

**NOVEMBER 2017 UPDATE**

THE QUÉBEC  
**ECONOMIC  
PLAN**

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The Québec Economic Plan – November 2017 Update

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# THE QUÉBEC ECONOMIC PLAN – NOVEMBER 2017 UPDATE

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# HIGHLIGHTS

The November 2017 update of the Québec Economic Plan provides an opportunity to report on Québec’s economic and budgetary situation.

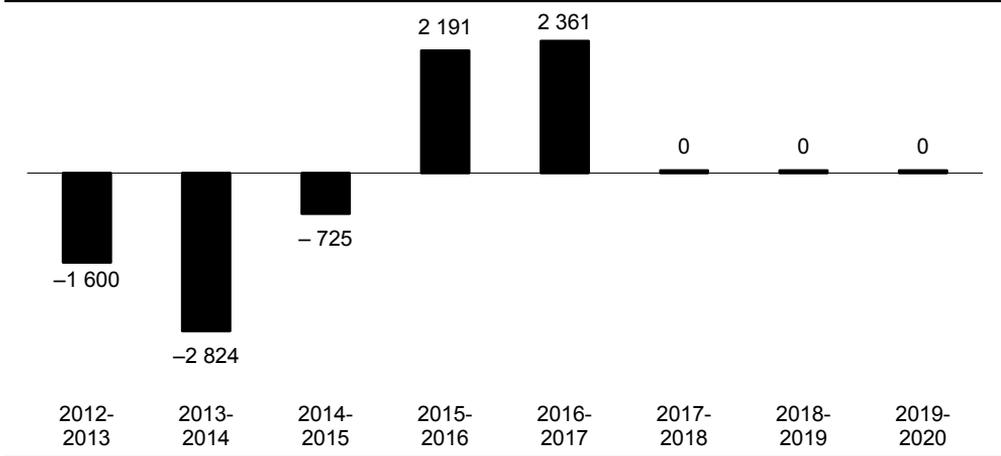
It is also an opportunity for the government to reiterate its fiscal and economic policy directions and to adapt them to the current situation.

More specifically, the update:

- confirms the achievement of a balanced budget as at March 31, 2017. A \$2.4-billion surplus was recorded in Public Accounts 2016-2017, reflecting, in particular, the excellent performance of the Québec economy;
- enhances the Québec Economic Plan, since the government is:
  - further easing the tax burden on individuals, by decreasing the tax rate applicable to the first dollars of earned income from 16% to 15% and introducing a supplement of \$100 per child per year for the purchase of school supplies,
  - investing more in public services for educational success, health, poverty reduction and regional economic development,
  - ensuring Quebecers have a higher income in retirement;
- continues reducing the debt.

CHART 1

**Budgetary balance,<sup>(1)</sup> 2012-2013 to 2019-2020**  
(millions of dollars)



(1) Budgetary balance within the meaning of the *Balanced Budget Act* after use of the stabilization reserve.

## 2016-2017: A RECORDED SURPLUS OF \$2.4 BILLION

The results published in Public Accounts 2016-2017 show a \$2.4-billion surplus. This surplus made it possible to reduce the gross debt in 2016-2017.

— This improvement reflects the excellent performance of the Québec economy combined with sound management of public finances.

The adjustments in relation to March 2017 are due to:

- higher-than-expected own-source revenue owing, in particular, to the fact that corporate tax revenues at year-end and growth in household consumption were higher than forecast;
- lower spending as a result of one-off factors; for example, expenditures incurred by bodies and funds were lower than planned;
- non-utilization of the contingency reserve.

TABLE 1

### Actual results in 2016-2017 relative to the March 2017 Québec Economic Plan (millions of dollars)

	2016-2017		
	March 2017	Adjustments	Actual results
<b>Consolidated revenue</b>			
Own-source revenue excluding government enterprises	77 215	614	77 829
Government enterprises	4 753	146	4 899
Federal transfers	20 498	-319	20 179
<b>Total – Consolidated revenue</b>	<b>102 466</b>	<b>441</b>	<b>102 907</b>
<b>% change</b>	<b>2.3</b>		<b>2.8</b>
<b>Consolidated expenditure</b>			
Program spending	-69 752	376	-69 376
Other consolidated expenditure <sup>(1)</sup>	-20 635	993	-19 642
<b>Mission expenditures</b>	<b>-90 387</b>	<b>1 369</b>	<b>-89 018</b>
<b>% change</b>	<b>4.5</b>		<b>2.9</b>
Debt service	-9 687	160	-9 527
<b>Total – Consolidated expenditure</b>	<b>-100 074</b>	<b>1 529</b>	<b>-98 545</b>
<b>% change</b>	<b>3.7</b>		<b>2.1</b>
Contingency reserve	-100	100	—
<b>SURPLUS</b>	<b>2 292</b>	<b>2 070</b>	<b>4 362</b>
<b>BALANCED BUDGET ACT</b>			
Deposits of dedicated revenues in the Generations Fund	-2 042	41	-2 001
<b>BUGETARY BALANCE<sup>(2)</sup></b>	<b>250</b>	<b>2 111</b>	<b>2 361</b>

(1) These results include consolidation adjustments.

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

## CONTINUED FISCAL BALANCE

### ❑ The Québec government's financial framework

In 2017-2018, consolidated revenue will reach \$106.5 billion, with growth of 3.5%, while consolidated expenditure will stand at \$104.2 billion, with growth of 5.7%, including 4.6% for program spending.

In 2018-2019, consolidated revenue will increase by 2.0% and consolidated expenditure by 2.9%.

In addition, deposits of revenues dedicated to the Generations Fund will reach \$2.5 billion in 2017-2018 and \$2.7 billion in 2018-2019.

The government plans to use a portion of the stabilization reserve in 2017-2018 and another portion in 2018-2019, amounting to \$250 million and \$1.4 billion, respectively.

The budget will remain balanced over the period covered by the financial framework.

TABLE 2

### Consolidated summary financial framework – November 2017 update (millions of dollars)

	2017-2018	2018-2019	2019-2020
Own-source revenue	83 677	86 255	89 189
% change	1.1	3.1	3.4
Federal transfers	22 793	22 391	23 220
% change	13.0	-1.8	3.7
<b>Consolidated revenue</b>	<b>106 470</b>	<b>108 646</b>	<b>112 409</b>
% change	3.5	2.0	3.5
Mission expenditures	-94 662	-97 628	-100 276
% change	6.3	3.1	2.7
Debt service	-9 508	-9 613	-9 753
% change	-0.2	1.1	1.5
<b>Consolidated expenditure</b>	<b>-104 170</b>	<b>-107 241</b>	<b>-110 029</b>
% change	5.7	2.9	2.6
Contingency reserve	-100	-100	-100
<b>SURPLUS</b>	<b>2 200</b>	<b>1 305</b>	<b>2 280</b>
<b>BALANCED BUDGET ACT</b>			
Deposits of dedicated revenues in the Generations Fund	-2 450	-2 712	-3 031
Use of the stabilization reserve	250	1 407	751
<b>BUDGETARY BALANCE<sup>(1)</sup></b>	<b>—</b>	<b>—</b>	<b>—</b>

(1) Budgetary balance within the meaning of the *Balanced Budget Act* after use of the stabilization reserve.

## ❑ Change in program spending

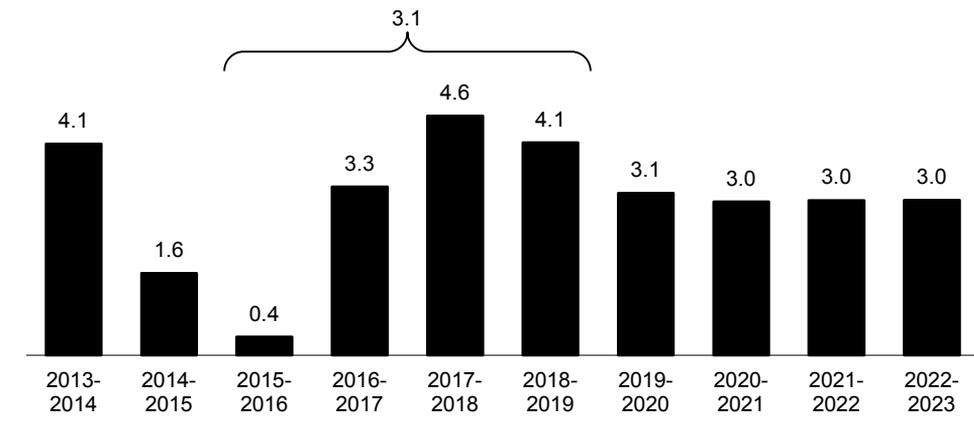
The forecast growth in program spending is 4.6% in 2017-2018, 4.1% in 2018-2019 and 3.1% in 2019-2020.

— The strong performance of the economy and sound management of public finances enable additional investments to be made in public services, particularly for families, education, higher education, health and support for the economy in all regions.

From 2015-2016 to 2018-2019, the growth rate of program spending will average 3.1% per year.

CHART 2

### Program spending growth – 2013-2014 to 2022-2023 (per cent)



## SIGNIFICANT ACCELERATION IN THE QUÉBEC ECONOMY

The Québec economy has accelerated sharply over the last two years. Growth in real gross domestic product (GDP) rose from 1.0% in 2015 to 1.4% in 2016. In 2017, real GDP growth will be 2.6%, an upward adjustment of 0.9 percentage point from the March 2017 forecast.

