325 million in 2018-2019, $451 million in 2019-2020 and $218 million in 2020-2021 to federal transfers because of, among other things, the signing of the integrated bilateral agreement for the federal infrastructure plan, Investing in Canada;
- a reduction of $661 million in mission expenditures in 2018-2019 due to the more-gradual-than-expected implementation of certain projects and an increase of $719 million and $721 million in 2019-2020 and 2020-2021, respectively, arising mainly from the Land Transportation Network Fund because of the signing of the integrated bilateral agreement for the federal infrastructure plan, Investing in Canada;
- a decrease in debt service of $248 million in 2018-2019, $201 million in 2019-2020 and $37 million in 2020-2021 owing, in particular, to accelerated repayment of the debt.

The positive adjustments to the financial framework will make it possible to eliminate use of the stabilization reserve over the period covered by the financial framework.

❑ December 2018 initiatives

The improvements in the financial framework since March 2018, including the interest savings generated by accelerated repayment of the debt, are being reinvested now in order to put money back in the pockets of Quebecers, particularly families and low-income seniors.

The improvements in the financial framework will also serve to increase the level of Québec's wealth by facilitating business investment.

The initiatives provide for additional investments to:

— further support families through the payment of a more generous family allowance and a freeze on the additional contribution for childcare;

— introduce an assistance amount for low-income seniors aged 70 or over;

— incentivize businesses to invest more thanks to initiatives aimed at accelerating the depreciation of businesses following the initiatives announced by the federal government;

— encourage the acquisition of electric vehicles through additional funding for rebate programs for the purchase of new or used vehicles.

These investments total $229 million in 2018-2019, $806 million in 2019-2020 and $729 million in 2020-2021.

Adjustments to the financial framework since the pre-election report

The acceleration in the economy has led to positive adjustments to the financial framework for 2018-2019 and subsequent years relative to the data presented in the August 2018 pre-election report.

– Overall, adjustments related to the economic and budgetary situation, after elimination of the use of the stabilization reserve, total $1.9 billion in 2018-2019, $792 million in 2019-2020 and $408 million in 2020-2021.

The improvements to the financial framework, including the interest savings from accelerated repayment of the debt, allow the government to fund initiatives totalling $229 million in 2018-2019, $806 million in 2019-2020 and $729 million in 2020-2021.

Adjustments to the financial framework since the pre-election report
(millions of dollars)

	2018-2019	2019-2020	2020-2021
BUDGETARY BALANCE[1] – AUGUST 2018	**—**	**14**	**471**
ADJUSTMENTS TO THE ECONOMIC AND BUDGETARY SITUATION			
Own-source revenue excluding revenue from government enterprises			
Tax revenue	640	745	725
Other revenue	725	–172	–249
Subtotal	1 365	573	476
Revenue from government enterprises	301	102	49
Federal transfers	329	871	480
Mission expenditures	727	–1 023	–747
Debt service			
Savings generated by accelerated repayment of the debt	40	193	117
Other adjustments to debt service	114	–132	–271
Subtotal	154	61	–154
Deposits of dedicated revenues in the Generations Fund	–360	208	304
Subtotal for improvements	2 516	792	408
Elimination of the use of the stabilization reserve	–637	—	—
Subtotal[2]	**1 879**	**792**	**408**
DECEMBER 2018 INITIATIVES			
Further support for families	–62	–251	–259
Introduction of the senior assistance amount	–102	–108	–114
Acceleration of business investment	–44	–448	–357
Encouragement of acquisition of electric vehicles	–21	—	—
Subtotal	**–229**	**–806**	**–729**
BUDGETARY BALANCE[1] – DECEMBER 2018 UPDATE	**1 650**	**—**	**150**

Note: Totals may not add due to rounding.
(1) Budgetary balance within the meaning of the *Balanced Budget Act*, after use of the stabilization reserve, where applicable.
(2) These amounts represent improvements after elimination of the use of the stabilization reserve.

1.2 Budgetary outlook

This subsection presents Québec's budgetary outlook for the years 2018-2019 to 2022-2023.

— The government forecasts a budgetary balance of nil or above zero over the period covered by the financial framework.

1.2.1 Five-year financial framework

Consolidated revenue is $112.5 billion in 2018-2019, up 3.8%. In 2019-2020, it will grow by 2.2%.

Consolidated expenditure is $108.0 billion in 2018-2019, with growth of 4.3%. In 2019-2020, it will grow by 4.1%.

Deposits in the Generations Fund amount to $2.9 billion in 2018-2019 and will reach $2.5 billion in 2019-2020.

A budgetary surplus of $1.7 billion is forecast for 2018-2019.

Mission expenditures

The government divides its primary functions, or major areas of activity, into five public service missions, namely:

- Health and Social Services, which consists primarily of the activities of the health and social services network and the programs administered by the Régie de l'assurance maladie du Québec;
- Education and Culture, which consists primarily of the activities of the education networks, student financial assistance, programs in the culture sector and immigration-related programs;
- Economy and Environment, which primarily includes programs related to economic development, employment assistance measures, international relations, the environment and infrastructure support;
- Support for Individuals and Families, which primarily includes last resort financial assistance, assistance measures for families and seniors, and certain legal aid measures;
- Administration and Justice, which consists of the activities of legislature, central bodies and public security, as well as administrative programs.

Mission expenditure growth is expected to be 4.9% in 2018-2019. It will reach 4.4% in 2019-2020 and 2.6% in 2020-2021.

Change in mission expenditures
(millions of dollars)

	2017-2018	2018-2019	2019-2020	2020-2021
Health and Social Services	40 176	42 094	43 857	45 639
% change	*3.7*	*4.8*(1)	*4.2*	*4.1*
Education and Culture	22 780	23 788	24 603	25 422
% change	*4.4*	*4.0*(1)	*3.4*	*3.3*
Economy and Environment	14 459	14 974	15 927	15 518
% change	*17.0*	*3.6*	*6.4*	*–2.6*
Support for Individuals and Families	9 816	10 225	10 602	10 825
% change	*2.4*	*5.0*(1)	*3.7*	*2.1*
Administration and Justice(2)	7 018	7 756	8 154	8 385
% change	*4.9*	*10.5*	*5.1*	*2.8*
TOTAL	**94 249**	**98 837**	**103 143**	**105 789**
% change	***5.7***	***4.9***	***4.4***	***2.6***

Note: Mission expenditures do not take into account the initiatives in education and health that will be announced in Budget 2019-2020.
(1) To assess growth in 2018-2019 based on comparable spending levels, the percentage changes for 2018-2019 were calculated by excluding, from 2017-2018 expenditures, transfers from the provision for francization attributed to the Health and Social Services mission ($12 million) and the Support for Individuals and Families mission ($75 million) and including them in the 2017-2018 expenditures of the Education and Culture mission.
(2) The amounts include the Contingency Fund reserve.

TABLE D.6

Consolidated financial framework, 2017-2018 to 2022-2023

(millions of dollars)

	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
Consolidated revenue						
Personal income tax	29 528	31 196	32 502	33 809	35 203	36 567
Contributions for health services	6 221	6 171	6 333	6 481	6 619	6 763
Corporate taxes	8 142	8 521	8 099	8 335	8 530	8 742
School property tax	2 243	1 860	1 738	1 811	1 892	1 976
Consumption taxes	20 329	21 040	21 792	22 230	22 717	23 359
Duties and permits	3 965	4 192	4 060	4 203	4 310	4 415
Miscellaneous revenue	10 398	10 851	10 659	11 010	11 470	11 888
Government enterprises	5 093	4 640	4 565	4 828	5 109	5 472
Own-source revenue	**85 919**	**88 471**	**89 748**	**92 707**	**95 850**	**99 182**
% change	***3.6***	***3.0***	***1.4***	***3.3***	***3.4***	***3.5***
Federal transfers	22 485	23 999	25 215	25 514	25 562	26 212
% change	*11.4*	*6.7*	*5.1*	*1.2*	*0.2*	*2.5*
Total consolidated revenue	**108 404**	**112 470**	**114 963**	**118 221**	**121 412**	**125 394**
% change	***5.2***	***3.8***	***2.2***	***2.8***	***2.7***	***3.3***
Consolidated expenditure						
Health and Social Services	–40 176	–42 094	–43 857	–45 639	—	—
Education and Culture	–22 780	–23 788	–24 603	–25 422	—	—
Economy and Environment	–14 459	–14 974	–15 927	–15 518	—	—
Support for Individuals and Families	–9 816	–10 225	–10 602	–10 825	—	—
Administration and Justice(1)	–7 018	–7 756	–8 154	–8 385	—	—
Mission expenditures	**–94 249**	**–98 837**	**–103 143**	**–105 789**	**–108 286**	**–111 418**
% change	***5.7***	***4.9***	***4.4***	***2.6***	***2.4***	***2.9***
Debt service	–9 240	–9 132	–9 221	–9 495	–9 673	–9 981
% change	*–3.0*	*–1.2*	*1.0*	*3.0*	*1.9*	*3.2*
Total consolidated expenditure	**–103 489**	**–107 969**	**–112 364**	**–115 284**	**–117 959**	**–121 399**
% change	***4.8***	***4.3***	***4.1***	***2.6***	***2.3***	***2.9***
Contingency reserve	—	—	–100	–100	–100	–100
SURPLUS	**4 915**	**4 501**	**2 499**	**2 837**	**3 353**	**3 895**
BALANCED BUDGET ACT						
Deposits of dedicated revenues in the Generations Fund	–2 293	–2 851	–2 499	–2 687	–2 953	–3 245
BUDGETARY BALANCE(2)	**2 622**	**1 650**	**—**	**150**	**400**	**650**

(1) The amounts include the Contingency Fund reserve.
(2) Budgetary balance within the meaning of the *Balanced Budget Act*.

The importance of maintaining a stabilization reserve

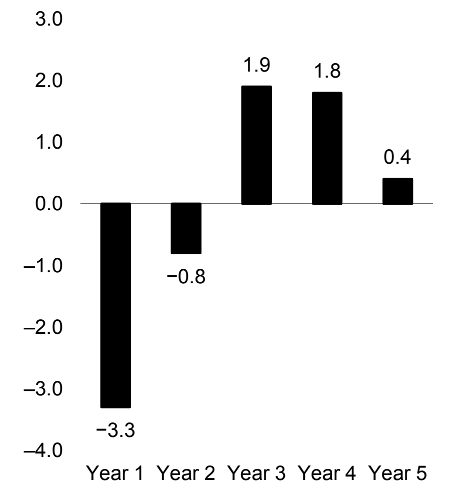
Past experience shows that the government is not shielded from events that could impact its financial framework, such as an economic downturn.

An analysis of historical data indicates that, in Québec, an average recession could lead to a −3.3-percentage-point adjustment of nominal GDP in the first year of the shock and a −0.8-percentage-point adjustment the year after relative to a reference scenario. Given that economic recovery usually follows a slowdown, nominal GDP would be adjusted upward as of the third year.

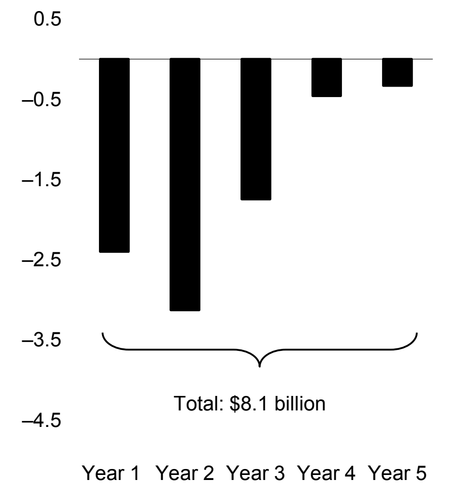
The impact of such a downturn on the government's own-source revenue could lead to a revenue loss of approximately $8.1 billion over five years, before the return to pre-recession levels.

The government has several means to manage unforeseen events that could have an impact on the state of public finances. The provisions built into the financial framework, coupled with possible use of the stabilization reserve as a management tool, could serve to offset a loss of revenue, over a five-year period, resulting from a possible economic slowdown.

Adjustment of nominal GDP
(percentage points)



Adjustment of own-source revenue[1]
(billions of dollars)



(1) These amounts exclude revenue from government enterprises.

Note: Own-source revenue generally grows at the same pace as the economy, given the direct link between tax bases and nominal GDP. According to a sensitivity analysis by the Ministère des Finances, a variation of 1 percentage point in nominal GDP has an impact of about $725 million on own-source revenue. During an economic downturn, the change in own-source revenue is generally more pronounced than the change in nominal GDP.

❑ Stabilization reserve

Under the *Balanced Budget Act*, a recorded surplus, that is, a budgetary balance that is greater than zero, must be allocated to the stabilization reserve.

— As at March 31, 2019, the stabilization reserve will amount to $8.8 billion.

In tabling Budget 2019-2020, the government will present its policy directions concerning the level of the stabilization reserve that is to be maintained in its budget framework and how it intends to use any excess amounts.

TABLE D.7

Stabilization reserve
(millions of dollars)

Fiscal year	Balance, beginning of year	Allocations	Uses	Balance, end of year
2015-2016	—	2 191	—	2 191
2016-2017	2 191	2 361	—	4 552
2017-2018	4 552	2 622	—	7 174
2018-2019	7 174	1 650	—	8 824

❑ Margins of prudence

All the provisions included in the financial framework and the stabilization reserve as at March 31, 2019 will make it possible to cover risks that could influence the financial framework and to thus respond to an unexpected decline in revenue or increase in expenditure of over $11 billion.

TABLE D.8

Margins of prudence
(millions of dollars)

	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	Total
Contingency reserve	—	100	100	100	100	**400**
Contingency Fund reserve	100	300	300	300	300	**1 300**
Debt service reserve	—	150	150	150	150	**600**
Subtotal – Reserves	**100**	**550**	**550**	**550**	**550**	**2 300**
Stabilization reserve as at March 31, 2019						**8 824**
TOTAL	**100**	**550**	**550**	**550**	**550**	**11 124**

1.3 Public capital investments

To meet Québec's significant needs for public infrastructure, public capital investments will be maintained at high levels under the Québec Infrastructure Plan (QIP).

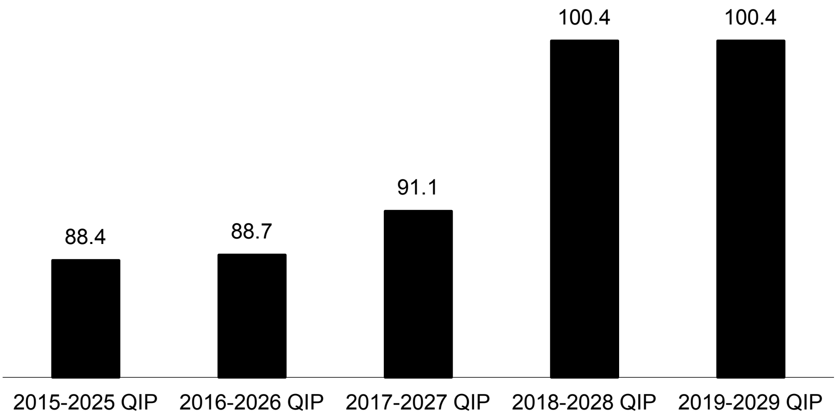
- To that end, the government announces that the 2019-2029 QIP will stand at $100.4 billion, or the same level as under the 2018-2028 QIP.

These substantial investments will be carried out by:

- giving priority to public safety, replacement of outdated infrastructure and economic development;
- remaining within Québec taxpayers' ability to pay and achieving the debt reduction objectives.

CHART D.1

Change in Québec infrastructure plans
(billions of dollars)



❑ Improvement of the investment implementation rate

The government will take actions to ensure a better implementation rate for investments planned under the QIP.

- In 2016-2017, the implementation rate for investments planned under the QIP was 76.8%.

Improving the implementation rate will, among other things, maximize the impact of public infrastructure investment on Québec's economy.

2. TOWARD MORE EFFICIENT AND MORE TRANSPARENT MANAGEMENT OF PUBLIC FINANCES

As soon as it took office last October, the government pledged to manage public finances in an efficient and transparent manner. The *Update on Québec's Economic and Financial Situation* outlines the first actions to be taken in this regard.

In particular, these actions aim to:

— improve accountability regarding the implementation of the annual budget;

— strengthen the process for producing the budgetary forecasts required to establish the financial framework;

— simplify the presentation of budgetary information.

These actions are based on:

— the current legislative framework;

  — The *Financial Administration Act*, the *Public Administration Act* and the *Act respecting the Ministère des Finances* already provide for the steps needed to make available the necessary information on the forecasts and accountability of the entities included in the government reporting entity.

— the comments and recommendations made by the Auditor General of Québec in tandem with the publication of the pre-election report.

  — In his report, the Auditor General of Québec mentioned, in particular, that certain practices related to the establishment of multi-year budgetary forecasts and the estimation of the annual budgetary balance could be improved.

❑ Immediate actions

The first actions that will be taken are announced in this document.

To that end, the Ministère des Finances and the Secrétariat du Conseil du trésor are currently working to rapidly put the following improvements in place:

- more frequent reporting on changes in the annual budgetary balance;
- strengthening of the approval process for the budgetary forecasts of bodies.

Moreover, other initiatives will be taken to ensure more efficient and transparent management of public finances. These initiatives will be specified later on.

■ More frequent reporting on changes in the annual budgetary balance

In 2006, the Québec government initiated the publication of a monthly report on financial transactions, aimed at providing a monthly status report on the implementation of the annual budget.

— This report is produced using public sector accounting standards and was verified by the Auditor General of Québec in 2015.

In recent years, differences have been observed between monthly results and the budgetary forecasts established in the budget and its fall update. These differences may result from, for example:

— economic growth that differs from what was anticipated;

— a lag between revenue recognition and the implementation of expenditures;

— the payment of grants in a different year from the one scheduled.

In addition, these differences are explained in part by a lack of sufficient information to measure periodically and with precision the changes anticipated in the annual budget. Without monthly forecasts, the results produced each month cannot be put into perspective.

With a view to transparency and making the most recent information on the budgetary balance for the current year available on a regular basis, the government plans to:

— as of this year:

  — add, every quarter, a preliminary estimate of the budgetary balance for the current year in the monthly report on financial transactions;

— as of 2019-2020:

  — release a monthly report on a fully consolidated basis, comparable to the annual budget and the public accounts,

  — include more detailed analyses that will improve the report in each quarter on the basis of information received from the various government entities.

Monthly report on financial transactions at September 30, 2018

Preliminary estimate of the budgetary balance for 2018-2019

Cumulative results as at September 30, 2018 show a budgetary surplus of $4.0 billion.

- In comparison, the *Update on Québec's Economic and Financial Situation* shows a surplus of $1.7 billion for the year 2018-2019.

On the basis of the new forecasts established in December 2018, it is anticipated, for the period from October 2018 to March 2019, that:

- the revenue and expenditure of the General Fund will show a deficit of $1.6 billion on account of an anticipated slowdown in the growth of own-source revenue and an upcoming acceleration of growth in program spending;
- bodies and special funds will incur a deficit of $515 million.

In addition, the annual budgetary balance makes provision for the implementation of the December 2018 initiatives totalling $229 million.

Change in the budgetary balance for 2018-2019
(millions of dollars)

	2018-2019
MONTHLY REPORT ON FINANCIAL TRANSACTIONS AT SEPTEMBER 30, 2018(1)	**3 981**
Upcoming results for October 2018 to March 2019	
– Achievement of annual revenue and expenditure forecasts – General Fund	–1 586
– Achievement of the net results forecast for bodies and special funds	–515
– December 2018 initiatives	–229
Subtotal	**–2 331**
BUDGETARY BALANCE FORECAST – DECEMBER 2018 UPDATE(1)	**1 650**

Note: Totals may not add due to rounding.
(1) Budgetary balance within the meaning of the *Balanced Budget Act*.

■ Strengthening the approval process for the budgetary forecasts of bodies

Various budgetary structures have been put in place to ensure a link between the revenues collected by the State and the funding of public services. This financial organization results primarily from government choices regarding governance and the delivery of services.

Approval of annual budgets differs according to the type of structure. For example, the appropriations of departments are generally voted annually for each program by the National Assembly, while the budgets of the special funds are voted globally for each entity.

In addition, approval of budget forecasts differs among the various public bodies. The legislative provisions governing approval provide for different procedures.

Lastly, current budget planning rules and practices lead to certain discrepancies between government policy directions and their implementation by bodies.

— In particular, there is a delay in the government's approval of the spending forecasts of certain bodies. In other cases, such approval is not provided for in the legislation.

Adoption of bodies' spending forecasts before budgets are prepared would, in particular, ensure consistency for the purpose of taking government policy directions into account.

To bolster synchronization between the government's budget planning and that of public bodies prior to budget approval, in keeping with government policy directions, the government will amend the rules for adopting the budgets of these bodies based on best practices.

These changes, which will require the adoption of legislative amendments, are based on the following principles:

— consistency of processes within bodies and the government;

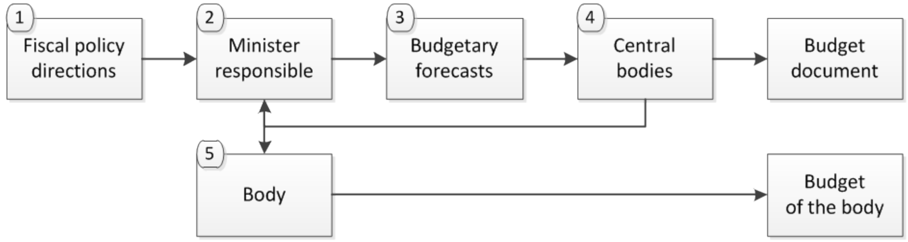
— easing of controls and the budget adoption process.

These changes will allow for better integration of the government budget preparation process, in keeping with the principles of governance of public bodies.

Approval process for the budgetary forecasts of bodies

1. First, the Minister of Finance and the Chair of the Conseil du trésor (central bodies) propose in conjunction with the Conseil du trésor common fiscal policy directions or ones that are specific to each non-budget-funded body (bodies[1]). Once these policy directions have been approved, they are transmitted to the ministers responsible for the bodies.
   - These policy directions may concern, in particular, the bodies' revenue, expenditure and accumulated surplus or deficits.
2. Each minister then transmits the policy directions to the bodies for which he or she is responsible and encloses, if necessary, directives concerning, in particular, the transmission and format of the annual budget.
3. On the basis of the policy directions and directives received, the bodies adopt an annual budget and budgetary forecasts and transmit them to the minister responsible. The minister then submits the budgetary forecasts to the Chair of the Conseil du trésor and the Minister of Finance.
4. Afterwards, the Chair of the Conseil du trésor and the Minister of Finance submit the budgetary forecasts to the Conseil du trésor for approval, along with, where applicable, changes they deem appropriate in light of the budgetary and financial policies proposed by the Minister of Finance. The approved forecasts are then submitted to the government.
5. Lastly, after the Expenditure Budget is tabled, the changes, if any, are transmitted to the ministers responsible, who inform the bodies concerned. The bodies then modify the annual budget, if necessary, and transmit it to the minister responsible.
   - It is up to the ministers to ensure that the bodies for which they are responsible respect their annual budget and multi-year forecasts.

Proposed process



1 This change does not apply to non-budget-funded bodies whose forecasts are included in the budgets of special funds.

3. REVENUE AND EXPENDITURE FORECASTS

The *Update on Québec's Economic and Financial Situation* presents the detailed change in consolidated revenue and expenditure:

— detailed adjustments for 2018-2019 since March 2018;

— the outlook over three years, that is, from 2018-2019 to 2020-2021;

— the risks associated with the forecasts and a sensitivity analysis by source of revenue and by type of expenditure.

❑ Detailed adjustments to the financial framework since March 2018

The adjustments to the financial framework since March 2018 make it possible to keep the budget balanced.

The economic and budgetary situation leads to a $1.9-billion positive adjustment of the budgetary balance in 2018-2019. This improvement makes it possible to finance the cost of initiatives totalling $229 million.

A budgetary surplus of $1.7 billion results from these adjustments for 2018-2019.

TABLE D.9

Adjustments to the financial framework since March 2018
(millions of dollars)

	2018-2019				
	March 2018	Adjustments			December 2018 update
		Economic and budgetary situation	Initiatives	Total adjustments	
Own-source revenue					
Tax revenue	67 343	1 489	–44	1 445	68 788
Other revenue	14 248	795	—	795	15 043
Subtotal	81 591	2 284	–44	2 240	83 831
% change					*3.7*
Revenue from government enterprises	4 332	308	—	308	4 640
% change					*–8.9*
Total	85 923	2 592	–44	2 548	88 471
% change					*3.0*
Federal transfers	23 674	325	—	325	23 999
% change					*6.7*
Consolidated revenue	**109 597**	**2 917**	**–44**	**2 873**	**112 470**
% change					***3.8***
Mission expenditures	–99 313	661	–185	476	–98 837
% change					*4.9*
Debt service	–9 380	248	—	248	–9 132
% change					*–1.2*
Consolidated expenditure	**–108 693**	**909**	**–185**	**724**	**–107 969**
% change					***4.3***
SURPLUS	**904**	**3 826**	**–229**	**3 597**	**4 501**
BALANCED BUDGET ACT					
Deposits of dedicated revenues in the Generations Fund	–2 491	–360	—	–360	–2 851
Use of the stabilization reserve	1 587	–1 587	—	–1 587	—
BUDGETARY BALANCE(1)	**—**	**1 879**	**–229**	**1 650**	**1 650**

Note: Totals may not add due to rounding.
(1) Budgetary balance within the meaning of the *Balanced Budget Act*, after use of the stabilization reserve, where applicable.

3.1 Change in revenue

Consolidated revenue encompasses own-source revenue, including revenue from government enterprises, as well as federal transfers.

Consolidated revenue totals $112.5 billion in 2018-2019, that is, $88.5 billion in own-source revenue and $24.0 billion from federal transfers.

- Consolidated revenue is adjusted upward by $2.9 billion compared with the March 2018 forecast.

Revenue growth is expected to be 3.8% in 2018-2019. In 2019-2020 and 2020-2021, it will be 2.2% and 2.8%, respectively.

TABLE D.10

Change in consolidated revenue
(millions of dollars)

	March 2018		December 2018 update		
	2018-2019	Adjustments	2018-2019	2019-2020	2020-2021
Own-source revenue					
Own-source revenue excluding revenue from government enterprises	81 591	2 240	83 831	85 183	87 879
% change			*3.7*	*1.6*	*3.2*
Revenue from government enterprises	4 332	308	4 640	4 565	4 828
% change			*–8.9*	*–1.6*	*5.8*
Subtotal	**85 923**	**2 548**	**88 471**	**89 748**	**92 707**
% change			***3.0***	***1.4***	***3.3***
Federal transfers	23 674	325	23 999	25 215	25 514
% change			*6.7*	*5.1*	*1.2*
TOTAL	**109 597**	**2 873**	**112 470**	**114 963**	**118 221**
% change			***3.8***	***2.2***	***2.8***

3.1.1 Own-source revenue excluding revenue from government enterprises

Own-source revenue excluding revenue from 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 tied to economic activity in Québec and to changes in the tax systems.

Own-source revenue also includes other revenue sources, that is, duties and permits and miscellaneous revenue, such as interest, the sale of goods and services, as well as fines, forfeitures and recoveries.

Most own-source revenue is paid into the General Fund to finance the government's missions. The remainder is divided among the other sectoral components, in particular special funds (for funding specific services), the Generations Fund (for reducing the debt), as well as non-budget-funded bodies and bodies in the health and education networks (for funding their activities).

❑ Adjustments for 2018-2019

For fiscal 2018-2019, own-source revenue excluding revenue from government enterprises totals $83.8 billion, which represents an increase of 3.7% relative to the revenue observed for fiscal 2017-2018.

— Compared with the March 2018 forecast, own-source revenue is adjusted upward by $2.2 billion.

TABLE D.11

Change in own-source revenue excluding revenue from government enterprises
(millions of dollars)

	March 2018		December 2018 update		
	2018-2019	**Adjustments**	**2018-2019**	**2019-2020**	**2020-2021**
Tax revenue	67 343	1 445	68 788	70 464	72 666
% change			*3.5*	*2.4*	*3.1*
Other revenue	14 248	795	15 043	14 719	15 213
% change			*4.7*	*–2.2*	*3.4*
TOTAL	**81 591**	**2 240**	**83 831**	**85 183**	**87 879**
% change			***3.7***	***1.6***	***3.2***

■ Tax revenue

Revenue from personal income tax is adjusted upward by $647 million compared to the March 2018 forecast.

— This adjustment is explained by higher-than-expected withholdings at source since the beginning of the fiscal year due to the impact of the growth in wages and salaries, which is 0.8 percentage point higher for 2018.

— It also reflects the recurrence of the higher level of tax payable for 2017.

TABLE D.12

Change in own-source revenue excluding revenue from government enterprises
(millions of dollars)

	March 2018		December 2018 update		
	2018-2019	Adjustments	2018-2019	2019-2020	2020-2021
Tax revenue					
Personal income tax	30 549	647	31 196	32 502	33 809
% change			*5.6*	*4.2*	*4.0*
Contributions for health services	6 028	143	6 171	6 333	6 481
% change			*–0.8*	*2.6*	*2.3*
Corporate taxes	8 028	493	8 521	8 099	8 335
% change			*4.7*	*–5.0*	*2.9*
School property tax	1 817	43	1 860	1 738	1 811
% change			*–17.1*	*–6.6*	*4.2*
Consumption taxes	20 921	119	21 040	21 792	22 230
% change			*3.5*	*3.6*	*2.0*
Subtotal	**67 343**	**1 445**	**68 788**	**70 464**	**72 666**
% change			***3.5***	***2.4***	***3.1***
Other revenue					
Duties and permits	3 797	395	4 192	4 060	4 203
% change			*5.7*	*–3.1*	*3.5*
Miscellaneous revenue	10 451	400	10 851	10 659	11 010
% change			*4.4*	*–1.8*	*3.3*
Subtotal	**14 248**	**795**	**15 043**	**14 719**	**15 213**
% change			***4.7***	***–2.2***	***3.4***
TOTAL	**81 591**	**2 240**	**83 831**	**85 183**	**87 879**
% change			***3.7***	***1.6***	***3.2***

Contributions for health services are adjusted upward by $143 million for 2018-2019. This adjustment reflects the higher-than-anticipated level of wages and salaries in 2018 relative to the March 2018 forecast.

Revenue from corporate taxes is adjusted upward by $493 million. This reflects an increase in tax revenues for the year in keeping with the increase observed at the end of 2017-2018.

— In particular, monitoring of tax revenues at the beginning of the year was favourable, with many businesses paying their quarterly instalments on the basis of their results for 2017, a year in which the growth of the net operating surplus of corporations stood at 11.7%.

— The adjustment also takes into account the impact of the measure to accelerate depreciation as a means of incentivizing businesses to invest more, announced in the December 2018 *Update on Québec's Economic and Financial Situation*.

The school property tax is adjusted upward by $43 million in 2018-2019. This adjustment is explained in particular by higher-than-anticipated growth in the cost of services funded by the school property tax and higher growth in property values.

Revenue from consumption taxes is adjusted upward by $119 million. This adjustment arises mainly from the Québec sales tax and stems from the fact that residential investment growth is 3.6 percentage points higher than forecast in 2018.

■ Other revenue

Revenue from duties and permits is adjusted upward by $395 million, reflecting essentially the higher-than-expected revenue collected under Québec's cap-and-trade system for greenhouse gas emission allowances (carbon market).

In addition, miscellaneous revenue is adjusted upward by $400 million owing chiefly to accelerated repayment of the debt, which leads to the higher-than-anticipated realized investment income for the Generations Fund in 2018-2019.

Change in own-source revenue excluding revenue from government enterprises in 2018-2019

Since the beginning of 2018-2019, own-source revenue excluding revenue from government enterprises has experienced robust growth, influenced in particular by the strong performance of the economy. However, revenue growth is expected to slow by the end of the year, to 3.7% on an annual basis.[1]

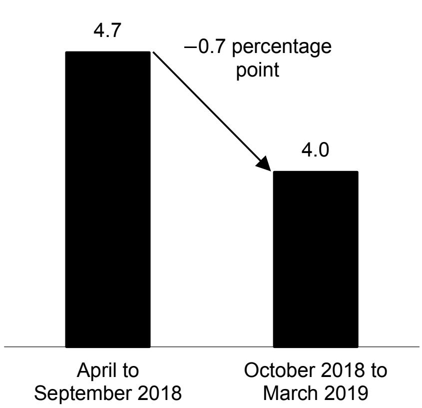
Several factors will temper growth in the coming months.

Growth of nominal GDP is expected to weaken by the end of 2018-2019, going from 4.7% in the first half of the year to 4.0% in the second half,[2] which represents a decrease of 0.7 percentage point.

- In particular, growth of wages and salaries and household consumption excluding food and rent will be less robust in the second half of the year.
- The fiscal measures announced during the year will have a downward effect on revenue in the second part of the year.
  - These measures are, in particular, the immediate reduction of contributions to the Health Services Fund announced in August 2018 to support businesses affected by tariffs and the depreciation measure to incentivize businesses to invest more, announced in the in the December 2018 *Update on Québec's Economic and Financial Situation*.
- In addition, due to growth of 11.7% in the net operating surplus of corporations (profits) in 2017, the quarterly instalments paid by corporations were higher at the beginning of 2018-2019. However, the situation should return to normal during the year given the slowdown in corporate profits to 4.8% in 2018 and lead to lower balances payable at year-end compared to the previous year.

Nominal GDP growth(1)

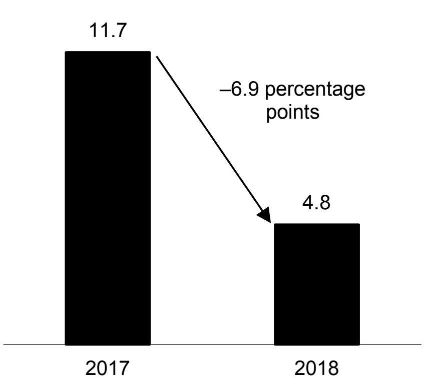
(per cent)



(1) Growth compared to the same period the previous year.

Annual growth of the net operating surplus of corporations

(per cent)



1 As published in the monthly report on financial transactions at September 30, 2018, the own-source revenue of the General Fund grew by 5.4% from April to September 2018. Growth is expected to stand at 3.2% in 2018-2019.

2 Growth compared to the same period the previous year.

❑ Outlook for 2019-2020 and 2020-2021

Own-source revenue excluding revenue from government enterprises will grow by 1.6% in 2019-2020 and 3.2% in 2020-2021. This growth reflects essentially the economic activity forecast for those years.

■ Tax revenue

Personal income tax, the government's largest revenue source, will grow by 4.2% in 2019-2020 and 4.0% in 2020-2021, settling at $32.5 billion and $33.8 billion, respectively.

— This change reflects, in particular, the growth of household income, including wages and salaries, as well as the indexation of the personal income tax system and the progressive nature of the tax system.

— It also reflects the contribution of pension income to the growth of income subject to tax, particularly income from private pension plans.

— In addition, it takes into account the impact of various tax measures announced in March 2018, including the enhancement of the tax credit for experienced workers.

Contributions for health services will grow by 2.6% in 2019-2020 and 2.3% in 2020-2021, settling at $6.3 billion and $6.5 billion, respectively.

— This change reflects the fact that wages and salaries are expected to grow by 3.2% in 2019 and 3.1% en 2020.

— It also takes into account the impact of the reduction of the Health Services Fund contribution rate for all Québec SMBs, announced in March 2018 and enhanced in August 2018.

Revenue from corporate taxes will decrease by 5.0% in 2019-2020 and increase by 2.9% in 2020-2021, settling at $8.1 billion and $8.3 billion, respectively.

— This change reflects the projected growth of the net operating surplus of corporations, established at 4.7% in 2019 and 4.3% in 2020.

— In particular, it also takes into account the measures implemented in recent years to ease the tax burden, including the gradual reduction of the general corporate income tax rate (March 2015 budget), the gradual reduction of the tax rate to 4.0% for all SMBs (March 2018 budget) and the measures announced in the December 2018 *Update on Québec's Economic and Financial Situation*, such as the depreciation measure to incentivize businesses to invest more.

Revenue from the school property tax will decline by 6.6% in 2019-2020, in connection with the coming into force of the reform of the school tax system, announced in the March 2018 budget. The growth of 4.2% in revenue in 2020-2021 can be attributed to the increase in the number of students and the anticipated rise in property values on the territory of certain school boards.

Revenue from consumption taxes will grow by 3.6% in 2019-2020 and 2.0% in 2020-2021, reaching $21.8 billion and $22.2 billion, respectively.

- This growth reflects the change in household consumption excluding food and rent, which will be 3.5% in 2019 and 2.9% in 2020.

- Growth will be weaker in 2020-2021 due to the gradual elimination of restrictions on input tax refunds for large businesses.

■ Other revenue

Revenue from duties and permits will decrease by 3.1% in 2019-2020 and increase by 3.5% in 2020-2021.

- This change is explained primarily by the anticipated growth in revenue from the carbon market.

Miscellaneous revenue will show a change of −1.8% in 2019-2020 and 3.3% in 2020-2021.

- These changes stem mainly from the investment income of the Generations Fund and the anticipated revenue of special funds, non-budget-funded bodies and bodies in the health and social services and education networks.

■ Growth in keeping with that of the economy

Growth in own-source revenue excluding revenue from government enterprises generally reflects the changes in economic activity and the impact of measures introduced by the government.

In 2018-2019, this growth will stand at 3.7%, after increasing by 3.6% in 2017-2018.

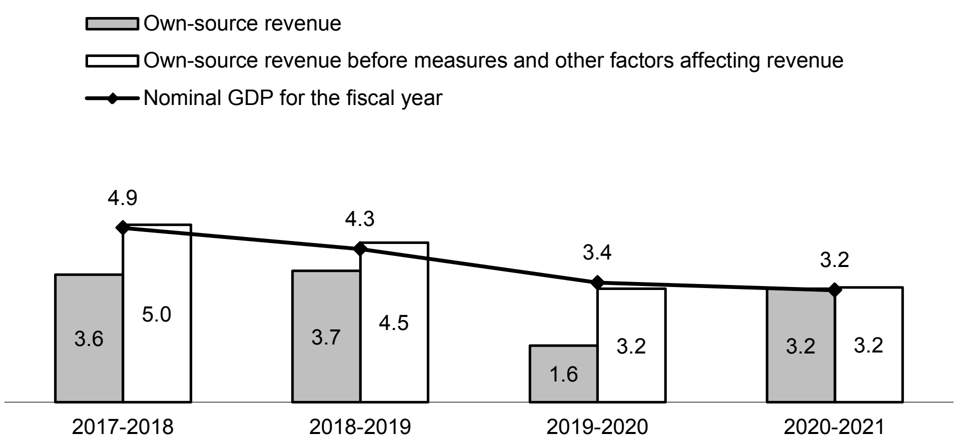
— The growth reflects, in particular, the various tax relief and economic support measures implemented in recent years, including the decrease in the bottom tax rate from 16% to 15% and the reform of the school tax system, as well as the depreciation measures announced in the December 2018 *Update on Québec's Economic and Financial Situation*.

— Had it not been for those measures, own-source revenue growth would stand at 4.5%, a rate in line with economic growth.

Over the forecast period, revenue growth will keep pace with economic growth.

CHART D.2

Growth in own-source revenue excluding revenue from government enterprises
(per cent)



❑ Risks and sensitivity analysis

■ Risks

The revenue forecasts for 2018-2019 and subsequent years include a certain level of risk and uncertainty given that they are based on assumptions concerning future events, such as changes in the economic situation.

— For example, the forecast for corporate tax revenue is marked by a considerable level of uncertainty owing to a combination of several economic, decision-making and administrative factors, such as the legal framework that enables businesses to make choices regarding taxation, particularly the utilization of deferred losses, the possibility of adjusting quarterly instalment payments and the deadline for filing and processing tax returns, which affects the recognition of corporate taxes.