Several factors have contributed to the excellent economic situation:

- Québec's favourable budgetary situation, which has bolstered consumer and business confidence;
- sustained growth in household consumption, which can be attributed, in particular, to strong job creation. Stimulated by wage growth and tax relief, household disposable income grew more rapidly in Québec than in Canada;
- a rebound in non-residential business investment.

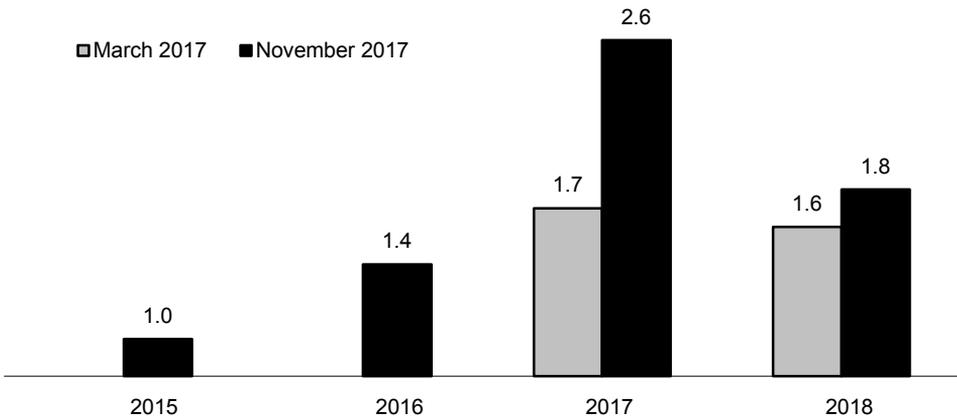
In addition, the improved economic situation of Québec's top trading partners and the more broadly based expansion of the global economy have stimulated exports.

The conditions are thus in place for the Québec economy to continue this positive trend.

- Real GDP is expected to grow by 1.8% in 2018, an upward adjustment of 0.2 percentage point relative to the March 2017 forecast.

CHART 3

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



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec. Based on the economic accounts of November 8, 2017.

## ADDITIONAL INVESTMENTS TOTALLING \$11.1 BILLION OVER SIX YEARS

The strong performance of the economy and the improvement of Québec's financial situation enable the government to announce additional investments of more than \$1.3 billion in 2017-2018. These investments represent \$11.1 billion over six years. In particular, the following initiatives are being announced:

- a reduction of \$6.3 billion in the tax burden on individuals, flowing from a decrease from 16% to 15% in the tax rate applicable to the first dollars of earned income and the introduction of a supplement of \$100 per child per year for the purchase of school supplies;
- additional sums totalling \$2.6 billion to reduce poverty;
- \$1.1 billion to improve educational success and invest more in health:
  - \$337 million in education and childhood,
  - \$107 million in higher education,
  - \$630 million in health and social services;
- \$667 million to support regional economies;
- \$544 million to ensure Quebecers have a higher income in retirement.

TABLE 3

### Additional investments under the November 2017 update

(millions of dollars)

	2017- 2018	2018- 2019	2019- 2020	Cumulative 6 years <sup>(1)</sup>
<b>Easing of the tax burden on individuals</b>	<b>1 083</b>	<b>1 067</b>	<b>1 001</b>	<b>6 272</b>
<b>Reduction of poverty</b>	<b>41</b>	<b>254</b>	<b>405</b>	<b>2 560</b>
<b>Investments in educational success and health</b>				
– Education and childhood	17	60	65	<b>337</b>
– Higher education	7	20	20	<b>107</b>
– Health and social services	105	105	105	<b>630</b>
<b>Subtotal</b>	<b>129</b>	<b>185</b>	<b>190</b>	<b>1 074</b>
<b>Support for regional economies</b>	<b>86</b>	<b>138</b>	<b>139</b>	<b>667</b>
<b>Ensuring a higher income in retirement</b>	<b>—</b>	<b>13</b>	<b>54</b>	<b>544</b>
<b>TOTAL</b>	<b>1 339</b>	<b>1 656</b>	<b>1 789</b>	<b>11 116</b>

Note: Totals may not add due to rounding.

(1) These additional investments include those for 2017-2018 to 2022-2023.

## PUBLIC CAPITAL INVESTMENTS AND THE DEBT

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

- Accordingly, investments under the 2018-2028 QIP will total \$91.1 billion, or the same level as under the 2017-2027 QIP.
- Capital investments of \$9.6 billion are expected in 2017-2018. They will reach \$10 billion a year in the three subsequent years.

### ▣ Debt reduction

Reducing the debt burden is a priority. It is a matter of intergenerational equity. Debt reduction requires balancing the budget every year and making deposits in the Generations Fund.

The Québec government has set debt reduction objectives that have been included in the *Act to reduce the debt and establish the Generations Fund*. For fiscal year 2025-2026:

- the gross debt must not exceed 45% of GDP;
- the debt representing accumulated deficits must not exceed 17% of GDP.

As at March 31, 2017, the gross debt burden stood at 51.9% of GDP, decreasing for the second year in a row. As at March 31, 2017, the debt representing accumulated deficits stood at 29.9% of GDP. It has been declining since 2013-2014.

CHART 4

### Gross debt as at March 31

(percentage of GDP)

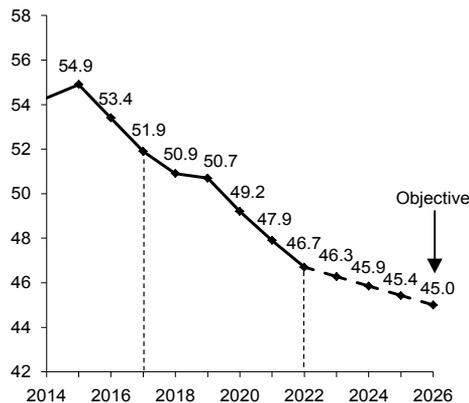
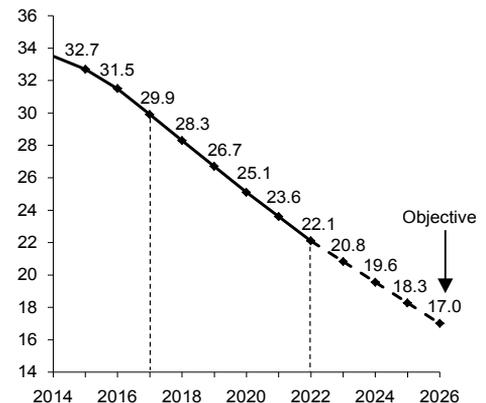


CHART 5

### Debt representing accumulated deficits as at March 31

(percentage of GDP)





# Section A

## QUÉBEC'S FINANCIAL SITUATION

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## INTRODUCTION

The government implemented the Québec Economic Plan in April 2014. This plan has made it possible to restore sound public finances, achieve budgetary surpluses in 2015-2016 and 2016-2017 and provide substantial support for economic recovery.

— In particular, a balanced budget was achieved in 2016-2017, for the second year in a row.

The November 2017 update of the Québec Economic Plan provides for continued fiscal balance in 2017-2018. In addition, the strong performance of the Québec economy and the improved financial situation make it possible to share the fruits of growth and announce new initiatives to improve Quebecers' quality of life.

This section provides an overview of Québec's economic and fiscal policy directions.<sup>1</sup> It discusses:

- recent developments in the economic and budgetary situation;
  - In 2016-2017, the budgetary surplus reached \$2.4 billion.
    - This improvement reflects, in particular, the excellent performance of the Québec economy with regard to employment, among other things.
  - A balanced budget is forecast for 2017-2018 and subsequent years.
  - The funding of public services is being strengthened. Program spending growth will reach 4.6% in 2017-2018.
  - The debt continues to fall thanks to the maintenance of deposits in the Generations Fund, which will reach \$2.5 billion in 2017-2018.

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<sup>1</sup> Unless otherwise indicated, this document is based on data available as at October 23, 2017. The budgetary data presented throughout this section for 2016-2017 are actual data that have been reclassified according to the 2017-2018 budgetary structure. Those presented for 2017-2018 and subsequent years are forecasts.

- the new initiatives in the Québec Economic Plan.
  - The improvement in Québec's financial situation and the use of a portion of the budgetary surpluses achieved enable the tax burden to be reduced by an additional \$1 billion starting in 2017.
    - This brings the reduction in the tax burden on individuals to nearly \$2.3 billion per year as of 2017.
    - Factoring in the measures announced, the tax burden on a family in which each spouse earns an income of \$50 000 will be lowered retroactively by over \$1 000 per year starting in 2017.
  - The Québec Economic Plan is also providing for additional investments of over \$1 billion a year to reduce poverty, improve public services, particularly in education and health, and support regional economies.

# 1. RECENT DEVELOPMENTS IN THE ECONOMIC AND BUDGETARY SITUATION

The November 2017 update of the Québec Economic Plan provides an opportunity to report on Québec's economic and budgetary situation.

Public Accounts 2016-2017 confirmed that the budget was balanced for the second year in a row.

A balanced budget is also being forecast for the current and subsequent years, owing in particular to responsible management of public finances and faster economic growth.

On account of the surpluses achieved over the past two years, sustainable investments have been made in public services; for example, in the educational success of young people and in access to better quality health services. These results have also made it possible to ease Quebecers' tax burden and continue implementing the plan to reduce the debt.

The update of the Québec Economic Plan is also an opportunity for the government to reiterate its fiscal and economic policy directions and to adapt them to the current situation, particularly through additional initiatives that will benefit all Quebecers.