Revenue monitoring in the coming months is another component of risk and uncertainty that may cause actual results to differ from the forecasts for 2018-2019 and have an impact on the level of revenue in subsequent years.

■ Sensitivity analysis

In general, the nominal GDP forecast is a good indicator of growth in own-source revenue excluding revenue from government enterprises given the direct link between tax bases and nominal GDP.

— According to an overall sensitivity analysis, a variation of 1 percentage point in nominal GDP has an impact of about $725 million on the government's own-source revenue.

This sensitivity analysis is based on a revision of each tax base in proportion to the revision of nominal GDP.

— In reality, a change in economic outlook can have a greater impact on some economic variables, as well as greater repercussions on certain tax bases than on others.

Sensitivity analyses set an average historical relationship between the change in own-source revenue and growth in nominal GDP. Accordingly, they may prove inaccurate for a given year depending on the economic situation and yet not lose their validity.

— Indeed, for a given year, economic fluctuations may have various impacts on revenue because of changes in the behaviour of economic agents.

— In these situations, the change in own-source revenue can be greater or lower than the change in nominal GDP.

TABLE D.13

Sensitivity of own-source revenue excluding revenue from government enterprises to major economic variables

Variables	Growth forecasts for 2018	Impacts for fiscal 2018-2019
Nominal GDP	4.4%	A variation of 1 percentage point changes own-source revenue by roughly $725 million.
Wages and salaries	4.9%	A variation of 1 percentage point changes personal income tax revenue by about $310 million.
Employment insurance	−7.3%	A variation of 1 percentage point changes personal income tax revenue by roughly $5 million.
Pension income	6.0%	A variation of 1 percentage point changes personal income tax revenue by about $50 million.
Net operating surplus of corporations	4.8%	A variation of 1 percentage point changes corporate income tax revenue by roughly $40 million.
Consumption excluding food and rent	4.6%	A variation of 1 percentage point changes QST revenue by about $160 million.
Residential investments	9.1%	A variation of 1 percentage point changes QST revenue by about $25 million.

3.1.2 Revenue from government enterprises

❑ Adjustments for 2018-2019

For 2018-2019, revenue from government enterprises is adjusted upward by $308 million, to $4.6 billion. This adjustment can be attributed, in particular, to an increase in the results Hydro-Québec owing to an extraordinary gain on the partial disposal of the TM4 subsidiary.

❑ Outlook for 2019-2020 and 2020-2021

Revenue from government enterprises will stand at $4.6 billion in 2019-2020 and $4.8 billion in 2020-2021.

— The change in 2019-2020 mainly reflects a decrease in the anticipated results of Hydro-Québec due to the absence of the exceptional revenue obtained the previous year.

— The change in 2020-2021 mainly reflects the increase in the anticipated results of Hydro-Québec due to the fact that net electricity exports and demand in Québec are expected to grow.

TABLE D.14

Change in revenue from government enterprises
(millions of dollars)

	March 2018		December 2018 update		
	2018-2019	Adjustments	2018-2019	2019-2020	2020-2021
Hydro-Québec	2 075	250	2 325	2 275	2 525
Loto-Québec	1 236	16	1 252	1 244	1 214
Société des alcools du Québec	1 112	13	1 125	1 153	1 176
Investissement Québec	111	34	145	139	132
Société québécoise du cannabis	—	—	—	35	65
Other(1)	–202	–5	–207	–281	–284
TOTAL	**4 332**	**308**	**4 640**	**4 565**	**4 828**
% change			***–8.9***(2)	***–1.6***	***5.8***

(1) Other revenue includes, in particular, the forecast for other government enterprises and the impact of the Electricity Discount Program for Consumers Billed at Rate L.
(2) This decrease is explained, in particular, by an assumption of a return to normal temperatures in the case of Hydro-Québec and by the non-recurrence of extraordinary gains in the case of Investissement Québec.

Accounting standards applicable to Hydro-Québec

Since January 1, 2015, Hydro-Québec has determined its financial results using United States generally accepted accounting principles (U.S. GAAP). Since the publication of Public Accounts 2014-2015, Hydro-Québec's results have undergone an accounting adjustment in order to consolidate them with those of the government using International Financial Reporting Standards (IFRS).

For 2018-2019, revenue from Hydro-Québec is forecast at $2 850 million before taking into account the $525-million accounting impact related to the application of IFRS standards.

For 2019-2020 and 2020-2021, the annual accounting impact is estimated at $525 million.

Change in revenue from Hydro-Québec
(millions of dollars)

	March 2018		December 2018 update		
	2018-2019	**Adjustments**	**2018-2019**	**2019-2020**	**2020-2021**
Net results (U.S. GAAP)(1)	2 550	300	2 850	2 800	3 050
Accounting adjustment to IFRS standards	–475	–50	–525	–525	–525
NET RESULTS IN THE GOVERNMENT'S FINANCIAL FRAMEWORK	**2 075**	**250**	**2 325**	**2 275**	**2 525**

(1) Other energy businesses in Canada use U.S. GAAP to determine their financial results.

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❑ Risks and sensitivity analysis

■ Risks

The forecasts for government enterprises depend on the information available when they are made. Updating of information may thus have an impact on forecasts.

It must also be borne in mind that certain variables, such as those concerning weather conditions, are difficult to forecast.

In the case of the Société québécoise du cannabis, the lack of historical data makes it more complicated to establish forecasts for this new enterprise.

■ Sensitivity analysis

For Hydro-Québec, a variation of:

— 1.0 US¢/kWh in the price of energy on foreign markets changes its net earnings by over $150 million;

— 1 percentage point in the adjustment of electricity rates charged to Québec consumers by the Régie de l'énergie changes its net earnings by up to $110 million;

— 1 °C in winter temperatures compared to normal temperatures changes its net earnings by nearly $50 million.

For Loto-Québec, a variation of 1% in sales changes its net earnings by over $10 million.

For the Société des alcools du Québec, a variation of 1% in sales changes its net earnings by more than $15 million.

For Investissement Québec, a variation of 1 percentage point in interest rates changes its net earnings by nearly $10 million.

For the Société québécoise du cannabis, no sensitivity analysis is available at the moment owing to the recent creation of this enterprise and the consequent lack of historical data.

3.1.3 **Federal transfers**

❑ Adjustments for 2018-2019

In 2018-2019, revenues from federal transfers stand at $24.0 billion, that is, $325 million more than forecast in March 2018. This adjustment is explained mainly by a $456-million increase in transfer revenues from other programs tied, in particular, to Phase 2 of the federal infrastructure plan, Investing in Canada.

Revenue from the Canada Health Transfer (CHT) and the Canada Social Transfer (CST) are adjusted downward due to the taking into account of the 2016 population census, which has led to a downward adjustment of Québec's demographic weight in Canada.

❑ Outlook for 2019-2020 and 2020-2021

Federal transfer revenues will increase by 5.1% in 2019-2020 and 1.2% in 2020-2021, particularly on account of the fact that the equalization envelope grows, for Canada as a whole, at the same pace as Canada's nominal GDP.

TABLE D.15

Change in federal transfer revenues
(millions of dollars)

	March 2018		December 2018 update		
	2018-2019	**Adjustments**	**2018-2019**	**2019-2020**	**2020-2021**
Equalization	11 732	—	11 732	12 837	13 293
% change			*5.9*	*9.4*	*3.6*
Health transfers	6 431	–89	6 342	6 656	6 933
% change			*4.0*	*5.0*	*4.2*
Transfers for post-secondary education and other social programs	1 659	–42	1 617	1 640	1 678
% change			*–1.9*	*1.4*	*2.3*
Other programs(1)	3 852	456	4 308	4 082	3 610
% change			*17.7*	*–5.2*	*–11.6*
TOTAL	**23 674**	**325**	**23 999**	**25 215**	**25 514**
% change			***6.7***	***5.1***	***1.2***

(1) Revenue from other programs stems from various agreements with the federal government, e.g. infrastructure agreements. This revenue is higher in 2018-2019 owing, in particular, to sums received under Phase 1 of the federal infrastructure plan, Investing in Canada.

❑ Risks and sensitivity analysis

■ Risks

The primary risk associated with the equalization forecast concerns the estimation of the per capita fiscal capacity of each province, given that the federal government does not publish forecasts for equalization payments by province.

In addition, the main risks associated with the forecast for revenue from the CHT and the CST concern the estimation of the value of the special Québec abatement[1] and the estimation of the population of the provinces and territories.

■ Sensitivity analysis

The forecast for revenue from equalization, the CHT and the CST is based primarily on the following economic and demographic variables:

— the growth of Canada's nominal GDP;

— the growth in wages and salaries used in the forecast for basic federal income tax;

— the growth of the net operating surplus of corporations used in the forecast for taxable corporate income;

— Québec's share of the population among the provinces as a whole.

Sensitivity analyses may not apply for a given year if special economic conditions arise or changes are made by the federal government to the operation of equalization, the CHT and the CST.

In addition, the sensitivity analysis of equalization revenue is based on an increase of 1 percentage point in the growth of Québec's economic variables, without any impact on that of the other provinces.

1 A portion of the value of the special Québec abatement is subtracted from Québec's CHT and CST revenues.

TABLE D.16

Sensitivity of federal transfer revenues to major economic and demographic variables

Variables	Forecasts for 2018	Impacts for fiscal 2018-2019
Growth of Canada's nominal GDP	4.0%(1)	An increase of 1 percentage point raises equalization revenue by roughly $20 million.
		An increase of 1 percentage point raises CHT revenue by about $30 million.
Growth in wages and salaries in Québec	4.9%	An increase of 1 percentage point reduces equalization revenue(2) by approximately $40 million.
		An increase of 1 percentage point reduces CHT and CST revenues by around $45 million.
Québec's share of the population in Canada	22.6%	An increase of 0.1 percentage point increases equalization revenue(2) by approximately $60 million.
		An increase of 0.1 percentage point raises CHT and CST revenues by approximately $50 million.
Growth of the net operating surplus of corporations in Québec	4.8%	An increase of 1 percentage point reduces equalization revenue(2) by roughly $5 million.

(1) The growth of 4.0% in Canada's nominal GDP in 2018 is based on federal calculations for 2018-2019 regarding equalization and the CHT, and it will not be revised. The impacts for 2018-2019 are provided for purposes of illustration.
(2) Due to the two-year lag in the equalization formula, increased growth in 2018 will have an impact as of 2020-2021. The impact for the years 2018-2019 and 2019-2020 is nil.

3.2 Change in expenditure

Consolidated expenditure consists of mission expenditures, which are tied to the delivery of public services, and debt service.

Consolidated expenditure stands at $108.0 billion in 2018-2019. This represents a downward adjustment of $724 million relative to March 2018.

— Mission expenditures are adjusted downward by $476 million.

— In addition, spending on debt service is $248 million lower.

Consolidated expenditure will stand at $112.4 billion in 2019-2020 and $115.3 billion in 2020-2021, representing growth of 4.1% and 2.6%, respectively.

TABLE D.17

Change in consolidated expenditure
(millions of dollars)

	March 2018		December 2018 update		
	2018-2019	**Adjustments**	**2018-2019**	**2019-2020**	**2020-2021**
Mission expenditures	99 313	–476	98 837	103 143	105 789
% change			*4.9*	*4.4*	*2.6*
Debt service	9 380	–248	9 132	9 221	9 495
% change			*–1.2*	*1.0*	*3.0*
TOTAL	**108 693**	**–724**	**107 969**	**112 364**	**115 284**
% change			***4.3***	***4.1***	***2.6***

Note: Mission expenditures do not take into account the initiatives in education and health that will be announced in Budget 2019-2020.

3.2.1 **Mission expenditures**

Mission expenditures total $98.8 billion in 2018-2019, including $42.1 billion for the Health and Social Services mission and $23.8 billion for the Education and Culture mission.

Anticipated growth in mission expenditures is 4.9% in 2018-2019. It will be 4.4% in 2019-2020 and 2.6% in 2020-2021.

TABLE D.18

Change in mission expenditures
(millions of dollars)

	March 2018		December 2018 update		
	2018-2019	**Adjustments**	**2018-2019**	**2019-2020**	**2020-2021**
Health and Social Services	42 062	32	42 094	43 857	45 639
% change			*4.8*(1)	*4.2*	*4.1*
Education and Culture	23 781	7	23 788	24 603	25 422
% change			*4.0*(1)	*3.4*	*3.3*
Economy and Environment	14 374	600	14 974	15 927	15 518
% change			*3.6*	*6.4*	*–2.6*
Support for Individuals and Families	10 372	–147	10 225	10 602	10 825
% change			*5.0*(1)	*3.7*	*2.1*
Administration and Justice(2)	8 724	–968	7 756	8 154	8 385
% change			*10.5*	*5.1*	*2.8*
TOTAL	**99 313**	**–476**	**98 837**	**103 143**	**105 789**
% change			***4.9***	***4.4***	***2.6***

Note: Mission expenditures do not take into account the initiatives in education and health that will be announced in Budget 2019-2020.

(1) To assess growth in 2018-2019 based on comparable spending levels, the percentage changes for 2018-2019 were calculated by excluding, from 2017-2018 expenditures, transfers from the provision for francization attributed to the Health and Social Services mission ($12 million) and the Support for Individuals and Families mission ($75 million) and including them in the 2017-2018 expenditures of the Education and Culture mission.

(2) These amounts include the Contingency Fund reserve.

❑ Adjustments for 2018-2019

In 2018-2019, mission expenditures stand at $98.8 billion, which corresponds to a downward adjustment of $476 million compared with the forecast in Budget 2018-2019.

The adjustments for fiscal 2018-2019 result, in particular, from:

— a $380-million reduction in the program spending target (Administration and Justice mission);

— reallocation to the Economy and Environment mission of Budget 2018-2019 measures initially planned for the Contingency Fund (Administration and Justice mission).

In addition, the observations and recommendations made by the Auditor General of Québec in tandem with the pre-election report have helped to improve the presentation of expenditures by mission by specifying in greater detail the allocation of expenditures in each mission, in particular for the budget measures, which has led to certain additional adjustments.

❑ Outlook for 2019-2020 and 2020-2021

In 2019-2020 and 2020-2021, mission expenditures will stand at $103.1 billion and $105.8 billion, respectively.

— For the same two years, growth will reach 4.4% and 2.6%, respectively.

The growth in mission expenditures is attributed primarily to:

— the health and social services network, owing in particular to the growth of health services costs;

— the Régie de l'assurance maladie du Québec, due to the change in the cost of medical and pharmaceutical services;

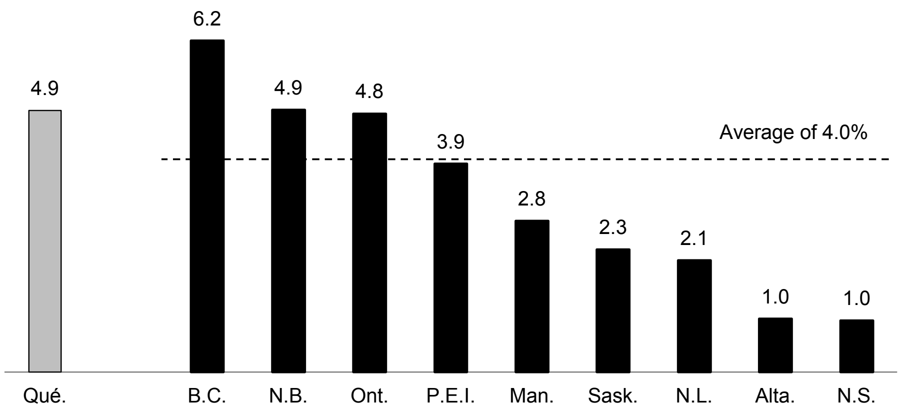
— the education networks, owing in particular to the change in clientele in preschool, elementary and secondary schools, as well as in colleges and universities.

A comparative look at changes in mission expenditures in 2018-2019

Thanks to favourable economic conditions and a favourable budgetary situation, growth in mission expenditures[1] in Québec in 2018-2019 amounts to 4.9%, which is the second highest growth rate in Canada.

This growth, which is higher than the average rate of 4.0% for the other provinces, is enabling Québec to increase funding for its primary functions while maintaining a balanced budget.

Growth in mission expenditures, 2018-2019
(per cent)



Note: As at November 21, 2018, Prince Edward Island and New Brunswick had not published forecasts for 2018-2019 since tabling their 2017-2018 Public Accounts.

1 Mission expenditures correspond to consolidated expenditure excluding debt service.

❑ Risks and sensitivity analysis

■ Risks

Several factors can have an impact on government spending. These factors include, in particular:

— changes in target clienteles, such as the student population in educational institutions;

— technological changes, which affect spending in the health sector;

— changes in the general level of prices, which have different impacts on each of the government's portfolios;

— the emergence of new needs among Quebecers.

■ Sensitivity analysis

The financial framework's forecasts take into account:

— budgetary choices, which stem from the prioritization of certain sectors over others in the allocation of spending;

— economic and demographic variables, which are tied to price factors (inflation) and demographic factors (changes in population).

The following tables show the sensitivity of program spending at the budgetary level as well as in regard to economic and demographic factors.

— It should be noted that such data constitute indications and that impacts may vary depending on the nature and interaction of risk factors.

▪ Budgetary choices

Program spending may vary according to the budgetary choices made by the government in allocating its available budgetary resources. For example, a variation of 1% in program spending for the Santé et Services sociaux portfolio would lead to a variation of about $390 million in the portfolio's spending.

TABLE D.19

Sensitivity of program spending to a variation of 1% in each departmental portfolio
(millions of dollars)

	Impact for fiscal 2018-2019
Santé et Services sociaux	390
Éducation et Enseignement supérieur	200
Famille	30
Other portfolios	160
TOTAL – PROGRAM SPENDING	**780**

- **Economic and demographic variables**

The analysis carried out also makes it possible to estimate the sensitivity of program spending to certain important economic and demographic variables.

- ***Prices***

Public spending is influenced by the price of services offered by the government. The change in the price of such services is closely tied to the change in the general level of prices in the economy, that is, inflation.

The results show that a variation of 1% in prices would lead to a variation of $270 million, or 0.3 percentage point, in total spending.

- ***Population***

Spending is affected by changes in total population and by changes in the size of the clientele for certain services.

For example, a variation of 1% in the total population would change total spending by $580 million, that is, 0.7 percentage point.

TABLE D.20

Sensitivity of program spending to a variation of 1% in each economic and demographic variable

		Impact for fiscal 2018-2019	
Variables		$million	Percentage point
Prices			
Inflation	Total spending	270	0.3
Population			
Total population	Total spending	580	0.7
	By portfolio		
	– Santé et Services sociaux		0.7
	– Éducation et Enseignement supérieur		0.8
	– Famille		1.0
	– Other		0.6
0-4 years	Total spending	50	0.1
5-16 years	Total spending	110	0.1
17-24 years	Total spending	110	0.1
65 years and over	Total spending	180	0.2

3.2.2 Debt service

❑ Adjustments for 2018-2019

In 2018-2019, debt service amounts to $9.1 billion, that is, $7.8 billion for direct debt service and over $1.3 billion in interest on the liability for the retirement plans and other future benefits of public and parapublic sector employees.

Compared with March 2018, debt service is adjusted downward by $248 million in 2018-2019 because of accelerated repayment of the debt from the Generations Fund, lower-than-expected long-term interest rates and a smaller debt.

❑ Outlook for 2019-2020 and 2020-2021

Overall, debt service will stand at $9.2 billion in 2019-2020 and $9.5 billion in 2020-2021, representing growth of 1.0% and 3.0%, respectively.

In 2019-2020 and 2020-2021, direct debt service will grow mainly because of the anticipated increase in interest rates and the government's capital investments.

Interest on the liability for the retirement plans and other employee future benefits will decrease due to the fact that the investment income of the Retirement Plans Sinking Fund (RPSF) increases every year.