More specifically, the government's economic and fiscal policy directions provide for:

- maintenance of a balanced budget over the period covered by the financial framework;
- additional funding to lower the tax burden on individuals, reduce poverty, increase educational success, improve health services, support regional economies and ensure a higher income in retirement;
- maintenance of a high level of public capital investment;
- ongoing debt reduction through deposits of dedicated revenues in the Generations Fund.

## ❑ The Québec government's revenue and expenditure

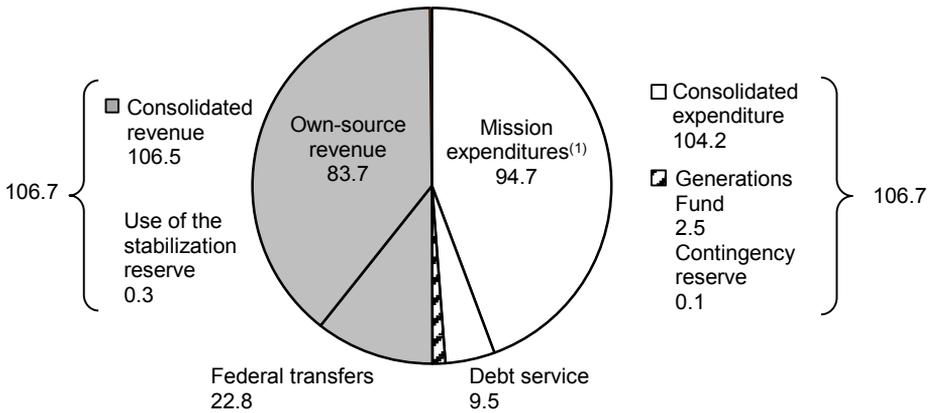
In 2017-2018, the government's consolidated revenue will stand at \$106.5 billion and make it possible to finance:

- the government's mission expenditures, that is, spending for the government's primary functions, for a total of \$94.7 billion;
- debt service, for a total of \$9.5 billion;
- a \$100-million contingency reserve;
- deposits in the Generations Fund, totalling \$2.5 billion.

CHART A.1

### Breakdown of the government's consolidated revenue and expenditure, 2017-2018

(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 Québec economy

### □ Significant acceleration in the Québec economy

The Québec economy has accelerated sharply over the last two years. Growth in real gross domestic product (GDP) rose from 1.0% in 2015 to 1.4% in 2016. In 2017, real GDP growth will be 2.6%, an upward adjustment of 0.9 percentage point relative to the March 2017 forecast.

Several factors have contributed to the excellent economic situation:

- Québec's favourable budgetary situation, which has bolstered consumer and business confidence;
- a sustained increase in household consumption, which can be attributed, in particular, to strong job creation. Stimulated by wage growth and tax relief, household disposable income grew more rapidly in Québec than in Canada;
- a rebound in non-residential business investment.

In addition, the improved economic situation of Québec's top trading partners and the more broadly based expansion of the global economy have stimulated exports.

The conditions are thus in place for the Québec economy to continue this positive trend.

- Real GDP is expected to grow by 1.8% in 2018, an upward adjustment of 0.2 percentage point relative to the March 2017 forecast.

TABLE A.1

#### **Economic growth**

(real GDP, percentage change and percentage point adjustment)

	2015	2016	2017	2018
<b>Québec</b>	<b>1.0</b>	<b>1.4</b>	<b>2.6</b>	<b>1.8</b>
<i>Adjustment in relation to March 2017</i>			+0.9	+0.2
<b>Canada</b>	<b>1.0</b>	<b>1.4</b>	<b>3.1</b>	<b>2.1</b>
<i>Adjustment in relation to March 2017</i>			+1.2	+0.1
<b>United States</b>	<b>2.9</b>	<b>1.5</b>	<b>2.1</b>	<b>2.2</b>
<i>Adjustment in relation to March 2017</i>			-0.1	-0.1
<b>World</b>	<b>3.4</b>	<b>3.2</b>	<b>3.4</b>	<b>3.4</b>
<i>Adjustment in relation to March 2017</i>			+0.1	0.0

Sources: Institut de la statistique du Québec, Statistics Canada, IHS Markit, International Monetary Fund, Eurostat and Ministère des Finances du Québec. Based on the economic accounts of November 8, 2017.

## ❑ A labour market that is more vibrant than ever before

The strengthening of economic activity observed in Québec is reflected in changes in the labour market.

During the first ten months of 2017, Québec gained 90 700 jobs compared to the same period in 2016. It thus created nearly one third of the total number of jobs added in Canada over the same period. Of the jobs created in Québec:

- 54 900 were full-time jobs;
- 51 300 were new positions in the private sector.

In addition, there has been a sharp decline in Québec's unemployment rate in recent years.

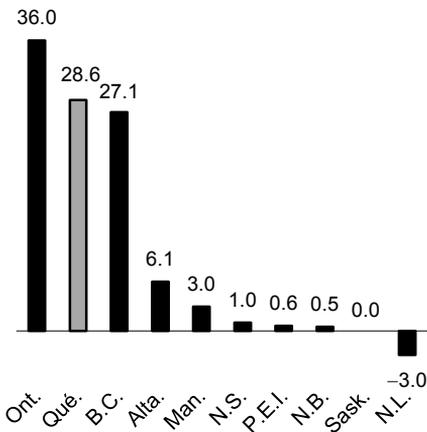
- In 2016, it was down to 7.1%, the lowest one-year low recorded since the start of Statistics Canada's Labour Force Survey in 1976.

- In July 2017, Québec's unemployment rate hit a record monthly low of 5.8%.

Since May 2014, 201 800 jobs have been created in Québec. The government's objective is to create 250 000 jobs over five years.

CHART A.2

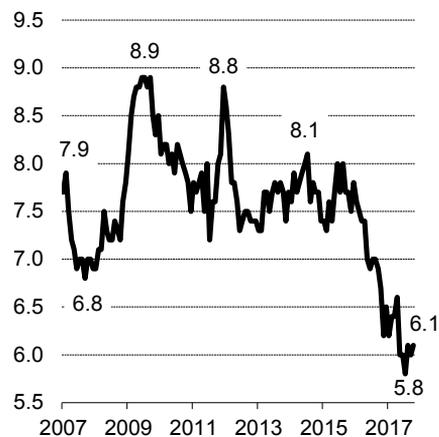
### Share of total job creation in Canada in 2017<sup>(1)</sup> (per cent)



(1) Average for the first ten months of 2017, relative to the same period in 2016.  
Source: Statistics Canada.

CHART A.3

### Unemployment rate in Québec (per cent)



Source: Statistics Canada.

## ❑ A significant improvement in standard of living

Québec is enjoying excellent economic conditions:

- sound public finances have boosted consumer and investor confidence significantly;
- greater household and business confidence has fostered a rebound in investment and job creation;
- job creation has fuelled wage growth, thus stimulating consumption;
- the sound economic situation of Québec's main trading partners and the more broadly based expansion of the global economy have stimulated Québec's exports.

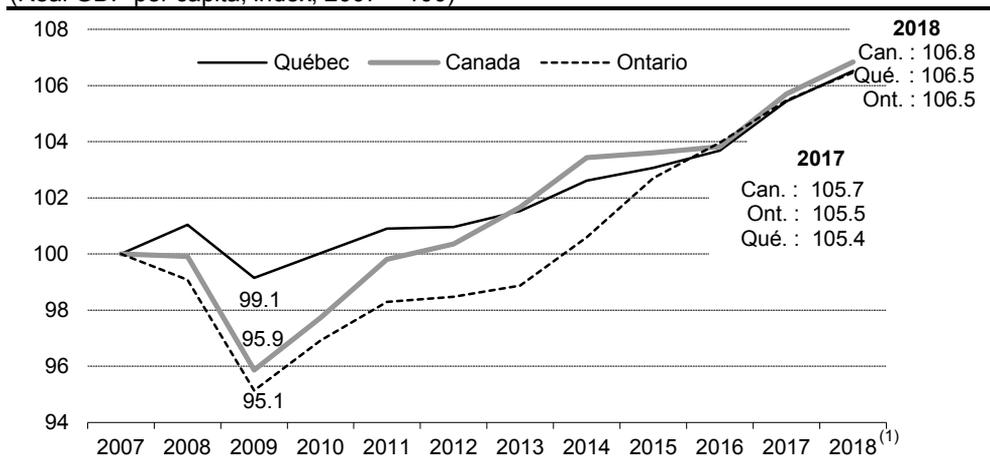
These favourable conditions will translate into continued economic growth in 2017 and 2018. Following an increase of 1.0% in 2015 and 1.4% in 2016, the November 2017 update of the Québec Economic Plan forecasts an economic growth rate of 2.6% in 2017 and 1.8% in 2018.

- This means that 2018 will be the ninth consecutive year of economic growth since the 2009 recession.
- This growth in economic activity has improved Quebecers' standard of living. Between 2007 and 2017, real GDP per capita in Québec (+5.4%) rose in pace with that in Ontario (+5.5%) and Canada as a whole (+5.7%). This trend will continue in 2018.

CHART A.4

### Standard of living

(Real GDP per capita, index, 2007 = 100)



(1) Forecasts of the Ministère des Finances du Québec for Québec and Canada and forecasts of the Conference Board of Canada for Ontario. Based on the economic accounts of November 8, 2017.

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

## ❑ **Strengthening residential market monitoring in Québec**

The residential real estate sector in Québec is accelerating, owing in particular to the good economic situation and the favourable financial position of households.