TABLE D.21

Change in debt service
(millions of dollars)

	March 2018		December 2018 update		
	2018-2019	**Adjustments**	**2018-2019**	**2019-2020**	**2020-2021**
Direct debt service(1)	7 991	–218	7 773	8 134	8 489
Interest on the liability for the retirement plans and other employee future benefits(2)	1 389	–30	1 359	1 087	1 006
TOTAL	**9 380**	**–248**	**9 132**	**9 221**	**9 495**
% change			***–1.2***	***1.0***	***3.0***

(1) Direct debt service includes the income of the Sinking Fund for government borrowings. This income, which is applied against debt service, consists of interest generated on investments as well as gains and losses on disposal. Given that the revenue forecast for the Sinking Fund for government borrowings is closely tied to the change in interest rates, it may be adjusted upward or downward.
(2) This corresponds to the interest on obligations relating to the retirement plans and other employee future benefits of public and parapublic sector employees, minus the investment income of the Retirement Plans Sinking Fund, individual funds and funds for other employee future benefit programs.

❑ Risks and sensitivity analysis

■ Risks

The main risk associated with the debt service forecast is a higher-than-anticipated increase in interest rates or a lower-than-anticipated return on the RPSF.[2]

The RPSF is an asset that was created for the purpose of paying the retirement benefits of public and parapublic sector employees, and it is managed by the Caisse de dépôt et placement du Québec.

The income of the RPSF is applied against debt service. Therefore, a lower-than-expected return on the RPSF would lead to an increase in debt service.

■ Sensitivity analysis

A greater-than-anticipated rise in interest rates of 1 percentage point over a full year would increase the interest expenditure by roughly $250 million.

A return of 1 percentage point less than the anticipated return on the RPSF would lead to a $20-million increase in debt service the following year.

A change in the value of the Canadian dollar compared with other currencies would have no impact on debt service because the government's debt has no foreign currency exposure.

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2 With its investment policy, which is based on a long-term horizon, the RPSF should generate an annual return of 6.35%.

APPENDIX 1: FINANCIAL FRAMEWORK FOR THE GENERAL FUND AND CONSOLIDATED ENTITIES

TABLE D.22

Financial framework for the General Fund and consolidated entities
(millions of dollars)

	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
GENERAL FUND						
Revenue						
Own-source revenue excluding revenue from government enterprises	57 346	59 208	60 604	62 443	64 470	66 641
% change	*4.6*	*3.2*	*2.4*	*3.0*	*3.2*	*3.4*
Revenue from government enterprises	4 660	4 183	4 010	4 153	4 334	4 587
% change	*–1.6*	*–10.2*	*–4.1*	*3.6*	*4.4*	*5.8*
Federal transfers	20 072	21 040	22 450	23 227	23 737	24 277
% change	*8.0*	*4.8*	*6.7*	*3.5*	*2.2*	*2.3*
Total revenue	**82 078**	**84 431**	**87 064**	**89 823**	**92 541**	**95 505**
% change	***5.0***	***2.9***	***3.1***	***3.2***	***3.0***	***3.2***
Program spending	–72 428	–76 490	–79 683	–82 297	–84 912	–87 568
% change	*4.4*	*5.6*	*4.2*	*3.3*	*3.2*	*3.1*
Debt service	–7 148	–6 878	–6 757	–6 771	–6 634	–6 671
% change	*–5.2*	*–3.8*	*–1.8*	*0.2*	*–2.0*	*0.6*
Total expenditure	**–79 576**	**–83 368**	**–86 440**	**–89 068**	**–91 546**	**–94 239**
% change	***3.5***	***4.8***	***3.7***	***3.0***	***2.8***	***2.9***
NET RESULTS OF CONSOLIDATED ENTITIES						
Non-budget-funded bodies and special funds(1)	225	567	–493	–474	–486	–516
Bodies in the health and social services and education networks	–105	20	–31	–31	–9	—
Generations Fund	2 293	2 851	2 499	2 687	2 953	3 245
Total consolidated entities	**2 413**	**3 438**	**1 975**	**2 182**	**2 458**	**2 729**
Contingency reserve	—	—	–100	–100	–100	–100
SURPLUS	**4 915**	**4 501**	**2 499**	**2 837**	**3 353**	**3 895**
BALANCED BUDGET ACT						
Deposits of dedicated revenues in the Generations Fund	–2 293	–2 851	–2 499	–2 687	–2 953	–3 245
BUDGETARY BALANCE(2)	**2 622**	**1 650**	**—**	**150**	**400**	**650**

(1) These results include consolidation adjustments.
(2) Budgetary balance within the meaning of the *Balanced Budget Act*.

TABLE D.23

Change in the revenue of the General Fund
(millions of dollars)

	2017-2018	2018-2019
Own-source revenue		
Own-source revenue excluding revenue from government enterprises		
Income and property taxes		
Personal income tax	22 870	23 722
% change	*0.8*	*3.7*
Contributions to the Health Services Fund	7 506	7 514
% change	*4.1*	*0.1*
Corporate taxes	6 094	6 412
% change	*15.5*	*5.2*
Consumption taxes	19 164	19 873
% change	*6.8*	*3.7*
Other revenue sources	1 712	1 687
% change	*0.2*	*–1.5*
Subtotal	57 346	59 208
% change	*4.6*	*3.2*
Revenue from government enterprises	4 660	4 183
% change	*–1.6*	*–10.2*
Subtotal	**62 006**	**63 391**
% change	***4.1***	***2.2***
Federal transfers		
Equalization	11 081	11 732
% change	*10.5*	*5.9*
Health transfers	6 096	6 342
% change	*2.5*	*4.0*
Transfers for post-secondary education and other social programs	1 648	1 617
% change	*0.8*	*–1.9*
Other programs	1 247	1 349
% change	*28.4*	*8.2*
Subtotal	**20 072**	**21 040**
% change	***8.0***	***4.8***
TOTAL	**82 078**	**84 431**
% change	***5.0***	***2.9***

APPENDIX 2: INFORMATION ACCORDING TO THE GOVERNMENT'S FINANCIAL ORGANIZATION

Presentation of the financial framework according to the government's financial organization allows the level of revenue and expenditure to be set out for each of the sectoral components in the government's reporting entity, which constitute the structure of the financial organization put in place.

The **General Fund** is made up of money paid into the Consolidated Revenue Fund that has not been credited to a special fund under legislative provisions. The General Fund's expenditures consist mainly of program spending by departments and budget-funded bodies.

Special funds are entities set up by law to finance certain activities within government departments and bodies. Legislative provisions determine which sums paid into the Consolidated Revenue Fund must be credited to a special fund.

- The **Generations Fund** is different from the other special funds in that it is dedicated exclusively to repaying the government's debt.

A specified purpose account is a financial management mechanism that enables a department to record separately sums paid into the Consolidated Revenue Fund by a third party under a contract or an agreement that provides for the allocation of the sums to a specific purpose and to incur equivalent expenditures without having to obtain or use appropriations voted by Parliament.

Tax-funded expenditures consist of refundable tax credits for individuals and corporations, which are similar to taxation-related transfer expenditures, and expenditures related to doubtful tax accounts.

Non-budget-funded bodies were created to provide specific public services. They have more autonomy than budget-funded bodies.

Bodies in the health and social services network include integrated health and social services centres as well as other public institutions and regional authorities. They include, for example, local community service centres, hospitals, residential and long-term care centres, child and youth protection centres and rehabilitation centres.

Bodies in the education networks consist of school boards, the Comité de gestion de la taxe scolaire de l'île de Montréal, CEGEPs and the Université du Québec and its constituents.

Consolidation adjustments stem mainly from the elimination of reciprocal transactions between entities in different sectors. Accordingly, the revenue and expenditure of each sector are presented before the elimination of these transactions. However, reciprocal transactions between entities in the same sector are eliminated before the sectoral amounts are determined.

TABLE D.24

Financial framework for consolidated revenue and expenditure by sector

(millions of dollars)

	2018-2019	2019-2020	2020-2021
Revenue			
General Fund	84 431	87 064	89 823
Special funds	14 023	14 876	14 960
Generations Fund	2 851	2 499	2 687
Specified purpose accounts	1 548	939	838
Non-budget-funded bodies	21 295	22 005	22 594
Bodies in the health and social services network	27 235	28 146	29 371
Bodies in the education networks	17 806	18 510	19 146
Tax-funded transfers(1)	7 101	7 479	7 741
Consolidation adjustments(2)	–63 820	–66 555	–68 939
Total consolidated revenue	**112 470**	**114 963**	**118 221**
Expenditure			
Mission expenditures			
General Fund (program spending)	–76 490	–79 683	–82 297
Special funds	–12 056	–13 470	–13 243
Specified purpose accounts	–1 548	–939	–838
Non-budget-funded bodies	–20 622	–21 350	–21 728
Bodies in the health and social services network	–26 678	–27 508	–28 656
Bodies in the education networks	–17 335	–18 036	–18 623
Tax-funded expenditures(1)	–7 101	–7 479	–7 741
Consolidation adjustments(2)	62 993	65 322	67 337
Total mission expenditures	**–98 837**	**–103 143**	**–105 789**
Debt service			
General Fund	–6 878	–6 757	–6 771
Consolidated entities(3)	–2 254	–2 464	–2 724
Total debt service	**–9 132**	**–9 221**	**–9 495**
Total consolidated expenditure	**–107 969**	**–112 364**	**–115 284**
Contingency reserve	—	–100	–100
SURPLUS	**4 501**	**2 499**	**2 837**
BALANCED BUDGET ACT			
Deposits of dedicated revenues in the Generations Fund	–2 851	–2 499	–2 687
BUDGETARY BALANCE(4)	**1 650**	**—**	**150**

(1) These amounts include doubtful tax accounts.
(2) These adjustments result mainly from the elimination of reciprocal transactions between entities in different sectors.
(3) These amounts include consolidation adjustments.
(4) Budgetary balance within the meaning of the *Balanced Budget Act*.

❑ Generations Fund

Revenues dedicated to the Generations Fund amount to $2.9 billion in 2018-2019 and will reach $2.5 billion in 2019-2020 and $2.7 billion in 2020-2021.

TABLE D.25

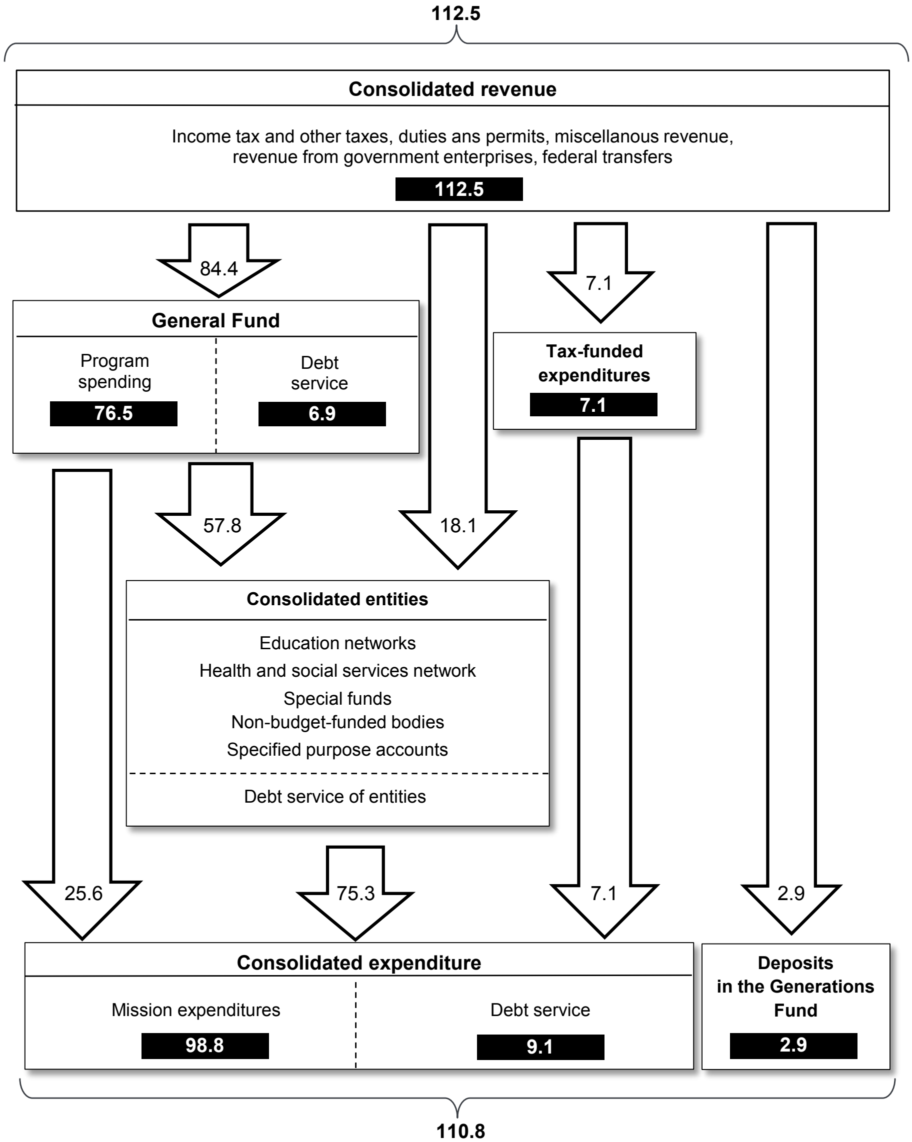
Summary of the budgetary transactions of the Generations Fund
(millions of dollars)

	2018-2019	2019-2020	2020-2021
Revenue			
Consumption taxes			
Specific tax on alcoholic beverages	500	500	500
Subtotal	**500**	**500**	**500**
Duties and permits			
Water-power royalties	794	815	842
Mining revenues	230	245	295
Subtotal	**1 024**	**1 060**	**1 137**
Miscellaneous revenue			
Unclaimed property	15	15	15
Investment income	855	404	425
Subtotal	**870**	**419**	**440**
Government enterprises			
Indexation of the price of heritage electricity	242	305	395
Additional contribution from Hydro-Québec	215	215	215
Subtotal	**457**	**520**	**610**
TOTAL	**2 851**	**2 499**	**2 687**

Revenue and expenditure: the funding of public services

In 2018-2019, the government's consolidated revenue of $112.5 billion is funding public services, or mission expenditures, and debt service. A portion of this revenue is also being dedicated to the Generations Fund.

Funding of public services in Québec, 2018-2019
(billions of dollars)



Note: Totals may not add due to rounding.

The consolidation rule

The information included in the government's financial framework is presented on a consolidated basis, as it appears in its Public Accounts.

To establish a consolidated financial framework, it is necessary to:

– group together the revenue and expenditure of all of the entities included in the government's reporting entity;
  - To be included in the government's reporting entity, the entities must be under the government's control. Control is defined as the power to oversee the financial and administrative policies of an entity such that its activities engender gains or losses for the government.
  - By way of indication, the grouping together of the expenditures of nearly 350 entities in the government's reporting entity represents transactions totalling nearly $177 billion.

– eliminate reciprocal transactions between entities in the reporting entity. The elimination is essential to avoid double accounting of revenue and expenditure.
  - For example, without the elimination of reciprocal transactions, funding by the Ministère de la Santé et des Services sociaux for healthcare institutions would be accounted for twice: as an expenditure of the General Fund and as an expenditure of the health and social services network.
  - By way of indication, more than $69 billion in transactions are eliminated when expenditures are consolidated.

The following table shows the amounts associated with government spending and the elimination of reciprocal transactions between entities in the same sector (intrasectoral eliminations) and different sectors (intersectoral eliminations), for a level of consolidated expenditure of nearly $108 billion.

Consolidated expenditure
(millions of dollars)

	2018-2019
General Fund	83 368
Special funds	14 802
Specified purpose accounts	1 548
Non-budget-funded bodies	25 133
Health and social services and education networks	45 021
Tax-funded expenditures	7 101
Total expenditure before eliminations	**176 973**
Intrasectoral eliminations	
Between special funds	–1 041
Between non-budget-funded bodies	–3 946
Intersectoral eliminations	–64 017
Total eliminations	**–69 004**
TOTAL CONSOLIDATED EXPENDITURE	**107 969**

TABLE D.26

Detailed financial framework by sector

(millions of dollars)

	2018-2019			
	Consolidated Revenue Fund			
	General Fund	Special funds	Generations Fund	Specified purpose accounts
Revenue				
Personal income tax	23 722	825	—	—
Contributions for health services	7 514	—	—	—
Corporate taxes	6 412	210	—	—
School property tax	—	—	—	—
Consumption taxes	19 873	2 490	500	—
Duties and permits	295	2 446	1 024	—
Miscellaneous revenue	1 392	2 327	870	188
Government enterprises	4 183	—	457	—
Own-source revenue	**63 391**	**8 298**	**2 851**	**188**
Québec government transfers	—	4 946	—	—
Federal transfers	21 040	779	—	1 360
Total revenue	**84 431**	**14 023**	**2 851**	**1 548**
Expenditure				
Health and Social Services	–38 541	–231	—	–164
Education and Culture	–20 429	–130	—	–141
Economy and Environment	–6 005	–6 972	—	–1 047
Support for Individuals and Families	–6 538	–2 910	—	—
Administration and Justice(3)	–4 977	–1 813	—	–196
Mission expenditures	**–76 490**	**–12 056**	**—**	**–1 548**
Debt service	–6 878	–1 705	—	—
Total expenditure	**–83 368**	**–13 761**	**—**	**–1 548**
Contingency reserve	—	—	—	—
SURPLUS (DEFICIT)	**1 063**	**262**	**2 851**	**—**
BALANCED BUDGET ACT				
Deposits of dedicated revenues in the Generations Fund			–2 851	
BUDGETARY BALANCE(4)				

(1) These amounts include doubtful tax accounts.
(2) These amounts stem from the reclassification of abatements and consolidation adjustments resulting mainly from the elimination of reciprocal transactions between entities in different sectors.
(3) These amounts include the Contingency Fund reserve.
(4) Budgetary balance within the meaning of the *Balanced Budget Act*.

2018-2019					
Tax-funded expenditures[1]	Non-budget-funded bodies	Bodies in the health and social services network	Bodies in the education networks	Consolidation adjustments[2]	Consolidated results
4 999	—	—	—	1 650	31 196
—	—	—	—	–1 343	6 171
1 899	—	—	—	—	8 521
—	—	—	1 860	—	1 860
203	28	—	—	–2 054	21 040
—	427	—	—	—	4 192
—	5 779	2 507	1 836	–4 048	10 851
—	—	—	—	—	4 640
7 101	**6 234**	**2 507**	**3 696**	**–5 795**	**88 471**
—	13 954	24 569	13 941	–57 410	—
—	1 107	159	169	–615	23 999
7 101	**21 295**	**27 235**	**17 806**	**–63 820**	**112 470**
–821	–13 545	–26 678	—	37 886	–42 094
–502	–566	—	–17 335	15 315	–23 788
–1 462	–3 533	—	—	4 045	–14 974
–3 608	–222	—	—	3 053	–10 225
–708	–2 756	—	—	2 694	–7 756
–7 101	**–20 622**	**–26 678**	**–17 335**	**62 993**	**–98 837**
—	–565	–557	–451	1 024	–9 132
–7 101	**–21 187**	**–27 235**	**–17 786**	**64 017**	**–107 969**
—	—	—	—	—	—
—	**108**	**—**	**20**	**197**	**4 501**
					–2 851
					1 650

TABLE D.27

Detailed financial framework by sector

(millions of dollars)

	2019-2020			
	Consolidated Revenue Fund			
	General Fund	Special funds	Generations Fund	Specified purpose accounts
Revenue				
Personal income tax	24 736	856	—	—
Contributions for health services	7 713	—	—	—
Corporate taxes	5 845	218	—	—
School property tax	—	—	—	—
Consumption taxes	20 611	2 524	500	—
Duties and permits	312	2 248	1 060	—
Miscellaneous revenue	1 387	2 600	419	171
Government enterprises	4 010	35	520	—
Own-source revenue	**64 614**	**8 481**	**2 499**	**171**
Québec government transfers	—	5 035	—	—
Federal transfers	22 450	1 360	—	768
Total revenue	**87 064**	**14 876**	**2 499**	**939**
Expenditure				
Health and Social Services	–40 076	–219	—	–142
Education and Culture	–21 371	–143	—	–41
Economy and Environment	–6 233	–8 114	—	–691
Support for Individuals and Families	–6 653	–3 054	—	—
Administration and Justice(3)	–5 350	–1 940	—	–65
Mission expenditures	**–79 683**	**–13 470**	**—**	**–939**
Debt service	–6 757	–1 904	—	—
Total expenditure	**–86 440**	**–15 374**	**—**	**–939**
Contingency reserve	–100	—	—	—
SURPLUS (DEFICIT)	**524**	**–498**	**2 499**	**—**
BALANCED BUDGET ACT				
Deposits of dedicated revenues in the Generations Fund			–2 499	
BUDGETARY BALANCE(4)				

(1) These amounts include doubtful tax accounts.
(2) These amounts stem from the reclassification of abatements and consolidation adjustments resulting mainly from the elimination of reciprocal transactions between entities in different sectors.
(3) These amounts include the Contingency Fund reserve.
(4) Budgetary balance within the meaning of the *Balanced Budget Act*.

2019-2020					
Tax-funded expenditures(1)	Non-budget-funded bodies	Bodies in the health and social services network	Bodies in the education networks	Consolidation adjustments(2)	Consolidated results
5 221	—	—	—	1 689	32 502
—	—	—	—	–1 380	6 333
2 036	—	—	—	—	8 099
—	—	—	1 738	—	1 738
222	28	—	—	–2 093	21 792
—	440	—	—	—	4 060
—	5 873	2 575	1 867	–4 233	10 659
—	—	—	—	—	4 565
7 479	**6 341**	**2 575**	**3 605**	**–6 017**	**89 748**
—	14 760	25 412	14 735	–59 942	—
—	904	159	170	–596	25 215
7 479	**22 005**	**28 146**	**18 510**	**–66 555**	**114 963**
–870	–14 127	–27 508	—	39 085	–43 857
–526	–530	—	–18 036	16 044	–24 603
–1 450	–3 657	—	—	4 218	–15 927
–3 884	–229	—	—	3 218	–10 602
–749	–2 807	—	—	2 757	–8 154
–7 479	**–21 350**	**–27 508**	**–18 036**	**65 322**	**–103 143**
—	–612	–638	–505	1 195	–9 221
–7 479	**–21 962**	**–28 146**	**–18 541**	**66 517**	**–112 364**
—	—	—	—	—	–100
—	**43**	**—**	**–31**	**–38**	**2 499**
					–2 499
					—

TABLE D.28

Detailed financial framework by sector
(millions of dollars)

	2020-2021			
	Consolidated Revenue Fund			
	General Fund	Special funds	Generations Fund	Specified purpose accounts
Revenue				
Personal income tax	25 867	884	—	—
Contributions for health services	7 899	—	—	—
Corporate taxes	5 930	225	—	—
School property tax	—	—	—	—
Consumption taxes	21 052	2 572	500	—
Duties and permits	307	2 290	1 137	—
Miscellaneous revenue	1 388	2 830	440	153
Government enterprises	4 153	65	610	—
Own-source revenue	**66 596**	**8 866**	**2 687**	**153**
Québec government transfers	—	5 069	—	—
Federal transfers	23 227	1 025	—	685
Total revenue	**89 823**	**14 960**	**2 687**	**838**
Expenditure				
Health and Social Services	–41 662	–227	—	–130
Education and Culture	–22 096	–151	—	–36
Economy and Environment	–6 298	–7 717	—	–627
Support for Individuals and Families	–6 777	–3 121	—	—
Administration and Justice(3)	–5 464	–2 027	—	–45
Mission expenditures	**–82 297**	**–13 243**	**—**	**–838**
Debt service	–6 771	–2 127	—	—
Total expenditure	**–89 068**	**–15 370**	**—**	**–838**
Contingency reserve	–100	—	—	—
SURPLUS (DEFICIT)	**655**	**–410**	**2 687**	**—**
BALANCED BUDGET ACT				
Deposits of dedicated revenues in the Generations Fund			–2 687	
BUDGETARY BALANCE(4)				

(1) These amounts include doubtful tax accounts.
(2) These amounts stem from the reclassification of abatements and consolidation adjustments resulting mainly from the elimination of reciprocal transactions between entities in different sectors.
(3) These amounts include the Contingency Fund reserve.
(4) Budgetary balance within the meaning of the *Balanced Budget Act*.

2020-2021					
Tax-funded expenditures(1)	Non-budget-funded bodies	Bodies in the health and social services network	Bodies in the education networks	Consolidation adjustments(2)	Consolidated results
5 327	—	—	—	1 731	33 809
—	—	—	—	–1 418	6 481
2 180	—	—	—	—	8 335
—	—	—	1 811	—	1 811
234	29	—	—	–2 157	22 230
—	469	—	—	—	4 203
—	6 091	2 648	1 896	–4 436	11 010
—	—	—	—	—	4 828
7 741	**6 589**	**2 648**	**3 707**	**–6 280**	**92 707**
—	15 166	26 564	15 268	–62 067	—
—	839	159	171	–592	25 514
7 741	**22 594**	**29 371**	**19 146**	**–68 939**	**118 221**
–920	–14 504	–28 656	—	40 460	–45 639
–551	–535	—	–18 623	16 570	–25 422
–1 516	–3 571	—	—	4 211	–15 518
–3 967	–234	—	—	3 274	–10 825
–787	–2 884	—	—	2 822	–8 385
–7 741	**–21 728**	**–28 656**	**–18 623**	**67 337**	**–105 789**
—	–674	–715	–554	1 346	–9 495
–7 741	**–22 402**	**–29 371**	**–19 177**	**68 683**	**–115 284**
—	—	—	—	—	–100
—	**192**	**—**	**–31**	**–256**	**2 837**
					–2 687
					150

APPENDIX 3: ADDITIONAL INFORMATION ON MISSION EXPENDITURES

This appendix presents additional information on mission expenditures according to the government's financial organization.

❑ Program spending by major portfolio

Program spending is forecast to increase by 5.6% in 2018-2019. It will grow by 4.2% in 2019-2020 and 3.3% in 2020-2021. In particular:

— program spending growth for the Santé et Services sociaux portfolio is 5.1% in 2018-2019 and 4.0% in 2019-2020;

— program spending growth for the Éducation et Enseignement supérieur portfolio is 7.9% in 2018-2019 and 4.6% in 2019-2020;

— overall program spending growth for the other portfolios stands at 4.5% in 2018-2019 and 4.1% in 2019-2020.

TABLE D.29

Program spending by major portfolio
(millions of dollars)

	2017-2018	2018-2019	2019-2020	2020-2021
Santé et Services sociaux	36 733	38 576	40 117	41 704
% change	*3.7*	*5.1*(1)	*4.0*	*4.0*
Éducation et Enseignement supérieur	17 972	19 303	20 193	20 897
% change	*5.3*	*7.9*(1)	*4.6*	*3.5*
Other portfolios(2)	17 723	18 611	19 373	19 695
% change	*5.0*	*4.5*(1)	*4.1*	*1.7*
PROGRAM SPENDING	**72 428**	**76 490**	**79 683**	**82 297**
% change	***4.4***	***5.6***	***4.2***	***3.3***

Note: Totals may not add due to rounding.
(1) To assess growth in 2018-2019 based on comparable spending levels, the percentage changes for that year were calculated by excluding, from 2017-2018 expenditures, transfers from the provision for francization attributed to the Santé et Services sociaux ($12 million) and the Éducation et Enseignement supérieur ($79 million) portfolios and including them in the 2017-2018 expenditures of the other portfolios.
(2) These amounts include the Contingency Fund reserve.

❑ Mission expenditures of special funds

The mission expenditures of special funds stand at $12.1 billion in 2018-2019. This spending will total $13.5 billion in 2019-2020 and $13.2 billion in 2020-2021.

TABLE D.30

Mission expenditures of special funds
(millions of dollars)

	2018-2019	2019-2020	2020-2021
Land Transportation Network Fund	3 668	4 733	4 338
Educational Childcare Services Fund	2 444	2 588	2 662
Labour Market Development Fund	1 128	1 167	1 206
Tax Administration Fund	962	1 001	1 036
Green Fund	783	921	861
Police Services Fund	657	670	686
Natural Resources Fund – Sustainable Forest Development Component	553	560	570
Economic Development Fund	399	299	183
Health and Social Services Informational Resources Fund	217	219	227
Tourism Partnership Fund	225	212	204
Other funds and consolidation adjustments(1)	1 019	1 099	1 271
TOTAL	**12 056**	**13 470**	**13 243**

(1) These amounts include the elimination of reciprocal transactions between special funds.

❑ Mission expenditures of non-budget-funded bodies

The mission expenditures of non-budget-funded bodies stand at $20.6 billion in 2018-2019. This spending will total $21.4 billion in 2019-2020 and $21.7 billion in 2020-2021.

TABLE D.31

Mission expenditures of non-budget-funded bodies
(millions of dollars)

	2018-2019	2019-2020	2020-2021
Régie de l'assurance maladie du Québec(1)	12 874	13 441	13 792
Agence du revenu du Québec	1 206	1 245	1 282
Société d'habitation du Québec	1 185	1 209	1 097
Société québécoise des infrastructures	868	841	869
Société de financement des infrastructures locales du Québec	638	626	674
Centre de services partagés du Québec	536	556	555
Héma-Québec	439	447	469
La Financière agricole du Québec	425	456	445
Société de l'assurance automobile du Québec	280	278	278
Other bodies and consolidation adjustments(2)	2 171	2 251	2 266
TOTAL	**20 622**	**21 350**	**21 728**

(1) These amounts include the cost of prescription drugs and pharmaceutical services funded by the Fonds de l'assurance médicaments.
(2) These amounts include the elimination of reciprocal transactions between non-budget-funded bodies.

❑ Mission expenditures for the networks

■ Bodies in the health and social services network

The mission expenditures of bodies in the health and social services network stand at $26.7 billion in 2018-2019, which represents a change of 4.0%. This spending will total $27.5 billion in 2019-2020 and $28.7 billion in 2020-2021, representing a change of 3.1% and 4.2%, respectively, for these two years.

TABLE D.32

Mission expenditures of bodies in the health and social services network
(millions of dollars)

	2018-2019	2019-2020	2020-2021
Mission expenditures	26 678	27 508	28 656
% change	*4.0*	*3.1*	*4.2*

■ Bodies in the education networks

The mission expenditures of bodies in the education networks stand at $17.3 billion in 2018-2019, which represents a change of 5.6%. This spending will total $18.0 billion in 2019-2020 and $18.6 billion in 2020-2021, representing a change of 4.0% and 3.3%, respectively, for these two years.

TABLE D.33

Mission expenditures of bodies in the education networks
(millions of dollars)

	2018-2019	2019-2020	2020-2021
Mission expenditures	17 335	18 036	18 623
% change	*5.6*	*4.0*	*3.3*

❑ Tax-funded mission expenditures

Tax-funded mission expenditures amount to $7.1 billion in 2018-2019, which represents a change of 9.5% relative to the previous year. This spending will total $7.5 billion in in 2019-2020 and $7.7 billion in 2020-2021, representing an increase of 5.3% and 3.5%, respectively.

TABLE D.34

Tax-funded mission expenditures
(millions of dollars)

	2018-2019	2019-2020	2020-2021
Mission expenditures	7 101	7 479	7 741
% change	*9.5*	*5.3*	*3.5*

Tax-funded transfers – Counterpart of expenditure

Tax-funded transfers consist of refundable tax credits granted under the personal and corporate tax systems, as well as doubtful tax accounts.

In 2018-2019, tax-funded transfers stand at $7.1 billion, including:

- nearly $5.0 billion provided for under the personal income tax system;
- nearly $1.9 billion provided for under the corporate tax system;
- over $200 million provided for under the consumption taxes.

Tax-funded transfers
(millions of dollars)

	2018-2019	2019-2020	2020-2021
Personal income tax	4 999	5 221	5 327
Corporate taxes	1 899	2 036	2 180
Consumption taxes	203	222	234
TOTAL	**7 101**	**7 479**	**7 741**
% change	***9.5***	***5.3***	***3.5***

Recap of the expenditure shortfall to be offset presented in the pre-election report

The Ministère des Finances establishes the multi-year spending target for the period covered by the financial framework.

– This target is established essentially on the basis of the government's fiscal policy directions.

– It hinges, in particular, on program renewal costs, revenue trends, and analysis and monitoring during the year of the government's revenue and expenditure.

At the same time, the Secretariat du Conseil du trésor estimates, in collaboration with government departments and bodies, the cost of renewing government programs.

– The cost of renewing government programs represents the assessment of costs associated with the renewal of service delivery and existing programs.

The multi-year spending target is viewed in relation to the cost of renewing government programs in order to control the existing annual gap, if applicable.

– When the gap is positive, priorities must be established and choices involving measures to control or reallocate spending or raise the spending target could be made to reduce or even eliminate the shortfall to be offset.

On the basis of the March 2018 financial framework and the adjustments recorded in August 2018, there is no gap between government program renewal costs and the spending target for 2018-2019.

– The shortfall to be offset stands at $868 million in 2019-2020 and $739 million in 2020-2021.

On average, in the last four expenditure budgets, the shortfall to be offset for the year following that of the budget has been $854 million.

Shortfall to be offset in mission expenditures
(millions of dollars)

	2018-2019	2019-2020	2020-2021
Cost of renewing government programs	99 379	102 630(1)	105 409(1),(2)
Mission expenditure objective	99 379	101 762	104 670
SHORTFALL TO BE OFFSET	**—**	**868**	**739**
% mission expenditures	***0.0***	***0.9***	***0.7***

(1) This amount includes a cost forecast of $200 million a year for the actuarial valuation of the retirement plans.
(2) This amount includes a $250-million provision for the forecasting risk, which compensates for the fact that program renewal costs tend to be more uncertain in the final years of the financial framework.
Source: *Pre-Election Report on the State of Québec's Public Finances – August 2018*.

APPENDIX 4: ENTITIES INCLUDED IN THE GOVERNMENT REPORTING ENTITY

TABLE D.35

Entities included in the government reporting entity

Affaires municipales et Habitation	
Ministère des Affaires municipales et de l'Habitation	Dept
Commission municipale du Québec	BFB
Régie du logement	BFB
Territories Development Fund	SF
Régie du bâtiment du Québec	NBFB
Société d'habitation du Québec	NBFB
Agriculture, Pêcheries et Alimentation	
Ministère de l'Agriculture, des Pêcheries et de l'Alimentation	Dept
Commission de protection du territoire agricole du Québec	BFB
Régie des marchés agricoles et alimentaires du Québec	BFB
La Financière agricole du Québec	NBFB
National Assembly	
National Assembly	Other
Conseil du trésor et Administration gouvernementale	
Secrétariat du Conseil du trésor	Dept
Commission de la fonction publique	BFB
Autorité des marchés publics	NBFB
Centre de services partagés du Québec	NBFB
Société québécoise des infrastructures	NBFB
Conseil exécutif	
Ministère du Conseil exécutif	Dept
Commission d'accès à l'information	BFB
Centre de la francophonie des Amériques	NBFB
Culture et Communications	
Ministère de la Culture et des Communications	Dept
Commission de toponymie	BFB
Conseil du patrimoine culturel du Québec	BFB
Conseil supérieur de la langue française	BFB
Office québécois de la langue française	BFB
Avenir Mécénat Culture Fund	SF
Québec Cultural Heritage Fund	SF
Bibliothèque et Archives nationales du Québec	NBFB
Conseil des arts et des lettres du Québec	NBFB
Conservatoire de musique et d'art dramatique du Québec	NBFB
Musée d'Art contemporain de Montréal	NBFB
Musée de la Civilisation	NBFB
Musée national des beaux-arts du Québec	NBFB
Société de développement des entreprises culturelles	NBFB
Société de la Place des Arts de Montréal	NBFB
Société de télédiffusion du Québec	NBFB
Société du Grand Théâtre de Québec	NBFB
Environnement et Lutte contre les changements climatiques	
Ministère de l'Environnement et de la Lutte contre les changements climatiques	Dept
Bureau d'audiences publiques sur l'environnement	BFB
Fund for the Protection of the Environment and the Waters in the Domain of the State	SF
Green Fund	SF
Conseil de gestion du Fonds vert	NBFB
Société québécoise de récupération et de recyclage	NBFB

Note: The budgetary structure of the departments is the same as in the March 2018 budget.
Legend: Dept: department; BFB: budget-funded body; SF: special fund; NBFB: non-budget-funded body; HSSE: bodies in the health and social services and education networks.

TABLE D.35 (cont.)

Entities included government reporting entity (cont.)

Économie et Innovation	
Ministère de l'Économie et de l'Innovation	Dept
Commission de l'éthique en science et en technologie	BFB
Mining and Hydrocarbon Capital Fund	SF
Economic Development Fund	SF
Centre de recherche industrielle du Québec	NBFB
Fonds de recherche du Québec – Nature et technologies	NBFB
Fonds de recherche du Québec – Santé	NBFB
Fonds de recherche du Québec – Société et culture	NBFB
Société du parc industriel et portuaire de Bécancour	NBFB
Éducation et Enseignement supérieur	
Ministère de l'Éducation et de l'Enseignement supérieur	Dept
Comité consultatif sur l'accessibilité financière aux études	BFB
Commission consultative de l'enseignement privé	BFB
Commission d'évaluation de l'enseignement collégial	BFB
Conseil supérieur de l'éducation	BFB
University Excellence and Performance Fund	SF
Sports and Physical Activity Development Fund	SF
Institut de tourisme et d'hôtellerie du Québec	NBFB
Institut national des mines	NBFB
General and vocational colleges (CEGEPs)	HSSE
School boards	HSSE
Université du Québec and its constituents	HSSE
Énergie et Ressources naturelles	
Ministère de l'Énergie et des Ressources naturelles	Dept
Territorial Information Fund	SF
Energy Transition Fund	SF
Natural Resources Fund	SF
Régie de l'énergie	NBFB
Société de développement de la Baie-James	NBFB
Société du Plan Nord	NBFB
Transition énergétique Québec	NBFB
Famille	
Ministère de la Famille	Dept
Curateur public	BFB
Educational Childcare Services Fund	SF
Early Childhood Development Fund	SF
Finances	
Ministère des Finances	Dept
Financing Fund	SF
Generations Fund	SF
Cannabis Sales Revenue Fund	SF
IFC Montréal Fund	SF
Fonds du Plan Nord	SF
Fund of the Financial Markets Administrative Tribunal	SF
Tax Administration Fund	SF
Agence du revenu du Québec	NBFB
Autorité des marchés financiers	NBFB
Financement-Québec	NBFB
Institut de la statistique du Québec	NBFB
Société de financement des infrastructures locales du Québec	NBFB
Government enterprises(1)	Other

(1) At the financial level, the net results of government enterprises are credited to the Finances portfolio. However, the administration of a government enterprise may come under another portfolio.

TABLE D.35 (cont.)

Entities included in the government reporting entity (cont.)