Around the world, foreign buyers are purchasing real estate for speculative purposes. Some jurisdictions have even introduced legislation to limit such speculation.<sup>2</sup>

— In this context, the Québec government is paying close attention to the situation on Québec's real estate market.

The Québec government wants to give itself the means to ensure regular and comprehensive monitoring of developments in Québec's residential market. To that end, it will make the legislative amendments needed to monitor the purchase and sale of property by foreign investors in Québec.

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<sup>2</sup> Information on the recent regulation of the Ontario and British Columbia real estate sectors is provided on page E.57 of the November 2017 update of the Québec Economic Plan.

## 1.2 Recent developments in the budgetary situation

The government pledged to restore public finances in a sustainable manner. The plan being implemented has borne fruit.

Thanks to the strong performance of the economy and sound management of public finances, a balanced budget was achieved in 2016-2017, for the second year in a row.

— Public Accounts 2016-2017 posted a budgetary surplus of \$2 361 million.

### ❑ Maintenance of a balanced budget

The budget remains balanced in 2017-2018.

— The faster pace of economic growth and the improvement in Québec's financial situation over the last two years enable the government to maintain a balanced budget this year and in future, and to strengthen its actions to support economic development and the funding of public services.

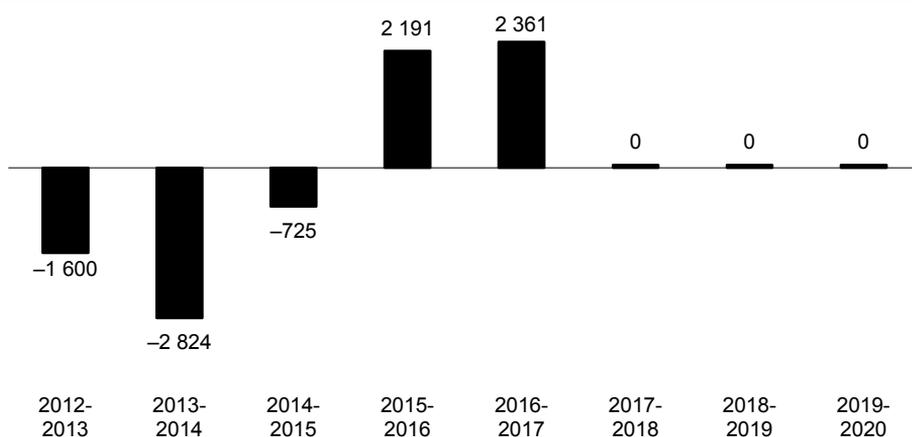
Keeping the budget balanced is a crucial condition for Québec's economic development and prosperity.

— It requires responsible management of public finances and demands that expenditure be balanced against changes in revenue.

— It enables gradual reduction of the debt burden for the benefit of all Quebecers, present and future generations.

CHART A.5

### Budgetary balance,<sup>(1)</sup> 2012-2013 to 2019-2020 (millions of dollars)



(1) Budgetary balance within the meaning of the *Balanced Budget Act* after use of the stabilization reserve.

## ❑ The Québec government's financial framework

In 2017-2018, consolidated revenue will reach \$106.5 billion, with growth of 3.5%, while consolidated expenditure will stand at \$104.2 billion, with growth of 5.7%.

In 2018-2019, consolidated revenue will increase by 2.0% and consolidated expenditure by 2.9%.

In addition, deposits of revenues dedicated to the Generations Fund will reach \$2.5 billion in 2017-2018 and \$2.7 billion in 2018-2019.

The government plans to use a portion of the stabilization reserve in 2017-2018 and another portion in 2018-2019, amounting to \$250 million and \$1.4 billion, respectively.

The budget will remain balanced over the period covered by the financial framework.<sup>3</sup>

TABLE A.2

### Consolidated summary financial framework – November 2017 update

(millions of dollars)

	2017-2018	2018-2019	2019-2020
Own-source revenue	83 677	86 255	89 189
% change	1.1	3.1	3.4
Federal transfers	22 793	22 391	23 220
% change	13.0	-1.8	3.7
<b>Consolidated revenue</b>	<b>106 470</b>	<b>108 646</b>	<b>112 409</b>
% change	<b>3.5</b>	<b>2.0</b>	<b>3.5</b>
Mission expenditures	-94 662	-97 628	-100 276
% change	6.3	3.1	2.7
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% change	-0.2	1.1	1.5
<b>Consolidated expenditure</b>	<b>-104 170</b>	<b>-107 241</b>	<b>-110 029</b>
% change	<b>5.7</b>	<b>2.9</b>	<b>2.6</b>
Contingency reserve	-100	-100	-100
<b>SURPLUS</b>	<b>2 200</b>	<b>1 305</b>	<b>2 280</b>
<b>BALANCED BUDGET ACT</b>			
Deposits of dedicated revenues in the Generations Fund	-2 450	-2 712	-3 031
Use of the stabilization reserve	250	1 407	751
<b>BUDGETARY BALANCE<sup>(1)</sup></b>	<b>—</b>	<b>—</b>	<b>—</b>

(1) Budgetary balance within the meaning of the *Balanced Budget Act* after use of the stabilization reserve.

<sup>3</sup> A balanced budget is being maintained following the use of part of the stabilization reserve for 2017-2018 to 2020-2021. This reserve, which consists of budgetary surpluses achieved, amounted to \$4.6 billion as at March 31, 2017.

■ **A portion of the budgetary surpluses is being returned directly to Quebecers**

The November 2017 update of the Québec Economic Plan provides that \$2 752 million from the budgetary surpluses accumulated in the stabilization reserve will be returned to Quebecers, particularly to reduce their tax burden.

This should reduce the reserve, which stood at \$4 552 million in early 2017-2018, to \$1 800 million in 2020-2021, a sufficient level given the government's sound financial framework.

TABLE A.3

**Use of the stabilization reserve**

(millions of dollars)

	2017- 2018	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023
Balance, beginning of year	4 552	4 302	2 895	2 144	1 800	1 800
Use	-250	-1 407	-751	-344	—	—
<b>BALANCE, END OF YEAR</b>	<b>4 302</b>	<b>2 895</b>	<b>2 144</b>	<b>1 800</b>	<b>1 800</b>	<b>1 800</b>

## Use of the budgetary surpluses

The government committed to earmarking the budgetary surpluses for tax cuts and debt reduction.

As at March 31, 2017, the accumulated budgetary surpluses stood at \$4.6 billion.

As of 2017-2018, the tax burden has been reduced by \$2.3 billion.

### Use of the stabilization reserve in 2017-2018

(millions of dollars)

	<b>2017-2018</b>
Tax burden reduction as of 2017-2018	2 273
Surpluses accumulated in the reserve as at March 31, 2017	4 552
<b>% share</b>	<b>49.9</b>

### 1.2.1 Improved of results for 2016-2017

The results published in Public Accounts 2016-2017 show a \$2 361-million surplus after deposits in the Generations Fund. This surplus made it possible to reduce the gross debt in 2016-2017.

— This improvement reflects the excellent performance of the Québec economy combined with sound management of public finances.

Relative to the March 2017 forecasts, consolidated revenue has been adjusted upward by \$441 million.

— Own-source revenue excluding government enterprises has been adjusted upward by \$614 million.

— These results can be attributed to, in particular, a \$104-million improvement in consumption tax revenue and higher-than-anticipated growth of \$590 million in corporate taxes, offset in part by the fact that personal income tax revenue was \$455 million lower than forecast.

— Additional miscellaneous revenue of \$454 million has also been recorded.

— Revenue from government enterprises was \$146 million higher than expected. As for federal transfers, they were \$319 million lower than forecast, particularly because of changes to the payment schedule under infrastructure projects with the federal government.

In addition, mission expenditures were \$1 369 million lower than anticipated in March 2017.

— In regard to program spending, expenditures projected but not incurred, totalling \$376 million, stem essentially from the decrease in expenses related to the retirement plans and depreciation of capital investments.

— Spending by government bodies and funds has been adjusted downward by \$993 million. This adjustment can be attributed to the sound economic situation, responsible management of spending by bodies and funds, and the more-gradual-than-expected implementation of certain projects. The sums freed up in the latter case will be spent in future years.

In addition, \$100 million of the surplus results from non-utilization of the contingency reserve.

TABLE A.4

**Actual results in 2016-2017 relative to the March 2017  
Québec Economic Plan**  
(millions of dollars)

	2016-2017		
	March 2017	Adjustments	Actual results
<b>Consolidated revenue</b>			
Own-source revenue excluding government enterprises	77 215	614	77 829
Government enterprises	4 753	146	4 899
Federal transfers	20 498	-319	20 179
<b>Total – Consolidated revenue</b>	<b>102 466</b>	<b>441</b>	<b>102 907</b>
<i>% change</i>	<b>2.3</b>		<b>2.8</b>
<b>Consolidated expenditure</b>			
Program spending	-69 752	376	-69 376
Other consolidated expenditure <sup>(1)</sup>	-20 635	993	-19 642
<b>Mission expenditures</b>	<b>-90 387</b>	<b>1 369</b>	<b>-89 018</b>
<i>% change</i>	<b>4.5</b>		<b>2.9</b>
Debt service	-9 687	160	-9 527
<b>Total – Consolidated expenditure</b>	<b>-100 074</b>	<b>1 529</b>	<b>-98 545</b>
<i>% change</i>	<b>3.7</b>		<b>2.1</b>
Contingency reserve	-100	100	—
<b>SURPLUS</b>	<b>2 292</b>	<b>2 070</b>	<b>4 362</b>
<b>BALANCED BUDGET ACT</b>			
Deposits of dedicated revenues in the Generations Fund	-2 042	41	-2 001
<b>BUDGETARY BALANCE<sup>(2)</sup></b>	<b>250</b>	<b>2 111</b>	<b>2 361</b>

(1) These results include consolidation adjustments.