Forêts, Faune et Parcs	
Ministère des Forêts, de la Faune et des Parcs	Dept
Natural Resources Fund – Sustainable Forest Development Component	SF
Fondation de la faune du Québec	NBFB
Société des établissements de plein air du Québec	NBFB
Immigration, Diversité et Inclusion	
Ministère de l'Immigration, de la Diversité et de l'Inclusion	Dept
Justice	
Ministère de la Justice	Dept
Committee on the Remuneration of Judges	BFB
Committee on the Remuneration of Criminal and Penal Prosecuting Attorneys	BFB
Commission des droits de la personne et des droits de la jeunesse	BFB
Conseil de la justice administrative	BFB
Conseil de la magistrature	BFB
Conseil du statut de la femme	BFB
Directeur des poursuites criminelles et pénales	BFB
Office de la protection du consommateur	BFB
Human Rights Tribunal	BFB
Access to Justice Fund	SF
Crime Victims Assistance Fund	SF
Register Fund of the Ministère de la Justice	SF
Fund of the Administrative Tribunal of Québec	SF
Public Contracts Fund	SF
Commission des services juridiques	NBFB
Fonds d'aide aux actions collectives	NBFB
Office des professions du Québec	NBFB
Société québécoise d'information juridique	NBFB
Persons appointed by the National Assembly	
Ethics Commissioner	BFB
Lobbyists Commissioner	BFB
Chief Electoral Officer	BFB
Québec Ombudsman	BFB
Auditor General	BFB
Relations internationales et Francophonie	
Ministère des Relations internationales et de la Francophonie	Dept
Office Québec-Monde pour la jeunesse	NBFB
Santé et Services sociaux	
Ministère de la Santé et des Services sociaux	Dept
Commissaire à la santé et au bien-être	BFB
Office des personnes handicapées du Québec	BFB
Cannabis Prevention and Research Fund	SF
Caregiver Support Fund	SF
Health and Social Services Information Resources Fund	SF
Corporation d'urgences-santé	NBFB
Fonds de l'assurance médicaments	NBFB
Héma-Québec	NBFB
Institut national d'excellence en santé et en services sociaux	NBFB
Institut national de santé publique du Québec	NBFB
Régie de l'assurance maladie du Québec	NBFB
Integrated health and social services centres, other public institutions and regional authorities	HSSE

TABLE D.35 (cont.)

Entities included in the government reporting entity (cont.)

Sécurité publique	
Ministère de la Sécurité publique	Dept
Bureau des enquêtes indépendantes	BFB
Bureau du coroner	BFB
Comité de déontologie policière	BFB
Commissaire à la déontologie policière	BFB
Commissaire à la lutte contre la corruption	BFB
Commission québécoise des libérations conditionnelles	BFB
Régie des alcools, des courses et des jeux	BFB
Capitale-Nationale Region Fund	SF
Police Services Fund	SF
Commission de la capitale nationale du Québec	NBFB
École nationale de police du Québec	NBFB
École nationale des pompiers du Québec	NBFB

Tourisme	
Ministère du Tourisme	Dept
Tourism Partnership Fund	SF
Régie des installations olympiques	NBFB
Société du Centre des congrès de Québec	NBFB
Société du Palais des congrès de Montréal	NBFB

Transports	
Ministère des Transports	Dept
Commission des transports du Québec	BFB
Air Service Fund	SF
Rolling Stock Management Fund	SF
Highway Safety Fund	SF
Land Transportation Network Fund	SF
Société de l'assurance automobile du Québec	NBFB
Société des Traversiers du Québec	NBFB

Travail, Emploi et Solidarité sociale	
Ministère du Travail, de l'Emploi et de la Solidarité sociale	Dept
Commission des partenaires du marché du travail	BFB
Assistance Fund for Independent Community Action	SF
Labour Market Development Fund	SF
Goods and Services Fund	SF
Information Technology Fund of the Ministère de l'Emploi et de la Solidarité sociale	SF
Administrative Labour Tribunal Fund	SF
Fonds québécois d'initiatives sociales	SF
Office de la sécurité du revenu des chasseurs et piégeurs cris	BNFB

Section E

THE QUÉBEC GOVERNMENT'S DEBT

1. REDUCTION OF THE DEBT

1.1 Maintenance of the debt reduction objectives

The *Act to reduce the debt and establish the Generations Fund* provides that for fiscal 2025-2026, the gross debt may not exceed 45% of GDP, and the debt representing accumulated deficits may not exceed 17% of GDP.

This economic and financial update confirms that these objectives are being maintained.

Due to the maintenance of a budgetary balance, deposits of dedicated revenues in the Generations Fund and the economic growth that is contributing to reducing the debt burden, the government forecasts that the objective to reduce the:

— gross debt to 45% of GDP will be achieved in 2020-2021, or five years earlier than planned;

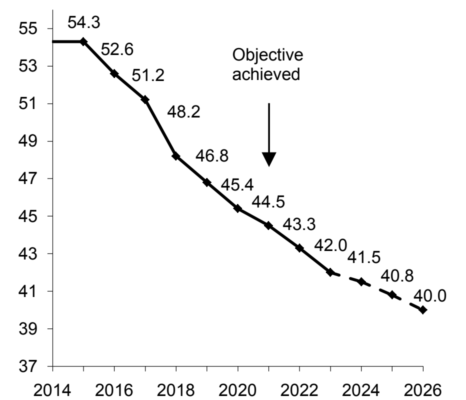
— debt representing accumulated deficits to 17% of GDP will be achieved in 2025-2026, as provided for in the Act.

A gradual decrease in the debt burden is thus planned in the coming years.

CHART E.1

Gross debt as at March 31

(percentage of GDP)

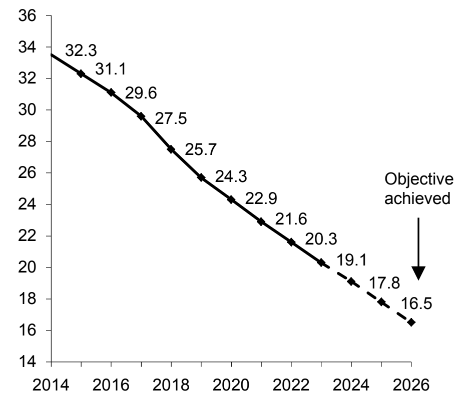


Note: These are projections as of 2024.

CHART E.2

Debt representing accumulated deficits as at March 31

(percentage of GDP)



Note: These are projections as of 2024.

❑ Control of the debt

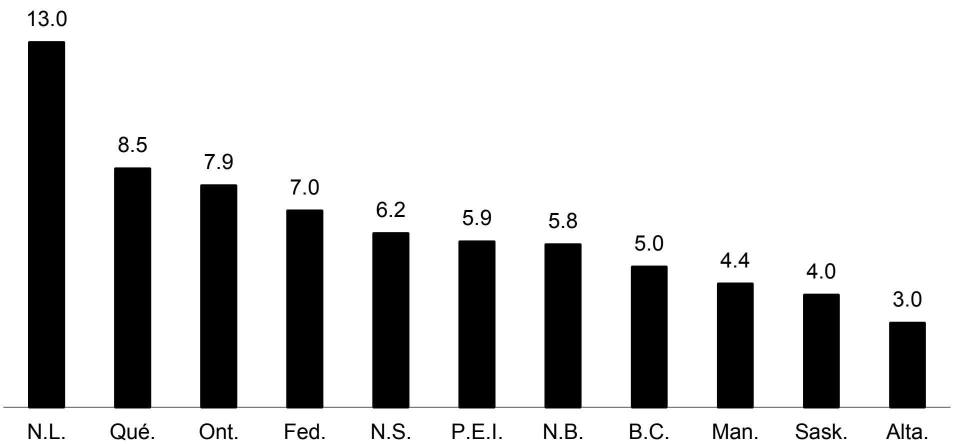
Québec's debt is high. The interest that Québec must pay on this debt taps a large proportion of the government's revenue.

In 2017-2018, $9.2 billion was paid in interest on the debt, or 8.5% of consolidated revenue. After Newfoundland and Labrador, it's in Québec that this ratio is the highest.

Each dollar paid in interest is a dollar less to fund public services.

CHART E.3

Debt service of governments in Canada in 2017-2018
(percentage of revenue)



Sources: Public Accounts of governments.

Reducing the debt will allow Québec notably to address:

— an aging population, which is leading to a decline in the potential labour pool;

— the need to maintain a high level of investment on public infrastructure;

— a possible economic slowdown resulting from the global economic situation.

Furthermore, the reduction of the debt burden is contributing to economic growth by creating a climate of confidence conducive to private investment and higher productivity. It also allows a reduction of the tax burden.

Reducing the debt burden: important to credit rating agencies

In light of the size of its debt, which must be refinanced on a regular basis, Québec has large borrowing requirements. To borrow at the lowest possible cost, Québec must make sure to have a good rating with the rating agencies that evaluate its credit quality.

Reducing the debt burden is important to credit rating agencies.

For example, in June 2018, Fitch credit rating agency noted that the stable outlook assigned to Québec's credit rating was based on the assumption that the debt burden would be reduced in the coming years:

> The Stable Outlook at the current rating level assumes the province retains its focus on lowering the burden of debt. The resumption of significant borrowing to support operating deficits would result in a downgrade.[1]

Moody's credit rating agency, for its part, noted that the stable outlook assigned to Québec's credit rating was based on the assumption that Québec would maintain a balanced budget over the medium term, making it possible to gradually reduce the debt burden:

> The rating outlook is stable reflecting the assumption that the province will succeed in recording balanced budgets across the medium term, allowing for a gradual decrease in the debt burden and stabilization of interest burden.[2]

1 Fitch, press release, June 8, 2018.
2 Moody's, *Credit Opinion*, June 19, 2018.

1.2 Acceleration of debt repayment

The debt reduction strategy, implemented in 2006, is to dedicate revenues to the Generations Fund every year and to entrust the management of these sums to the Caisse de dépôt et placement du Québec for it to obtain returns exceeding the government's borrowing costs.

This strategy has worked well. Since the first payment to the Generations Fund in January 2007, the return has been higher than the cost of new borrowings by the government 10 years out of 11 (see page E.12).

Ultimately, the Generations Fund must serve to reduce Québec's debt on the financial markets, so as to reduce the government's interest expenses.

In this context, this economic and financial update provides for acceleration in the repayment of the debt. A sum of $8 billion from the Generations Fund will be used by spring 2019 to repay borrowings on financial markets, or $6 billion by the end of fiscal 2018-2019 and $2 billion at the beginning of fiscal 2019-2020.[1]

— Taking into account the $2-billion repayment at the beginning of fiscal 2018-2019, $10 billion from the Generations Fund will have been used to reduce the debt on financial markets by spring 2019.

This accelerated debt repayment generates additional interest savings of $332 million over five years.

— In total, over five years, the debt repayments will free up $1.4 billion that can be used to fund public services.

The Generations Fund will continue to receive revenues dedicated to debt reduction every year, as provided for in the Act.

TABLE E.1

Use of the Generations Fund for debt repayment
(millions of dollars)

	2017-2018-	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	Total
Book value, beginning of year	**10 523**	**12 816**	**7 667**	**8 166**	**10 853**	**13 806**	
Revenues dedicated to the Generations Fund	2 293	2 851	2 499	2 687	2 953	3 245	
Use of the Generations Fund to repay borrowings	—	−8 000	−2 000	—	—	—	**−10 000**
BOOK VALUE, END OF YEAR	**12 816**	**7 667**	**8 166**	**10 853**	**13 806**	**17 051**	

1 Such action by the government does not require a legislative amendment.

❑ An approach that does not jeopardize achievement of debt reduction objectives

Accelerated repayment of the debt does not jeopardize achievement of debt reduction objectives.

This is due to the fact, among other things, that using the Generations Fund to repay the debt enables part of the investment gains to be realized, thereby profiting from the good returns recorded in recent years.

Accelerated repayment of the debt also allows a faster crystallization of investment gains and a reduced exposure of the amounts making up the Generations Fund to market risk.

In this regard, DBRS credit rating agency wrote in a commentary the morning after the October 1, 2018 election that faster withdrawals from the Generations Fund will help contain the cost of the debt in a context of rising interest rates:

> DBRS recognizes that this withdrawal will crystallize investment gains achieved in the Generations Fund and have a more immediate impact on containing interest costs in an environment of rising rates.[2]

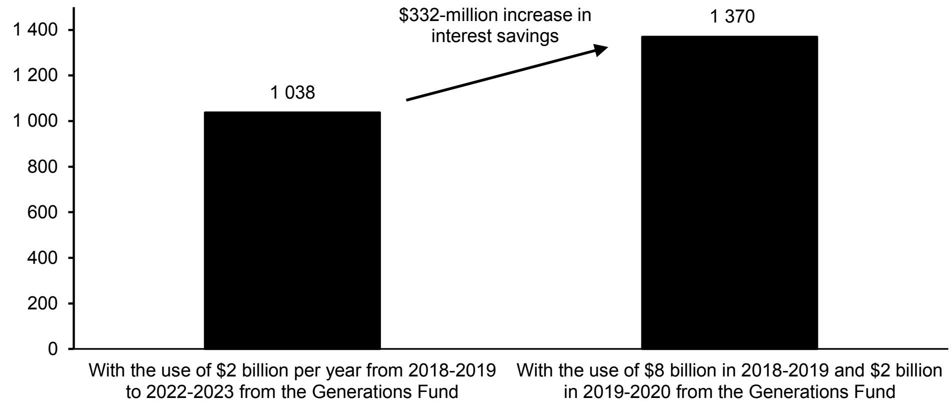
[2] DBRS, press release, October 2, 2018.

1.2.1 Additional interest savings of $332 million over five years

Compared with the timetable for using the Generations Fund forecast in the March 2018 budget, that is to say $2 billion per year from 2018-2019 to 2022-2023, accelerated repayment of the debt allows for additional savings for debt service of $332 million over five years.

CHART E.4

Additional interest savings stemming from the accelerated repayment of the debt over five years
(millions of dollars)



Use of the Generations Fund for debt repayment, at the rate of $8 billion in 2018-2019 and $2 billion in 2019-2020, thus frees up $1.4 billion over five years, which can be allocated to funding public services.

TABLE E.2

Interest savings resulting from repayment of the debt
(millions of dollars)

	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	Total
Interest savings on the debt	98	318	318	318	318	1 370

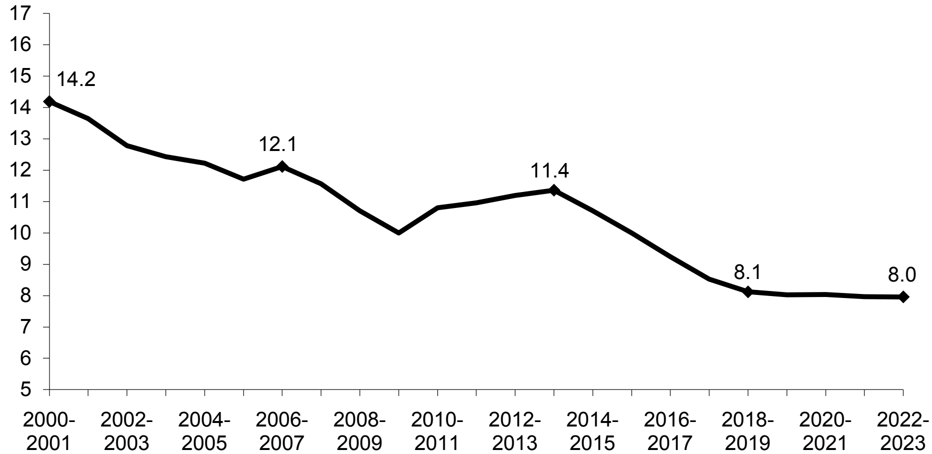
1.2.2 A decrease in the proportion of revenue devoted to debt service

A large proportion of the government's revenue is devoted to paying interest on the debt. However, this proportion is declining.

The proportion of revenue devoted to debt service stands at 8.1% in 2018-2019 due to, among other things, accelerated repayment of the debt from the Generations Fund.

CHART E.5

Debt service
(percentage of consolidated revenue)



1.3 Generations Fund

In 2018-2019, deposits to the Generations Fund amount to $2.9 billion.

These sums stem mainly from:

- the water-power royalties paid by Hydro-Québec and private producers of hydro-electricity;
- revenue stemming from the indexation of the price of heritage electricity;
- mining revenues;
- an amount from the specific tax on alcoholic beverages;
- investment income.

The Generations Fund should stand at $17.1 billion as at March 31, 2023.

TABLE E.3

Generations Fund
(millions of dollars)

	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
Book value, beginning of year	**10 523**	**12 816**	**7 667**	**8 166**	**10 853**	**13 806**
Dedicated revenues						
Water-power royalties						
Hydro-Québec	695	694	713	738	752	773
Private producers	102	100	102	104	107	108
Subtotal	**797**	**794**	**815**	**842**	**859**	**881**
Indexation of the price of heritage electricity	218	242	305	395	485	580
Additional contribution from Hydro-Québec	215	215	215	215	215	215
Mining revenues	145	230	245	295	325	358
Specific tax on alcoholic beverages	500	500	500	500	500	500
Unclaimed property	6	15	15	15	15	15
Investment income(1)	412	855	404	425	554	696
Total dedicated revenues	**2 293**	**2 851**	**2 499**	**2 687**	**2 953**	**3 245**
Use of the Generations Fund to repay borrowings	—	−8 000	−2 000	—	—	—
BOOK VALUE, END OF YEAR	**12 816**	**7 667**	**8 166**	**10 853**	**13 806**	**17 051**

(1) The investment income of the Generations Fund corresponds to realized investment income (interest income, dividends, gains on the disposal of assets, etc.). Therefore, the forecast may be adjusted upward or downward according to the timing of realized gains or losses. The increase in investment income in 2018-2019 can be explained, in particular, by the materialization of a portion of the investment gains resulting from the $8-billion Generations Fund withdrawal.

❑ Importance of the Generations Fund

The Generations Fund contributes directly to reducing the debt burden.

Without the deposits made in the Generations Fund, the ratio of gross debt to GDP would be much higher. As at March 31, 2023, the gross debt burden will stand at 42.0% of GDP. Without the Generations Fund, the forecast would be 47.7% of GDP, or 5.7 percentage points higher.

This difference means that in the absence of the Generations Fund, the anticipated gross debt as at March 31, 2023 would be $28.1 billion higher.[3]

On a per capita basis, this represents $3 253. As at March 31, 2023, the gross debt per capita will stand at $24 074. Without the Generations Fund, it would have reached $27 327 per capita.

CHART E.6

Gross debt as at March 31
(percentage of GDP)

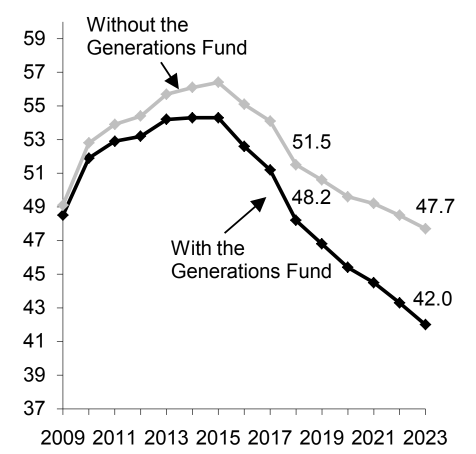
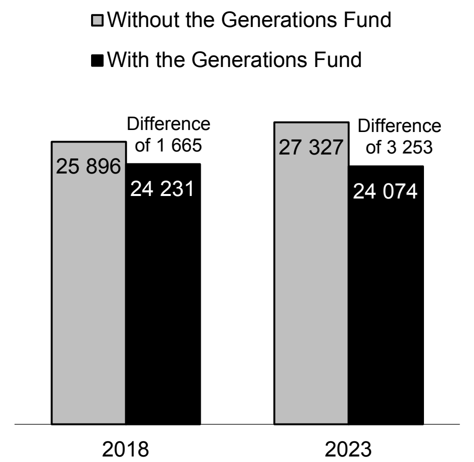


CHART E.7

Gross debt as at March 31
(dollars per capita)



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[3] The $28.1-billion difference is $11 billion higher than the balance of the Generations Fund as at March 31, 2023 ($17.1 billion) owing to the use of $11 billion from the Generations Fund to repay borrowings ($1 billion in 2013-2014, $8 billion in 2018-2019 and $2 billion in 2019-2020).

Returns and market value of the Generations Fund

Since the first deposit was made to the Generations Fund in January 2007, the return has been higher than the cost of new borrowings by the government 10 years out of 11.

– From 2007 to 2017, the average return was 5.6%, while the average cost of new borrowings was 3.5%, which represents a difference of 2.1 percentage points.

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	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
2015	8.1	2.4	5.7
2016	7.3	2.2	5.1
2017	8.5	2.5	6.0

(1) The government's borrowing costs correspond to the yield on 10-year maturity Québec bonds.
Source: PC-Bond for the yield on 10-year maturity Québec bonds.

Returns and market value of the Generations Fund (cont.)

The following table shows the book and market values of the Generations Fund since its creation. Book value is used to calculate the gross debt.