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

## ❑ Adjustments to own-source revenue

Own-source revenue excluding government enterprises is adjusted upward by \$614 million relative to the forecast in the March 2017 Québec Economic Plan. These results can be explained by the fact that economic growth was more sustained than anticipated during the first few months of 2017, as well as by certain factors, more specifically:

- a \$590-million favourable difference in corporate taxes, primarily resulting from higher-than-expected tax revenues at year-end, due in particular to an upward adjustment of the net operating surplus of corporations in 2016 (corporate profits);
- a \$104-million upward adjustment in revenue from consumption taxes, due to higher-than-expected growth in household consumption during the first quarter of 2017;
- a \$454-million upward adjustment in miscellaneous revenue, particularly because of the higher-than-forecast revenue of non-budget-funded bodies.

These upward adjustments are offset in part by an unfavourable difference of \$455 million in personal income tax, attributable essentially to a lower-than-expected amount of income tax payable following processing of tax returns for the 2016 taxation year.

- This lower amount of income tax payable is due, in part, to lower-than-forecast growth of interest, dividend and investment income.

In addition, revenue from government enterprises is adjusted by \$146 million compared to the March 2017 forecast. Overall, the adjustments to own-source revenue bring such revenue to \$82.7 billion.

TABLE A.5

### Adjustments to consolidated own-source revenue in 2016-2017

(millions of dollars)

<b>MARCH 2017</b>	<b>81 968</b>
<b>Adjustments</b>	
Personal income tax	-455
Corporate taxes	590
Consumption taxes	104
Miscellaneous revenue	454
Other	-79
<b>Total adjustments to own-source revenue excluding government enterprises</b>	<b>614</b>
Government enterprises	146
<b>PUBLIC ACCOUNTS 2016-2017</b>	<b>82 728</b>

## □ Adjustments to expenditure

Mission expenditures in 2016-2017 are adjusted downward by \$1 369 million relative to the March 2017 Québec Economic Plan. This adjustment represents projected expenditures that were not incurred due to one-off factors. The \$376-million difference in program spending results primarily from:

- retirement plan costs that were \$231 million lower than forecast;
- a \$143-million reduction in spending related to the depreciation of capital investments.

The difference of \$623 million between planned expenditures and those incurred by bodies and funds results from the more-gradual-than-expected implementation of:

- projects under Phase 1 of the federal infrastructure plan and the Building Canada Fund;
- projects and programs of the Société de financement des infrastructures locales du Québec, the Land Transportation Network Fund and the Green Fund.

The difference of \$370 million in other expenditure stems primarily from the \$220-million reduction in provisions for losses of the Economic Development Fund.

TABLE A.6

### Adjustments to mission expenditures in 2016-2017

(millions of dollars)

<b>MARCH 2017</b>	<b>90 387</b>
<b>Adjustments</b>	
<b>Program spending</b>	
Lower-than-forecast retirement plan costs	-231
Depreciation of capital investments	-143
Other lower-than-anticipated expenditures	-2
<b>Subtotal</b>	<b>-376</b>
<b>Difference in relation to planned expenditures of bodies and funds</b>	
Infrastructure projects – Federal government programs	-254
Société de financement des infrastructures locales du Québec	-231
Land Transportation Network Fund	-97
Green Fund	-41
<b>Subtotal</b>	<b>-623</b>
<b>Other differences</b>	
Economic Development Fund	-220
Other consolidated expenditure	-150
<b>Subtotal</b>	<b>-370</b>
<b>Total adjustments</b>	<b>-1 369</b>
<b>PUBLIC ACCOUNTS 2016-2017</b>	<b>89 018</b>

## Adjustments to the budgetary balance for 2016-2017 in Canadian jurisdictions

The federal government and all the provinces, except Newfoundland and Labrador, have adjusted their budgetary balance for 2016-2017 upward relative to the forecasts announced in their 2017-2018 budgets.

All of these jurisdictions, except Prince Edward Island, have adjusted their expenditures downward compared to the forecast in their 2017-2018 budgets.

- This downward adjustment in spending is the main budgetary revision for seven of these jurisdictions, including Québec and Ontario.

It should also be noted that the seven jurisdictions that made the most substantial adjustments to their budgetary balance as a percentage of their revenue also benefited from an upward adjustment in their revenue.

### Budgetary balance, 2016-2017

(millions of dollars)

	Budget 2017-2018	Public Accounts 2016-2017	Adjustments	
			\$million	% of revenue
British Columbia	1 458	2 737	1 279	2.5
<b>Québec<sup>(1)</sup></b>	<b>250</b>	<b>2 361</b>	<b>2 111</b>	<b>2.1</b>
Federal government	-23 000	-17 770	5 230	1.8
New Brunswick	-231	-119	112	1.3
Nova Scotia	41	150	109	1.0
Prince Edward Island	-18	-1	17	0.9
Manitoba	-872	-764	108	0.7
Saskatchewan	-1 289	-1 218	70	0.5
Ontario	-1 524	-991	533	0.4
Alberta	-10 806	-10 784	22	0.1
Newfoundland and Labrador	-1 080	-1 148	-68	-0.9

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

## 1.2.2 Main adjustments to the financial framework

The recent improvement in Québec's financial situation and the acceleration of economic growth observed in recent months make it possible to share the fruits of growth and announce new initiatives to improve Quebecers' standard of living, enhance public services and support regional economies.

### ❑ Change in the budgetary situation in 2017-2018

The monthly report on financial transactions as at August 31, 2017 shows a \$1 726-million improvement relative to the budgetary balance forecast for 2017-2018.

Overall, downward adjustments of \$387 million are expected by March 31, 2018. Therefore, the improvements forecast for fiscal 2017-2018 amount to \$1.3 billion.

The adjustments to the financial framework since March 2017 provide funding for new initiatives starting in 2017-2018, including:

- a \$1.1-billion reduction in the tax burden on individuals;
- \$41 million to reduce poverty;
- \$129 million for educational success and health;
- \$86 million to support regional economies.

Taking into account the new initiatives announced in the November 2017 update of the Québec Economic Plan, a balanced budget continues to be forecast for 2017-2018.

TABLE A.7

### Adjustments to the financial framework for 2017-2018 since March 2017 (millions of dollars)

	<b>2017-2018</b>
<b>BUDGETARY BALANCE – MARCH 2017</b>	<b>—</b>
Improvement shown in the monthly report on financial transactions as at August 31, 2017	1 726
Anticipated adjustments by March 31, 2018, including achievement of spending targets	-387
<b>Total – Improvements</b>	<b>1 339</b>
<b>New initiatives</b>	
– Easing of the tax burden on individuals	-1 083
– Reduction of poverty	-41
– Investments in educational success and health	-129
– Support for regional economies	-86
<b>Subtotal</b>	<b>-1 339</b>
<b>BUDGETARY BALANCE – NOVEMBER 2017</b>	<b>—</b>

## ❑ Adjustments to the financial framework for 2017-2018 to 2019-2020

Overall, the recent acceleration of the economy and sound management of public finances result in positive adjustments to the financial framework for 2017-2018 and subsequent years relative to the March 2017 Québec Economic Plan.

Adjustments related to the economic and budgetary situation total \$1.3 billion in 2017-2018, \$1.7 billion in 2018-2019 and \$1.8 billion in 2019-2020.<sup>4</sup>

In particular, favourable economic developments lead to:

- positive adjustments of \$296 million in 2017-2018 and \$474 million in 2018-2019 to tax revenues owing, in particular, to an increase in corporate taxes and sales taxes;
- reductions of \$360 million in 2017-2018 and \$145 million in 2018-2019 in debt service, due primarily to lower-than-expected long-term interest rates and the higher-than-anticipated return on the Retirement Plans Sinking Fund in 2016-2017;
- positive adjustments of \$764 million in 2017-2018 and \$170 million in 2018-2019 to federal transfers mainly because of changes to the payment schedule under infrastructure projects with the federal government;
- upward adjustments of \$698 million in 2017-2018 and \$406 million in 2018-2019 to other consolidated expenditure flowing, in particular, from a new spending plan for bodies and funds that includes expenditures not incurred in 2016-2017.

## ■ The Québec Economic Plan

The improvements to the financial framework, as well as a portion of the budgetary surpluses freed up and allocated to the stabilization reserve over the past two years, are being reinvested to improve Quebecers' standard of living and quality of life by:

- easing the tax burden on individuals;
- reducing poverty;
- improving educational success and investing more in health;
- supporting regional economic development;
- ensuring a higher income in retirement.

Taken together, these additional investments total \$1.3 billion in 2017-2018 and \$1.7 billion in 2018-2019.

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<sup>4</sup> These amounts include the use of part of the stabilization reserve and part of the Contingency Fund.