As at March 31, 2018, the market value of the Generations Fund was $2.3 billion higher.[1]

Book and market values of the Generations Fund as at March 31
(millions of dollars)

	Book value	Market value	Difference
2007	584	586	−2
2008	1 233	1 199	34
2009	1 952	1 646	306
2010	2 677	2 605	72
2011	3 437	3 599	−162
2012	4 277	4 508	−231
2013	5 238	5 636	−398
2014	5 659	6 373	−714
2015	6 938	8 271	−1 333
2016	8 522	9 717	−1 195
2017	10 523	12 324	−1 801
2018	12 816	15 101	−2 285

1 As at June 30, 2018, after the use of $2 billion at the beginning of fiscal 2018-2019, the book and market values of the Generations Fund stood at $11.5 billion and $13.8 billion, respectively. As at that date, the market value was thus $2.3 billion higher.

1.4 Gross debt

The gross debt represents the amount of debt issued on financial markets plus the net liability for the retirement plans and other future benefits of public and parapublic sector employees, minus the balance of the Generations Fund.

As at March 31, 2018, the gross debt stood at $201.1 billion, or 48.2% of GDP. The debt burden is expected to show a gradual and steady decline over the five-year forecast period. The ratio of gross debt to GDP will stand at 42.0% as at March 31, 2023.

TABLE E.4

Gross debt as at March 31
(millions of dollars)

		2017	2018	2019	2020	2021	2022	2023
Consolidated direct debt		189 366	191 984	192 897	196 500	204 406	210 928	217 155
Plus:	Retirement plans and other employee future benefits[1]	24 647	21 903	18 506	16 109	13 525	10 565	7 511
Less:	Generations Fund	−10 523	−12 816	−7 667	−8 166	−10 853	−13 806	−17 051
GROSS DEBT		**203 490**	**201 071**	**203 736**	**204 443**	**207 078**	**207 687**	**207 615**
% of GDP		***51.2***	***48.2***	***46.8***	***45.4***	***44.5***	***43.3***	***42.0***

(1) The net liability for the retirement plans and other employee future benefits is expected to decline mainly because of the Retirement Plans Sinking Fund (RPSF), which is an asset that grows at a faster pace than the corresponding liability.

1.4.1 Capital investments: the main factor responsible for the change in the gross debt

The gross debt will rise in absolute terms over the coming years, mainly because of the government's capital investments. However, the weight of the debt will decrease because of economic growth, which will be greater than the anticipated increase in the gross debt.

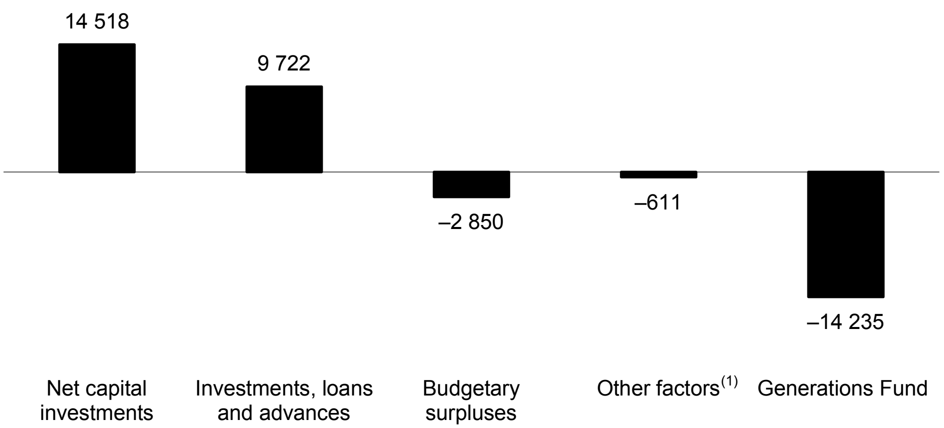
Over the next five years, from 2018-2019 to 2022-2023, the gross debt will rise overall by $6.5 billion, primarily because of net capital investments. This factor will increase the gross debt by $14.5 billion.

Investments, loans and advances[4] will increase the gross debt by $9.7 billion over five years.

Deposits in the Generations Fund will lead to a $14.2-billion reduction in the gross debt over five years.

CHART E.8

Factors responsible for the change in the gross debt over five years – 2018-2019 to 2022-2023
(millions of dollars)



(1) Other factors include, in particular, the change in other accounts, such as accounts receivable and accounts payable.

4 For example, Hydro-Québec pays the government every year a dividend corresponding to 75% of its net earnings. Hydro-Québec uses the portion of net earnings not paid to the government (25%) to fund its own investments, particularly hydroelectric dams. For the government, this constitutes an investment in Hydro-Québec that creates a financial requirement and thus an increase in the gross debt.

TABLE E.5

Factors responsible for the change in the Québec government's gross debt

(millions of dollars)

	Debt, beginning of year	Budgetary deficit (surplus)[1]	Investments, loans and advances	Net investment in the networks	Net capital investments[2]	Other factors[3]	Deposits in the Generation Fund	Total change	Debt, end of year	% of GDP
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[4]										
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	3 476[5]	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	54.3
2014-2015	197 807	1 143[6]	2 146		2 980	1 160	−1 279	6 150	203 957	54.3
2015-2016	203 957	−2 191	808		2 695	−338	−1 584	−610	203 347	52.6
2016-2017	203 347	−2 361	2 527		1 784	194	−2 001	143	203 490	51.2
2017-2018	203 490	−2 622	1 859		2 173	−1 536	−2 293	−2 419	201 071	48.2
2018-2019	201 071	−1 650	2 519		3 186	1 461	−2 851	2 665	203 736	46.8
2019-2020	203 736	—	2 037		3 131	−1 962	−2 499	707	204 443	45.4
2020-2021	204 443	−150	2 167		2 992	313	−2 687	2 635	207 078	44.5
2021-2022	207 078	−400	1 477		2 772	−287	−2 953	609	207 687	43.3
2022-2023	207 687	−650	1 522		2 437	−136	−3 245	−72	207 615	42.0

(1) The budgetary balance presented is the budgetary balance after use of the stabilization reserve.
(2) Investments made under public-private 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) 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.
(5) This amount includes the loss of $1 876 million stemming from activities abandoned following the closure of Hydro-Québec's Gentilly-2 nuclear power plant.
(6) The budgetary balance presented excludes the impact of accounting adjustments. The budgetary balance including accounting adjustments of $418 million is a deficit of $725 million.

Net capital investments

Net capital investments consist of gross investments minus depreciation expenses.

Even though gross investments have an impact on the gross debt, net capital investments are presented in the factors responsible for the change in the gross debt due to the fact that depreciation expenses are presented in the budgetary balance.

From 2018-2019 to 2022-2023, net capital investments will increase gross debt by $2.9 billion per year on average.

Net capital investments
(millions of dollars)

	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
Gross investments(1)	7 320	7 401	7 368	7 300	7 166
Less: Depreciation	−4 134	−4 270	−4 376	−4 528	−4 729
Net capital investments	**3 186**	**3 131**	**2 992**	**2 772**	**2 437**

(1) Gross investments includes those made under public-private partnership agreements and are presented net of the value of disposals.

1.5 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.

As at March 31, 2018, the net debt was $176.5 billion, or 42.3% 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, reaching 35.2% of GDP as at March 31, 2023.

TABLE E.6

Factors responsible for the change in the net debt
(millions of dollars)

	Debt, beginning of year	Budgetary deficit (surplus)	Net capital investments	Other	Revenues dedicated tothe Generations Fund	Total change	Debt, end of year	% of GDP
2012-2013	167 700	3 476(1)	4 863	4 959	−961	12 337	180 037	50.9
2013-2014	180 037	2 824	3 977	−2 302	−1 121	3 378	183 415	50.3
2014-2015	183 415	1 143(2)	2 980	−572	−1 279	2 272	185 687	49.4
2015-2016	185 687	−2 191	2 695	287	−1 453	−662	185 025	47.9
2016-2017	185 025	−2 361	1 784	−692	−2 001	−3 270	181 755	45.7
2017-2018	181 755	−2 622	2 173	−2 470(3)	−2 293	−5 212	176 543	42.3
2018-2019	176 543	−1 650	3 186	—	−2 851	−1 315	175 228	40.2
2019-2020	175 228	—	3 131	—	−2 499	632	175 860	39.0
2020-2021	175 860	−150	2 992	—	−2 687	155	176 015	37.8
2021-2022	176 015	−400	2 772	—	−2 953	−581	175 434	36.6
2022-2023	175 434	−650	2 437	—	−3 245	−1 458	173 976	35.2

(1) This amount includes the loss of $1 876 million stemming from activities abandoned following the closure of Hydro-Québec's Gentilly-2 nuclear power plant.
(2) The budgetary balance presented excludes the impact of accounting adjustments. The budgetary balance including accounting adjustments of $418 million is a deficit of $725 million.
(3) This decrease in the net debt is due, in particular, to the transfer on June 1, 2017 of the capital investments of the Agence métropolitaine de transport (AMT) to the Autorité régionale de transport métropolitain (ARTM) and to the Réseau de transport métropolitain (RTM), which are two entities excluded from the government reporting entity.

1.6 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. According to the *Act to reduce the debt and establish the Generations Fund*, this debt is the accumulated deficits figuring in the government's financial statements plus the balance of the stabilization reserve.

As at March 31, 2018, the debt representing accumulated deficits stood at $114.6 billion, or 27.5% of GDP. As a proportion of GDP, the debt representing accumulated deficits began to decrease in 2013-2014 and will continue to fall over the coming years, reaching 20.3% as at March 31, 2023.

TABLE E.7

Factors responsible for the change in the debt representing accumulated deficits
(millions of dollars)

	Debt, beginning of year	Budgetary deficit (surplus)	Allocation to the stabilization reserve	Accounting adjustments	Revenues dedicated to the Generations Fund	Total change	Debt, end of year	% of GDP
2012-2013	115 220	3 476(1)	—	4 880	−961	7 395	122 615	34.6
2013-2014	122 615	2 824	—	−2 308	−1 121	−605	122 010	33.5
2014-2015	122 010	1 143(2)	—	−606	−1 279	−742	121 268	32.3
2015-2016	121 268	−2 191	2 191	306	−1 453	−1 147	120 121	31.1
2016-2017	120 121	−2 361	2 361	−719	−2 001	−2 720	117 401	29.6
2017-2018	117 401	−2 622	2 622	−464	−2 293	−2 757	114 644	27.5
2018-2019	114 644	−1 650	1 650	—	−2 851	−2 851	111 793	25.7
2019-2020	111 793	—	—	—	−2 499	−2 499	109 294	24.3
2020-2021	109 294	−150	150	—	−2 687	−2 687	106 607	22.9
2021-2022	106 607	−400	400	—	−2 953	−2 953	103 654	21.6
2022-2023	103 654	−650	650	—	−3 245	−3 245	100 409	20.3

(1) This amount includes the loss of $1 876 million stemming from activities abandoned following the closure of Hydro-Québec's Gentilly-2 nuclear power plant.
(2) The budgetary balance presented excludes the impact of accounting adjustments. The budgetary balance including accounting adjustments of $418 million is a deficit of $725 million.

1.7 Comparison of the debt of governments in Canada

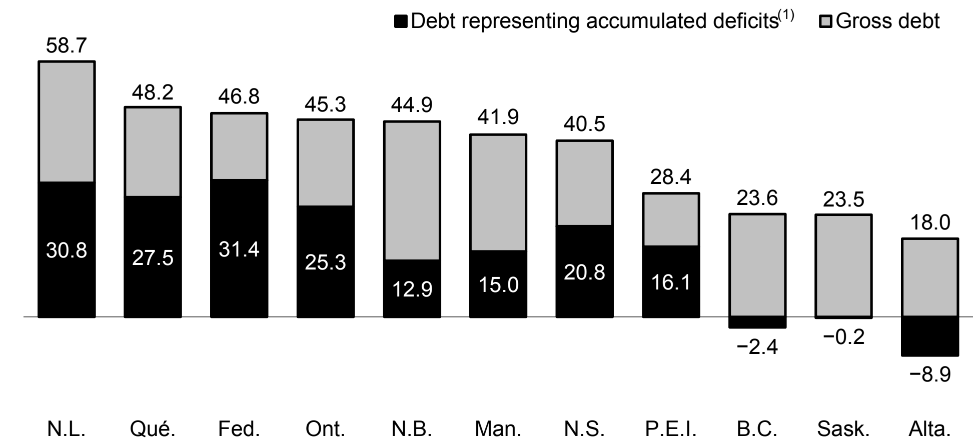
As a percentage of GDP, Québec is the second most indebted province after Newfoundland and Labrador.

Although Québec's debt load is decreasing, Québec is still more indebted than the average for the Canadian provinces.

- As at March 31, 2018, Québec's gross debt burden was 48.2% while the average for the provinces was 37.9%.[5]
- As at March 31, 2018, Québec's debt representing accumulated deficits was 27.5% while the average for the provinces was 15.2%.[5]

CHART E.9

Gross debt and debt representing accumulated deficits as at March 31, 2018
(percentage of GDP)



(1) A negative entry means that the government has an accumulated surplus.
Sources: Public Accounts of governments.

5 Weighted average.

2. FINANCING STRATEGY AND DEBT MANAGEMENT

2.1 Financing program

The government's financing program for 2018-2019 amounts to $12.3 billion, which is $1.1 billion less than forecast in the March 2018 budget. This downward revision can be attributed mainly to the use of $6 billion more from the Generations Fund to repay maturing borrowings in 2018-2019 and to anticipate the repayment of maturing borrowings in 2019-2020.

As at November 21, 2018, pre-financing of $416 million had been carried out.

TABLE E.8

The government's financing program in 2018-2019
(millions of dollars)

	March 2018	Revisions	December 2018
GENERAL FUND			
Net financial requirements(1)	5 012	−2 548	2 464
Repayments of borrowings	8 252	3 100	11 352
Use of the Generations Fund to repay borrowings	−2 000	−6 000	−8 000
Change in cash position(2)	−9 342	−405	−9 747
Deposits in the Retirement Plans Sinking Fund (RPSF)(3)	—	1 000	1 000
Contributions to the Sinking Fund for borrowings	—	1 000	1 000
Transactions under the credit policy(4)	—	657	657
Pre-financing	—	416	416
GENERAL FUND	**1 922**	**−2 780**	**−858**
FINANCING FUND	**10 100**	**1 800**	**11 900**
FINANCEMENT-QUÉBEC	**1 400**	**−100**	**1 300**
TOTAL	**13 422**	**−1 080**	**12 342(5)**
Including: repayments of borrowings	16 559	3 055	19 614

Note: A negative entry indicates a source of financing and a positive entry, a financial requirement.
(1) These amounts exclude the net financial requirements of consolidated entities funded through the Financing Fund. They are adjusted to take into account, in particular, the non-receipt of revenues of the RPSF and of funds dedicated to other employee future benefits.
(2) The change in cash position corresponds to pre-financing carried out the previous year.
(3) Deposits in the RPSF are optional. They are recorded in the financing program only once they are made.
(4) Under the credit policy, which is designed to limit financial risk with respect to counterparties, the government disburses or receives amounts following, in particular, movements in exchange rates. These amounts have no effect on the debt.
(5) This data is based on borrowings contracted as at November 21, 2018.

The financing program will amount to $13.2 billion in 2019-2020.

For the following three years, from 2020-2021 to 2022-2023, it will average $20.4 billion a year.

TABLE E.9

The government's financing program, 2019-2020 to 2022-2023
(millions of dollars)

	2019-2020	2020-2021	2021-2022	2022-2023
GENERAL FUND				
Net financial requirements[1]	527	1 879	1 966	2 190
Repayments of borrowings	3 506	6 153	10 152	7 882
Use of the Generations Fund to repay borrowings	−2 000	—	—	—
Change in cash position[2]	−416	—	—	—
GENERAL FUND	**1 617**	**8 032**	**12 118**	**10 072**
FINANCING FUND	**9 800**	**9 200**	**8 800**	**8 600**
FINANCEMENT-QUÉBEC	**1 800**	**1 700**	**1 500**	**1 100**
TOTAL	**13 217**	**18 932**	**22 418**	**19 772**
Including: repayments of borrowings	11 154	11 641	15 398	13 448

Note: A negative entry indicates a source of financing and a positive entry, a financial requirement.
(1) These amounts exclude the net financial requirements of consolidated entities funded through the Financing Fund. They are adjusted to take into account, in particular, the non-receipt of revenues of the RPSF and of funds dedicated to other employee future benefits.
(2) The change in cash position 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

Canada is the main market on which Québec contracts borrowings. In fact, the proportion of Québec's gross debt in Canadian dollars was 80.1%[6] as at March 31, 2018. However, international markets are crucial for diversifying Québec's sources of financing. Financing transactions are carried out regularly on most international markets, namely, the United States, Europe, Australia and Asia.

The government continues to market its bonds by meeting with current and potential buyers on a regular basis. Those from the United States and Europe are met with annually, and Asian buyers are met with when the opportunity arises.

From 2008-2009 to 2017-2018, an average of 20% of borrowings were contracted in foreign currency. Nonetheless, the government keeps no exposure of its debt to those currencies (see section 2.4).

In 2018-2019, the government has carried out 21.4% of its borrowings to date on foreign markets:

— 1 billion euros (CAN$1.5 billion);

— 500 million pounds sterling (CAN$868 million);

— AU$160 million (CAN$154 million);

— NZ$115 million (CAN$103 million).

6 This is the proportion before taking into account interest rate and currency swap agreements. The proportion of Québec’s gross debt in Canadian dollars was 100% after taking these agreements into account.

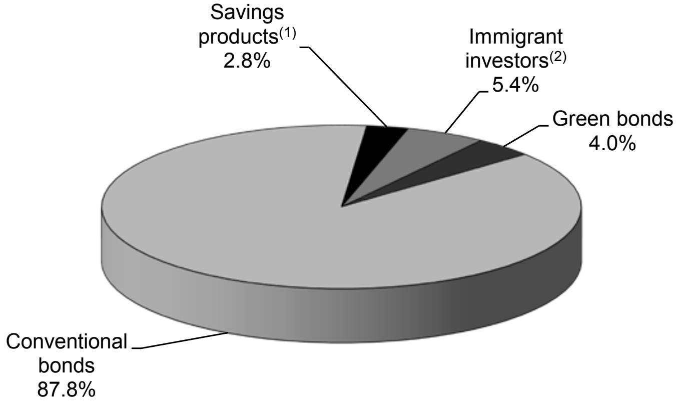
2.2.2 Diversification by instrument

To satisfy investors' needs, an extensive array of financial products is used in the course of financing transactions.

Long-term instruments consist primarily of conventional bonds.

CHART E.10

Long-term borrowings contracted in 2018-2019 by instrument
(per cent)



Note: The data are based on borrowings contracted as at November 21, 2018.
(1) Savings products issued by Épargne Placements Québec.
(2) These borrowings are from immigrant investors. The sums advanced by immigrant investors are lent to the government through Investissement Québec. With the income generated by the investments, Investissement Québec funds two assistance programs for Québec businesses: the Business Assistance – Immigrant Investor Program and the Employment Integration Program for Immigrants and Visible Minorities.

Green Bond program

In 2017, the government introduced a Green Bond program that funds projects providing tangible benefits with regard to protecting the environment, reducing greenhouse gas (GHG) emissions or adapting to climate change. Through this program, the government is contributing to, among other things, the development of a socially responsible investment market.

Three $500-million issues of green bonds have been made since the program's inception. Given the demand for Québec's green bonds and the government's commitment to the environment, Québec will be a regular issuer of green bonds.

For further details, please visit:
www.finances.gouv.qc.ca/en/RI_GB_Green_Bonds.asp.

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 2018-2019, 19.2% of the borrowings contracted to date have a maturity of less than 10 years, 54.4% have a maturity of 10 years and 26.4% have a maturity of 30 years or more.