TABLE A.8

**Adjustments to the financial framework since March 2017**  
(millions of dollars)

	2017-2018	2018-2019	2019-2020
<b>BUDGETARY BALANCE – MARCH 2017</b>	—	—	—
<b>ADJUSTMENTS TO THE ECONOMIC AND BUDGETARY SITUATION</b>			
Own-source revenue			
– Tax revenue	296	474	597
– Other revenue	1	–177	–70
Revenue from government enterprises	72	–79	–87
Federal transfers	764	170	667
Expenditure			
– Program spending	—	—	—
– Other expenditure	–698	–406	–511
Debt service	360	145	257
Contingency fund – Available amounts	256	—	—
Use of part of the stabilization reserve	250	1 407	751
Deposits of dedicated revenues in the Generations Fund	38	122	185
<b>TOTAL</b>	<b>1 339</b>	<b>1 656</b>	<b>1 789</b>
<b>QUÉBEC ECONOMIC PLAN</b>			
<b>Easing of the tax burden on individuals</b>	<b>–1 083</b>	<b>–1 067</b>	<b>–1 001</b>
<b>Reduction of poverty</b>	<b>–41</b>	<b>–254</b>	<b>–405</b>
<b>Investments in educational success and health</b>			
– Education and childhood	–17	–60	–65
– Higher education	–7	–20	–20
– Health and social services	–105	–105	–105
<b>Subtotal</b>	<b>–129</b>	<b>–185</b>	<b>–190</b>
<b>Support for regional economies</b>	<b>–86</b>	<b>–138</b>	<b>–139</b>
<b>Ensuring a higher income in retirement</b>	<b>—</b>	<b>–13</b>	<b>–54</b>
<b>TOTAL</b>	<b>–1 339</b>	<b>–1 656</b>	<b>–1 789</b>
<b>BUDGETARY BALANCE – NOVEMBER 2017</b>	<b>—</b>	<b>—</b>	<b>—</b>

Note: Totals may not add due to rounding. The detailed adjustments to the financial framework are presented on page F.6 in Section F, while the details on the initiatives in the update of the Québec Economic Plan are presented in Sections C and D.

## **2. THE QUÉBEC ECONOMIC PLAN**

The strong performance of the Québec economy and responsible management of public finances have enabled major steps to be taken to support the economy over the last two years, particularly through:

- a reduction in the tax burden on individuals totalling nearly \$2.3 billion as of 2017;
  - Factoring in the measures announced, the tax burden on a family in which each spouse earns an income of \$50 000 will be lowered by over \$1 000 per year starting in 2017.
- strengthening of spending growth in priority missions;
  - Over the next two years, that is, in 2017-2018 and 2018-2019, spending in education and health will increase by an average of 4% per year.
  - This will allow, in particular, investments to be made to increase the educational success of young people and improve access to quality health services.
- debt control, which has made it possible to draw up a \$91.1-billion infrastructure investment plan to meet Québec's priority needs;
  - Over the next three years, \$30 billion will be invested in Québec infrastructure.
- initiatives to foster business investment, innovation and job creation in all regions of Québec.

The government is continuing in this direction in the hope that Quebecers will benefit to an even greater extent from the improvement of public finances. The November 2017 update of the Québec Economic Plan thus provides for investments to continue easing the tax burden on individuals, reduce poverty, improve public services, implement initiatives to support regional economies, and ensure Quebecers have a higher income in retirement.

## □ Additional investments totalling \$11.1 billion over six years

The strong performance of the economy and the improvement of Québec's financial situation enable the government to announce additional investments of more than \$1.3 billion in 2017-2018. These investments represent \$11.1 billion over six years.

In particular, the following initiatives are being announced:

- an additional reduction totalling \$6.3 billion in the tax burden on individuals, flowing from a general tax reduction and a supplement of \$100 per child per year for the purchase of school supplies;
- additional investments totalling \$2.6 billion to reduce poverty;
- \$1.1 billion to improve educational success and invest more in health:
  - \$337 million in education and childhood,
  - \$107 million in higher education,
  - \$630 million in health and social services;
- \$667 million to support regional economies;
- \$544 million to ensure Quebecers have a higher income in retirement.

TABLE A.9

### Additional investments under the November 2017 update (en millions de dollars)

	2017- 2018	2018- 2019	2019- 2020	Cumulative 6 years <sup>(1)</sup>	Ref. page
<b>Easing of the tax burden on individuals</b>	<b>1 083</b>	<b>1 067</b>	<b>1 001</b>	<b>6 272</b>	C.3
<b>Reduction of poverty</b>	<b>41</b>	<b>254</b>	<b>405</b>	<b>2 560</b>	C.27
<b>Investments in educational success and health</b>					
– Education and childhood	17	60	65	<b>337</b>	C.35
– Higher education	7	20	20	<b>107</b>	C.38
– Health and social services	105	105	105	<b>630</b>	A.34
<b>Subtotal</b>	<b>129</b>	<b>185</b>	<b>190</b>	<b>1 074</b>	
<b>Support for regional economies</b>	<b>86</b>	<b>138</b>	<b>139</b>	<b>667</b>	D.3
<b>Ensuring a higher income in retirement</b>	<b>—</b>	<b>13</b>	<b>54</b>	<b>544</b>	C.39
<b>TOTAL</b>	<b>1 339</b>	<b>1 656</b>	<b>1 789</b>	<b>11 116</b>	

Note: Totals may not add due to rounding.

(1) These additional investments include those for 2017-2018 to 2022-2023.

## □ Additional investments in public services

The government is announcing new initiatives to strengthen funding for public services and further stimulate economic growth as of 2017-2018. The following additional investments are being provided for:

- \$105 million as of 2017-2018 in health and social services to, in particular, step up services for vulnerable clientele and prevent addiction;
- \$19 million in 2017-2018 and \$60 million per year starting in 2018-2019 to enhance funding for education and higher education with the aim of improving student success;
- \$132 million in 2017-2018 and \$398 million as of 2018-2019 to stimulate the economic development of Québec's regions and reduce poverty.

These additional investments will bring program spending growth to 4.6% in 2017-2018 and 4.1% in 2018-2019.

TABLE A.10

### Program spending by major portfolio, 2016-2017 to 2018-2019 (millions of dollars)

	2016-2017	2017-2018			2018-2019		
	Actual results	March 2017	Additional amounts	November 2017	March 2017	Additional amounts	November 2017
Santé et Services sociaux	35 388	36 764	105	36 869	38 169	105	38 274
% change	3.3	3.9 <sup>(1)</sup>		4.2 <sup>(1)</sup>	3.8		3.8
Éducation et Enseignement supérieur	17 061	17 882	19	17 901	18 559	60	18 619
% change	2.8	5.3 <sup>(1)</sup>		5.4 <sup>(1)</sup>	3.8		4.0
Other portfolios	16 927	17 067	132	17 199	17 502	398	17 900
% change	3.7	0.3 <sup>(1)</sup>		1.1 <sup>(1)</sup>	2.5		4.1
Contingency Fund	—	879	-256	623	536	—	536
Fiscal room	—	—	—	—	250	—	250
<b>PROGRAM SPENDING</b>	<b>69 376</b>	<b>72 591</b>	<b>—</b>	<b>72 591</b>	<b>75 016</b>	<b>563</b>	<b>75 579</b>
% change	3.3	4.6		4.6	3.3		4.1

Note: Totals may not add due to rounding.

(1) To assess growth in 2017-2018 based on comparable spending levels, the percent changes for that year were calculated by excluding, from 2016-2017 expenditures, transfers from the provision for francization attributed to the Santé et Services sociaux portfolio (\$12 million) and the Éducation et Enseignement supérieur portfolio (\$79 million) and including them in the 2016-2017 expenditures of the other portfolios.

## 2.1 Reduction of \$1 000 in the tax burden on families

Thanks to the measures introduced in the Québec Economic Plan, all Quebecers have seen a significant reduction in their tax burden and work effort has been made more appealing.

Sound public finances and strong performance by the economy enable the government to continue delivering on its commitment to further ease the tax burden on households and thus improve their standard of living.

Starting in 2017, individuals will see their tax burden reduced by nearly \$2.3 billion a year. Once again, all taxable taxpayers will benefit from a tax cut. In addition, families with school-aged children will receive financial assistance of \$100 per child per year for back-to-school expenses.

These new initiatives, coupled with those already provided for, will lead to a permanent reduction in the tax burden on individuals of nearly \$2.3 billion per year as of 2017.<sup>5</sup>

- Thanks to these measures, the tax burden on a family in which each spouse earns an income of \$50 000 will be lowered by over \$1 000 a year starting in 2017.
- The effort is substantial. The sums granted represent a reduction of 9% in the government's revenue as a whole from personal income tax and the health contribution.

TABLE A.11

### Reduction in the tax burden<sup>(1)</sup> on individuals since March 2015 (millions of dollars)

	2017- 2018	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	Total
Decrease in the bottom tax rate from 16% to 15% <sup>(2)</sup>	971	955	887	905	923	941	5 582
Supplement of \$100 per child for the purchase of school supplies	111	112	114	116	118	119	690
<b>Subtotal</b>	<b>1 083</b>	<b>1 067</b>	<b>1 001</b>	<b>1 021</b>	<b>1 041</b>	<b>1 061</b>	<b>6 272</b>
Already planned reductions <sup>(3)</sup>	1 191	1 248	1 233	1 238	1 244	1 249	7 403
<b>TOTAL</b>	<b>2 273</b>	<b>2 315</b>	<b>2 234</b>	<b>2 259</b>	<b>2 284</b>	<b>2 310</b>	<b>13 675</b>

Note: Totals may not add due to rounding.

(1) The reduction in the tax burden excludes the measures in the third Plan to Combat Poverty and Social Exclusion.

(2) This reduction includes the impact of the decrease in the conversion rate for personal tax credits.

(3) These reductions include the increase in the basic personal amount announced in the March 2017 Québec Economic Plan, the complete elimination of the health contribution, the introduction and enhancement of the tax shield, the increased work premiums and the improvements to the tax credit for experienced workers.

<sup>5</sup> The details of these measures are presented in Section C of this document.

## **Reduction in the tax payable on the first dollars of earned income**

In the November 2017 update of the Québec Economic Plan, the government is announcing an additional general tax reduction starting in 2017.

From now on, the first dollars of earned income will be taxed at a lower rate, that is, 15% instead of 16%. This is the lowest rate seen for the middle class in Québec in 30 years.

This tax cut will represent an additional reduction of nearly \$1 billion in the tax burden on individuals per year as of 2017-2018.

## **Supplement of \$100 per child for the purchase of school supplies**

For certain families, the start of their children's school year can be expensive given the school supplies that need to be bought.

Accordingly, the government is announcing the payment of a supplement of \$100 per child per year for the purchase of school supplies.

This new measure will reduce the expenses incurred by eligible families by over \$110 million per year. This assistance will be paid to some 700 000 Québec families and thus benefit over one million children.

## **A more accessible income support system**

To take advantage of tax measures, applicants must not only file a tax return, but also complete the relevant schedules properly.

However, it appears that some taxpayers do not benefit from tax relief even though they have filed a tax return, due to the fact they did not apply for it or were unaware they were entitled to it.

Therefore, to increase the efficiency of income support measures and as recommended by the Expert Committee on the Guaranteed Minimum Income, three tax credits<sup>6</sup> will be paid automatically when taxpayers fail to claim them.

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<sup>6</sup> These credits are the tax shield, the work premiums and the QST component of the solidarity tax credit.

## 2.2 Poverty reduction

The Québec government will soon make public the third Plan to Combat Poverty and Social Exclusion.

### **Increasing the disposable income of the poorest members of society**

As announced in the March 2017 Québec Economic Plan, increasing disposable income will be the focus of the third Plan to Combat Poverty and Social Exclusion. The government has set an ambitious target: lift over 100 000 people out of poverty by 2023. To that end, it will propose measures to assist people who are especially vulnerable.

The third Plan to Combat Poverty and Social Exclusion will aim to increase the disposable income of recipients of last resort financial assistance and Objectif emploi benefits, while continuing to provide them with a strong incentive to work, helping them transition to employment and encouraging them to develop their skills.

To provide low-and middle-income households with greater incentive to work, the third Plan to Combat Poverty and Social Exclusion includes an increase in the gross-up rates for the general and adapted work premiums. In addition, to make it easier for people to enter the labour market, the requirements for claiming the supplement to the work premium will be broadened in respect of long-term recipients leaving social assistance.

### **Fostering social inclusion**

The government recognizes that it is necessary to foster social inclusion, at all levels and in all areas, among low-income individuals and families.

Therefore, the plan will also announce measures to promote social participation and inclusion. The measures to be put forward will be aimed at fostering access to housing, culture and justice, as well as ensuring greater food security. They will also offer support to organizations that assist people living in poverty and social exclusion.

## ❑ Additional investments of nearly \$2.6 billion over six years

The third Plan to Combat Poverty and Social Exclusion represents investments of nearly \$2.6 billion designed to achieve two objectives:

- increase the disposable income of people living in poverty, while maintaining a strong incentive to enter the labour market;
- strengthen the social inclusion of low-income households.

TABLE A.12

### Additional investments under the third Plan to Combat Poverty and Social Inclusion

(millions of dollars)

	2017- 2018	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	Total
<b>Increase in the disposable income of people living in poverty</b>							
– Increase in benefits paid under the last resort financial assistance and Objectif emploi programs	40	189	293	387	473	539	<b>1 922</b>
– Incentive to work	1	14	22	31	43	55	<b>165</b>
– Other measures to increase disposable income	1	18	45	63	63	63	<b>253</b>
<b>Social inclusion measures</b>	1	32	45	51	47	44	<b>220</b>
<b>TOTAL</b>	<b>41</b>	<b>254</b>	<b>405</b>	<b>532</b>	<b>626</b>	<b>702</b>	<b>2 560</b>

Note: Totals may not add due to rounding.

## 2.3 Investments in educational success and health

### □ Investing more in education and childhood

In June 2017, the government provided Québec with its first policy on educational success to better support young children, students and their parents.

— Flowing from the objectives laid out by the policy, the 2017-2022 Strategy on Educational Services for Children Between the Ages of 0 and 8 (strategy 0-8 years) will be implemented by the government thanks to investments of over \$1 billion provided for in the March 2017 Québec Economic Plan.

As part of the November 2017 update of the Québec Economic Plan, the government is continuing its actions by investing an additional \$337 million in the strategy 0-8 years.

### ■ Additional funding for the strategy 0-8 years

This update of the Québec Economic Plan provides for additional investments of \$17 million in 2017-2018, \$60 million in 2018-2019 and \$65 million a year thereafter. These investments will make it possible to, in particular:

- enhance support measures for children with disabilities or from disadvantaged areas;
- promote projects to improve the quality of education;
- hire 500 additional professionals, such as speech therapists and ortho-pedagogists, for preschoolers and elementary students.

The amounts earmarked for 2017-2018 will be drawn from the Contingency Fund.

TABLE A.13

### Additional investments for the strategy 0-8 years (millions of dollars)

	2017- 2018	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	Total
Childhood	5	20	25	25	25	25	125
Education	12	40	40	40	40	40	212
<b>TOTAL</b>	<b>17</b>	<b>60</b>	<b>65</b>	<b>65</b>	<b>65</b>	<b>65</b>	<b>337</b>

### Support for elementary schools in disadvantaged areas

The government is announcing additional investments to support elementary schools in disadvantaged areas, particularly through a partnership with the Club des petits déjeuners and continued deployment of kindergarten for 4-year-olds.

To that end, \$10 million is being granted as of 2018-2019. The sums related to this measure will be provided for in the third Plan to Combat Poverty and Social Exclusion.

#### Support for elementary schools in disadvantaged areas

(millions of dollars)

	2017- 2018	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	Total
Additional investments	—	10	10	10	10	10	50

## 2017-2022 Strategy on Educational Services for Children Aged 0 to 8

– Overview of investments announced in  
the March 2017 Québec Economic Plan –

The Strategy on Educational Services for Children Aged 0 to 8 flows from the objectives defined in the Policy on Educational Success – A Love of Learning, A Chance to Succeed. The policy was the first government initiative to establish a structural continuum of services from educational childcare to school. Its goal is to foster the continuity, quality and accessibility of educational services, from early childhood up to the end of Elementary Cycle One.

In the March 2017 Québec Economic Plan, the government announced investments totalling more than \$1 billion over six years to support children between the ages of 0 and 8 and their families:

- \$127 million to ensure educational success from early childhood;
- \$915 million to assist and support preschoolers and Grade 1 students in achieving success.

### Investments to better support educational services for children aged 0 to 8 – March 2017

(en millions de dollars)

	2016- 2017	2017- 2018	2018- 2019	2019- 2020	2020- 2021	2021- 2022	Total
Ensuring educational success from early childhood	27	20	20	20	20	20	127
Ensuring children get off to a good start in preschool and first grade	—	94	121	161	229	310	915
<b>TOTAL</b>	<b>27</b>	<b>114</b>	<b>141</b>	<b>181</b>	<b>249</b>	<b>330</b>	<b>1 042</b>

The funds for early childhood will be earmarked to, in particular:

- enhance educational intervention among young children;
- facilitate children’s transition to school;
- support community organizations that offer activities to families;
- cover equipment purchases adapted to the needs of children with disabilities.

The funds earmarked for children starting school are intended to, among other things, rapidly identify students with learning difficulties to ensure early intervention and help them succeed in school.

## ❑ Investing in higher education

Higher education institutions play a key role in the development of a knowledge-based economy. To support the development of these institutions, the March 2017 Québec Economic Plan devoted \$1.5 billion in investments to higher education and students.

The investments were intended to provide institutions with the funds to hire 500 more resources to train and support students as of the start of the 2017 school year and over 2 500 more resources by 2021-2022.

— Higher education institutions in Québec have already hired over 700 additional resources since September 2017.

The government wants to step up these investments so that 120 more resources, such as teachers, technicians and professionals, can be hired to train and educate students.

To that end, an additional \$7 million in 2017-2018 and \$20 million in subsequent years will be injected in higher education. These new resources, particularly for direct services to students, will serve to improve student support, success and integration.

The amounts earmarked for 2017-2018 will be drawn from the Contingency Fund.

TABLE A.14

### **Additional investments in higher education** (millions of dollars)

	2017- 2018	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	Total
Improving student support, success and integration	7	20	20	20	20	20	<b>107</b>

## □ Additional resources in health to meet Quebecers' needs

The March 2017 Québec Economic Plan announced additional investments in health and social services totalling \$772 million in 2017-2018 and \$1 182 million in 2018-2019.

The government is continuing with its plan to improve access to quality health services, particularly for vulnerable people, including seniors and people with an addiction.

Therefore, the November 2017 update of the Québec Economic Plan is providing for additional investments of \$105 million starting in 2017-2018:

- \$18 million as of 2017-2018 to improve residential care services for seniors;
- \$17 million in 2017-2018 and \$51 million as of 2018-2019 to offer improved mental health services to the vulnerable clientele concerned;
- \$11 million in 2017-2018 and \$20 million as of 2018-2019 to prevent drug addiction:
  - Of that amount, \$5 million is provided as of 2017-2018 to prevent cannabis use.
- \$5 million in 2017-2018 and \$11 million in subsequent years to prevent young people in youth centres and group homes from running away.