TABLE E.10

Long-term borrowings[(1)] contracted in 2018-2019 by maturity
(per cent)

Maturity	%
Less than 10 years	19.2
10 years	54.4
30 years or more	26.4
TOTAL	**100.0**

Note: The data are based on borrowings contracted as at November 21, 2018.
(1) Long-term borrowings correspond to borrowings with a maturity of more than one year.

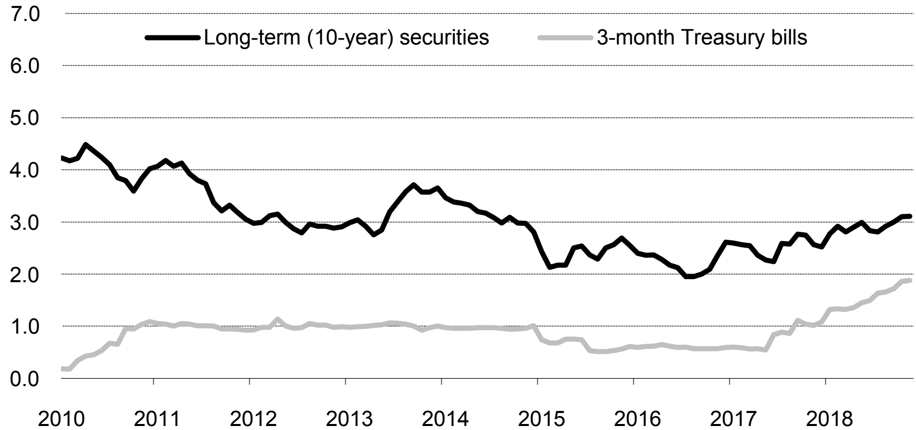
This diversification by maturity is reflected on the maturity of the debt. As at March 31, 2018, the average maturity of the debt, that is, of all borrowings contracted, was 10.4 years.

2.3 Yield on Québec's debt securities

The yield on the Québec government's 10-year securities is currently about 3.1%, while that on short-term securities (3-month Treasury bills) is roughly 1.9%.

CHART E.11

Yield on the Québec government's securities
(per cent)

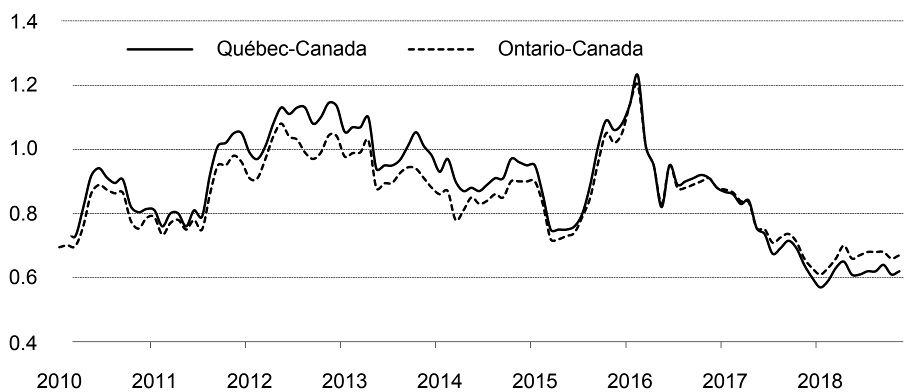


Sources: PC-Bond and Ministère des Finances du Québec.

In June 2017, Standard & Poor's rating agency raised Québec's credit rating. Since that announcement, a spread in favour of Québec has been observed between the yield on 10-year securities of Québec and those of Ontario.

CHART E.12

Yield spread on long-term (10-year) securities
(percentage points)



Source: PC-Bond.

2.4 Debt management strategy

The government's debt management strategy aims to minimize the cost of 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 (swaps), to achieve desired debt proportions by currency and interest rate.

❑ Structure of the gross debt by currency

As at March 31, 2018, before taking swaps into account, 80.1% of the gross debt was in Canadian dollars, 11.1% in U.S. dollars, 6.8% in euros, 0.8% in Australian dollars, 0.8% in Swiss francs and 0.4% in other foreign currencies (in yens, in Hong Kong dollars and in pounds sterling).

However, after taking swaps into account, the gross debt in its entirety was denominated in Canadian dollars.

Indeed, since 2012-2013, the government has maintained no exposure of its debt to foreign currencies.

Swaps help to neutralize the variations of foreign exchange rates on debt service.

TABLE E.11

Structure of the gross debt by currency as at March 31, 2018
(per cent)

	Before swaps	After swaps
Canadian dollar	80.1	100.0
U.S. dollar	11.1	0.0
Euro	6.8	0.0
Australian dollar	0.8	0.0
Swiss franc	0.8	0.0
Other (yen, Hong Kong dollar, pound sterling)	0.4	0.0
TOTAL	**100.0**	**100.0**

Note: Gross debt including pre-financing.

❑ Structure of the gross debt by interest rate

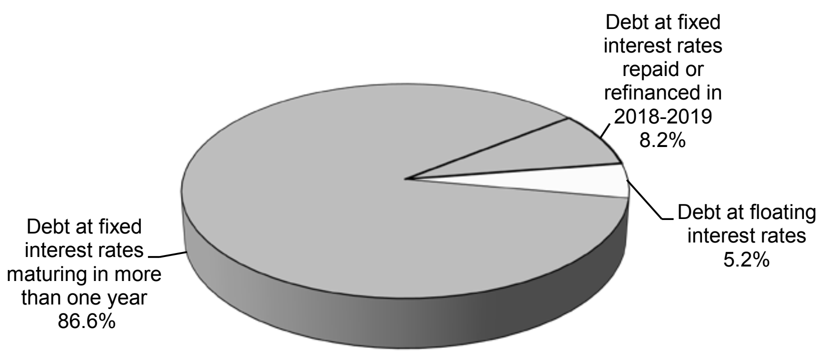
The government keeps part of its debt at fixed interest rates and part at floating interest rates.

As at March 31, 2018, after taking swaps into account, the proportion of the gross debt at fixed interest rates was 94.8%, while the proportion at floating interest rates was 5.2%.

In addition, as at March 31, 2018, the proportion of the gross debt repayable or subject to an interest rate change in 2018-2019 was 13.4%. This proportion includes the debt at floating interest rates (5.2%) as well as the debt at fixed rates repaid[7] or refinanced in 2018-2019 (8.2%).

CHART E.13

Structure of the gross debt by interest rate as at March 31, 2018
(per cent)



Note: Gross debt including pre-financing.

7 Includes, in particular, long-term borrowings that will be repaid through the use of $8 billion from the Generations Fund in 2018-2019.

3. CREDIT RATINGS

3.1 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 factors.

Among the main factors are the size, structure and vitality of the economy, the situation on the labour market, fiscal competitiveness and the budgetary situation, as well as debt and liquidity levels.

To express the quality of a borrower's credit, rating agencies use scales.

Québec's credit rating is evaluated by six credit rating agencies. These six agencies have currently assigned a stable outlook to Québec's credit rating.

TABLE E.12

The Québec government's credit ratings

Credit rating agency	Credit rating	Outlook
Moody's	Aa2	Stable
Standard & Poor's (S&P)	AA−	Stable
Fitch	AA−	Stable
DBRS	A (high)	Stable
Japan Credit Rating Agency (JCR)	AA+	Stable
China Chengxin International (CCXI)	AAA	Stable

A “AAA” rating from a Chinese credit rating agency

In August 2018, Québec obtained a credit rating from the largest Chinese rating agency, China Chengxin International (CCXI), with a view to eventually issuing bonds on the Chinese market.

CCXI gave Québec a “AAA” rating, the highest possible credit rating.

In its analysis report, CCXI underscored Québec's diversified economy.

❑ Credit ratings for long-term debt

The following table shows the rating scales used by rating agencies for long-term debt. The higher the credit quality, the higher will be the rating on the scale. This means, for example, that a borrower rated “AA” presents a lower credit risk than a borrower rated “A”.

The Québec government's current credit ratings are shown in boxes in the table below. They differ from one credit rating agency to another because of the methodology used by each agency to determine credit risk.

The three main international credit rating agencies (Moody's, S&P and Fitch) assign Québec a credit rating in the “AA” category.

DBRS is the only credit rating agency that assigns Québec a rating of less than the “AA” category. Keeping a fiscal balance and reducing the debt burden should allow this rating to be upgraded in the coming years. A rating in the “AA” category from DBRS would be a first for Québec.

TABLE E.13

Credit rating scales for long-term debt

	Moody's	S&P	Fitch	DBRS	JCR	CCXI
Highest credit quality ↑	Aaa	AAA	AAA	AAA	AAA	$\boxed{\text{AAA}}$
	Aa1	AA+	AA+	AA (high)	$\boxed{\text{AA+}}$	AA+
	$\boxed{\text{Aa2}}$	AA	AA	AA	AA	AA
	Aa3	$\boxed{\text{AA−}}$	$\boxed{\text{AA−}}$	AA (low)	AA−	AA−
	A1	A+	A+	$\boxed{\text{A (high)}}$	A+	A+
	A2	A	A	A	A	A
	A3	A−	A−	A (low)	A−	A−
	Baa1	BBB+	BBB+	BBB (high)	BBB+	BBB+
	Baa2	BBB	BBB	BBB	BBB	BBB
	Baa3	BBB−	BBB−	BBB (low)	BBB−	BBB−
	Ba1	BB+	BB+	BB (high)	BB+	BB+
	Ba2	BB	BB	BB	BB	BB
	Ba3	BB−	BB−	BB (low)	BB−	BB−
	B1	B+	B+	B (high)	B+	B+
	B2	B	B	B	B	B
	B3	B−	B−	B (low)	B−	B−

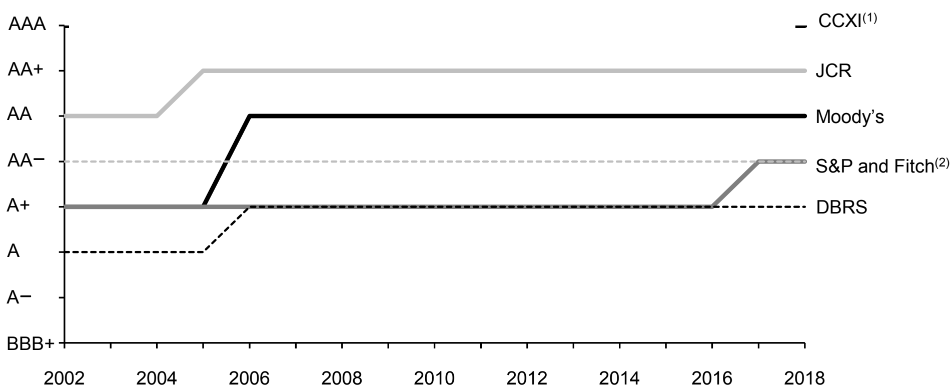
❑ Change in Québec's credit ratings

The following chart shows the change in Québec's credit ratings since 2002.

In June 2017, S&P raised Québec's credit rating from “A+” to “AA−”, a first since 1993. In fact, Québec recovered the credit rating it had with S&P from 1982 to 1993.

CHART E.14

Change in Québec's credit ratings



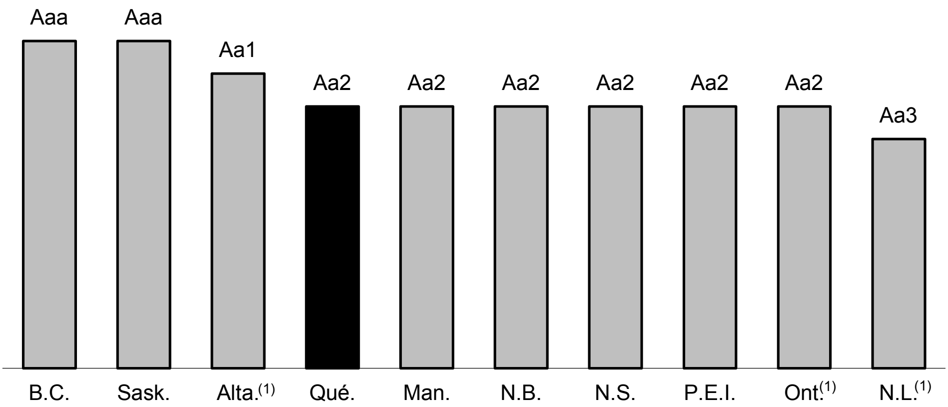
Note: The credit ratings for 2018 are those in effect as at November 21, 2018.
(1) CCXI has assigned Québec a credit rating since 2018.
(2) Fitch's credit rating is indicated by the dotted line.

3.2 Comparison of the credit ratings of the Canadian provinces

The following charts show the credit ratings of the Canadian provinces assigned by Moody's and Standard & Poor's as at November 21, 2018.

CHART E.15

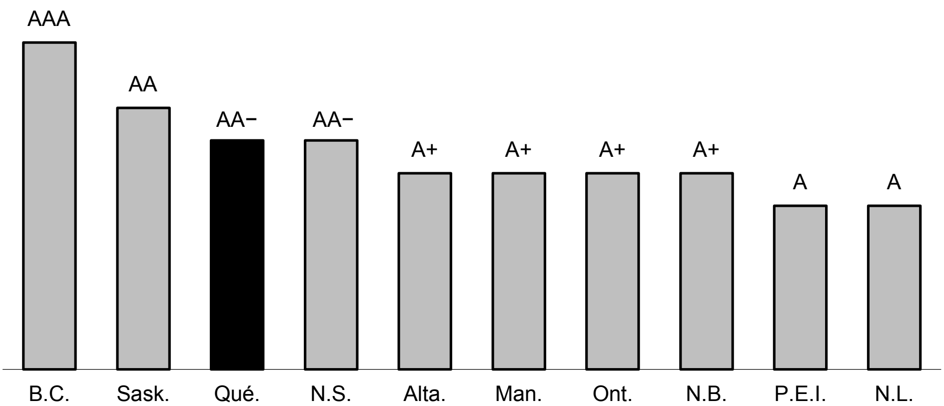
Credit ratings of the Canadian provinces – Moody's



(1) These provinces have a negative outlook.

CHART E.16

Credit ratings of the Canadian provinces – Standard & Poor's



APPENDIX 1: DIFFERENT CONCEPTS OF DEBT

Several concepts of debt are used to measure a government's indebtedness. The following table presents data on Québec's debt according to three concepts, namely, gross debt, net debt and debt representing accumulated deficits.

TABLE E.14

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

		2017	2018	2019
GROSS DEBT(1)		**203 490**	**201 071**	**203 736**
% of GDP		*51.2*	*48.2*	*46.8*
Less:	Financial assets, net of other liabilities	−21 735	−24 528	−28 508
NET DEBT		**181 755**	**176 543**	**175 228**
% of GDP		*45.7*	*42.3*	*40.2*
Less:	Non-financial assets	−68 906	−69 073	−72 259
Plus:	Stabilization reserve	4 552	7 174	8 824
DEBT REPRESENTING ACCUMULATED DEFICITS(2)		**117 401**	**114 644**	**111 793**
% of GDP		*29.6*	*27.5*	*25.7*

(1) The gross debt excludes pre-financing and takes into account the sums accumulated in the Generations Fund.
(2) According to the *Act to reduce the debt and establish the Generations Fund*, the debt representing accumulated deficits consists of the accumulated deficits figuring in the government's financial statements plus the balance of the stabilization reserve.

❑ 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, 2018, Québec's public sector debt stood at $270.3 billion, or 64.8% of GDP. These figures must be put into 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.

The ratio of public sector debt to GDP has been falling since 2015-2016.

TABLE E.15

Public sector debt as at March 31
(millions of dollars)

	2014	**2015**	**2016**	**2017**	**2018**
Government's gross debt	197 807	203 957	203 347	203 490	201 071
Hydro-Québec	40 361	41 662	43 843	42 882	43 160
Municipalities(1)	22 622	23 305	23 846	24 058	24 505
Universities other than the Université du Québec and its constituents(2)	1 610	1 624	1 608	1 656	1 321
Other government enterprises(3)	433	383	308	258	218
PUBLIC SECTOR DEBT	**262 833**	**270 931**	**272 952**	**272 344**	**270 275**
% of GDP	***72.1***	***72.1***	***70.7***	***68.6***	***64.8***

(1) These amounts correspond to the long-term debt contracted by municipalities in their own name. Part of this debt is subsidized by the government ($4 449 million as at March 31, 2018).
(2) 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 ($1 143 million as at March 31, 2018).
(3) These amounts correspond to the debt of the Financing Fund used to finance government enterprises and entities not included in the reporting entity.

APPENDIX 2: NET LIABILITY OF RETIREMENT PLANS AND OTHER EMPLOYEE FUTURE BENEFITS

The net liability for the retirement plans and other employee future benefits, which is included in the gross debt, is calculated by subtracting from the liability the balance of the sums accumulated to pay for these benefits. The balances concerned are those of the Retirement Plans Sinking Fund (RPSF), the Accumulated Sick Leave Fund and the Survivor's Pension Plan Fund.

As at March 31, 2018, the net liability for the retirement plans and other employee future benefits stood at $21.9 billion.

TABLE E.16

Net liability for the retirement plans and other employee future benefits as at March 31, 2018
(millions of dollars)

Retirement plans	
Liability for the Government and Public Employees Retirement Plan (RREGOP)	60 384
Liability for the Pension Plan of Management Personnel (PPMP) and the Retirement Plan for Senior Officials (RPSO)	19 360
Liability for the other plans(1)	17 694
Retirement plans liability	**97 438**
Less: Retirement Plans Sinking Fund (RPSF)	−75 417
Net retirement plans liability	**22 021**
Other employee future benefits	
Other employee future benefits liability	1 480
Less: Funds dedicated to other employee future benefits	−1 598
Net other employee future benefits liability	**−118**
NET LIABILITY FOR THE RETIREMENT PLANS AND OTHER EMPLOYEE FUTURE BENEFITS	**21 903**

(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.

❑ Retirement Plans Sinking Fund

The RPSF is an asset that was created in 1993 for the purpose of paying the retirement benefits of public and parapublic sector employees.

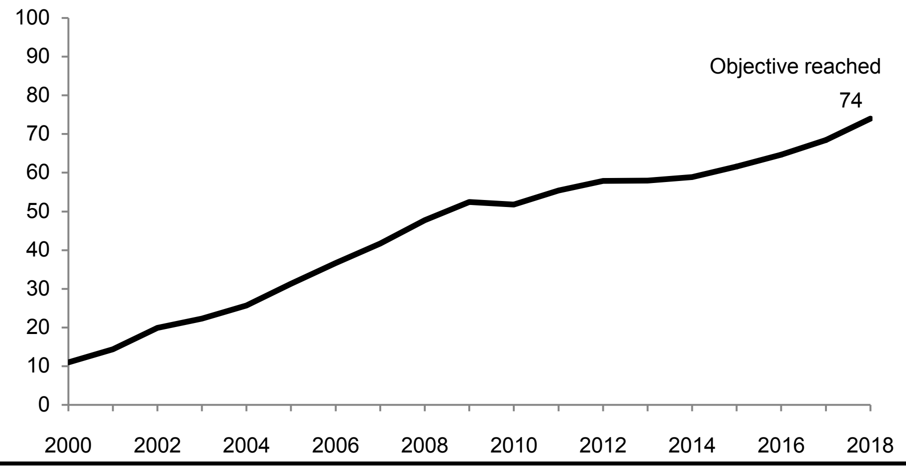
In December 1999, as part of the agreement concluded for the renewal of its employees' collective agreements, the government set the objective that the book value of the sums accumulated in the RPSF would be equal, in 2020, to 70% of its actuarial obligations in regard to the retirement plans of public and parapublic sector employees. This objective was reached earlier than anticipated since this proportion was 74% as at March 31, 2018.

Sums will continue to be accumulated in the RPSF so as to continue reducing the gap that exists between the government's actuarial obligations in regard to the retirement plans of public and parapublic sector employees and the sums held to meet these obligations. In fact, a $1-billion deposit was made in November 2018.

As in previous years, deposits in the RPSF will be made only when market conditions are favourable, particularly with respect to interest rates and market receptiveness to bond issues.

CHART E.17

Book value of the RPSF in proportion to the government's actuarial obligations regarding the retirement plans of public and parapublic sector employees as at March 31
(per cent)



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