The amounts earmarked for 2017-2018 will be drawn from the Contingency Fund.

TABLE A.15

### **New initiatives for health and social services** (millions of dollars)

	<b>2017-2018</b>	<b>2018-2019</b>	<b>2019-2020</b>
Residential care services for seniors	18	18	18
Mental health services for vulnerable clientele	17	51	51
Addiction prevention	11	20	20
Youth runaway prevention	5	11	11
Stepping up of institution-based services	46	5	5
Home support: equipment for professionals	8	—	—
<b>TOTAL</b>	<b>105</b>	<b>105</b>	<b>105</b>

## Prevention of cannabis use

The federal government has tabled legislation to legalize cannabis and announced that the new law will come into force no later than July 1, 2018. Therefore, the Québec government must take steps to develop a framework for several aspects of this legislation.

The legalization of cannabis could give the impression that the use of this product is being trivialized or normalized despite the risks it poses for people's health and safety. These risks concern, in particular, mental health, cognition, neurocognitive development in adolescence and up to early adulthood, physical health and foetal development.

The Québec government will protect, in particular, young people from the dangers of cannabis use by, among other things, reducing interest in and access to cannabis and will denormalize its use. In addition, the framework it develops will be aimed at directing current adult users to a safer, legal market without, however, stimulating demand for this product. To that end, a bill was tabled on November 16, 2017. A subsidiary of the Société des alcools du Québec will be responsible for selling cannabis.

Government revenue related to the legalization of cannabis will be devoted to prevention activities and fighting the harmful effects of cannabis use.

In that regard, the Québec government will allocate \$25 million per year to inform the public about the risks of cannabis use, prevent the initiation of new users including, in particular, young people, and assist individuals who want to stop using this product. Awareness-raising activities, campaigns providing accurate and consistent information, and monitoring of the situation will reduce the risks, especially for young people. In addition, funding will go to research activities aimed at improving knowledge in this little-studied area, as well as to the enhancement of existing care related to cannabis use.

### Funding for the prevention of cannabis use

(millions of dollars)

	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023
Prevention of cannabis use <sup>(1)</sup>	25	25	25	25	25

(1) The amounts exclude a sum of \$5 million per year drawn from additional investments in health.

## ■ Funding of medical compensation

In November 2014, the Ministère de la Santé et des Services sociaux signed a memorandum of agreement with each of the medical federations for the primary purpose of amending the schedule for certain medical compensation payments.

While the government recognizes the agreement reached with the medical federations for the spreading of compensation, it wants to renegotiate the terms in order to take into account its capacity to pay. The new terms must consider:

- the obligation to fund all public services, that is, to meet the demand for services in health institutions;
- funding for the increase in medical compensation.

The government would like to renegotiate the period over which a portion of the granted compensation is spread and, if applicable, move up payment of non-recurring sums owed. The amounts freed up will be earmarked in full for health and social services institutions.

The government presented a proposal in respect of the funding of medical compensation in the March 2017 Québec Economic Plan. This proposal is in keeping with the government's financial framework and provides for:

- modification of the protocols agreed upon in 2014 for spreading compensation;<sup>7</sup>
- a 3% ceiling on growth of funding allocated to the medical compensation budget;
- a study of the medical compensation gap between Québec and Ontario.

To secure the financial framework for the coming years, the government will introduce legislation in the next few months to ensure that the new compensation agreements are consistent with the financial framework presented in the March 2017 Québec Economic Plan and maintained in the November 2017 update.

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<sup>7</sup> Protocole d'accord intervenu entre le ministre de la Santé et des Services sociaux et la Fédération des médecins spécialistes du Québec concernant l'étalement de certains montants consentis à la rémunération des médecins spécialistes.

Protocole d'accord intervenu entre le ministre de la Santé et des Services sociaux (MSSS) et la Fédération des médecins omnipraticiens du Québec (FMOQ) ayant trait à l'étalement de certains montants consentis pour la rémunération des médecins dans le cadre de l'Accord-cadre ayant trait au renouvellement de l'entente générale MSSS-FMOQ 2010-2015 et ayant trait à certains montants consentis dans le cadre de l'Entente MSSS-FMOQ relative à l'application de la Lettre d'entente n° 138.

## Medical compensation per capita

On the basis of comparative data from the Canadian Institute for Health Information, Québec spent less per capita for medical compensation than Ontario and the rest of Canada in 2006-2007.

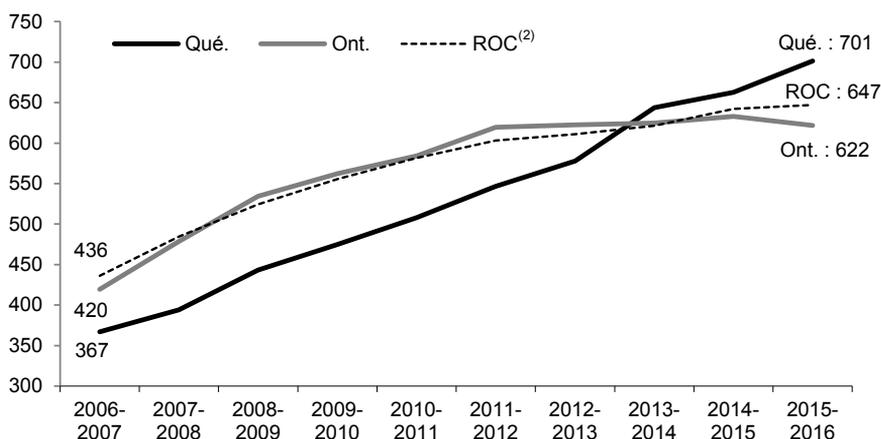
- The difference was \$69 less per capita than the rest of Canada taking into account cost-of-living differences.

In 2015-2016, with the new compensation agreements and taking into account cost-of-living differences once again, Québec spent \$701 per capita, exceeding the average in the rest of Canada (\$647 per capita) and Ontario (\$622 per capita).

- The difference was \$54 more per capita than the rest of Canada.

### Cost-of-living adjusted, <sup>(1)</sup> per capita spending for medical compensation – 2006-2007 to 2015-2016

(dollars per capita)



(1) The cost-of-living adjustment was calculated using comparative consumer price indexes for goods and services for cities, produced by Statistics Canada. In addition, population data from the 2016 Census were used to calculate the cost-of-living differences.

(2) The rest of Canada (ROC) includes all provinces except Québec.

Sources: Canadian Institute for Health Information, National Physician Database, 2015-2016 (total clinical payments to physicians) and Statistics Canada.

## 2.4 Support for regional economies

Since the announcement of the Québec Economic Plan in April 2014, the Québec government has established several action priorities, in respect of which significant initiatives have been implemented to stimulate economic growth in all regions of Québec.

The November 2017 update of the Québec Economic Plan continues these initiatives by providing for additional investments of nearly \$667 million that will have a major impact throughout Québec, namely:

- \$367 million to support the digital transformation of the economy;
- \$300 million to support economic development in all regions.

The amounts earmarked for 2017-2018 will be drawn from the Contingency Fund.

The details of these initiatives will be announced at a later date by the ministers responsible.

TABLE A.16

### Initiatives to support regional economies (millions of dollars)

	2017- 2018	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	Total
Support for the digital transformation of the economy	36	88	89	64	65	25	<b>367</b>
Support for economic development in all regions	50	50	50	50	50	50	<b>300</b>
<b>TOTAL</b>	<b>86</b>	<b>138</b>	<b>139</b>	<b>114</b>	<b>115</b>	<b>75</b>	<b>667</b>

### □ Support for the digital transformation of the economy

The November 2017 update of the Québec Economic Plan provides for support of \$367 million over six years for funding initiatives that are considered priorities within the framework of the upcoming Digital Strategy:

- \$300 million to ensure access to a high-performance digital network in all regions of Québec, particularly through the enhancement of the Québec branché program;
- nearly \$67 million to develop next-generation technologies in Québec with the launch of the ENCQOR<sup>8</sup> project in 2017-2018.

<sup>8</sup> ENCQOR is the acronym for Evolution of Networked Services through a Corridor in Québec and Ontario for Research and Innovation.

## 2.5 A higher income in retirement

The government has tabled a bill to enhance the Québec Pension Plan (QPP) so that future generations will have a better retirement income. To finance the higher benefits under the enhanced plan, the contributions of employees, self-employed workers and employers will be raised gradually as of 2019.

Tax relief will be introduced for individuals and businesses to reduce the impact of these additional contributions on them.

TABLE A.17

### **Tax relief for additional contributions to the Québec Pension Plan**

(millions of dollars)

	2017- 2018	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	When fully implemented <sup>(1)</sup>
Tax relief for additional contributions to the QPP	—	13	54	98	156	224	<b>338</b>

(1) This amount corresponds to the tax relief in respect of the increase in QPP contributions upon full implementation in 2025-2026.



## **3. FISCAL OUTLOOK**

### **3.1 The government's financial framework**

This section presents Québec's budgetary outlook for 2017-2018 to 2022-2023.

— The government projects that the budget will remain balanced over the period covered by the financial framework.

Consolidated revenue will reach \$106.5 billion in 2017-2018. Growth in this revenue will be 3.5% in 2017-2018 and 2.0% in 2018-2019.

Consolidated expenditure will stand at \$104.2 billion in 2017-2018. Growth in this expenditure will reach 5.7 % in 2017-2018 and 2.9% in 2018-2019.

The financial framework provides for a contingency reserve of \$100 million for 2017-2018 to 2020-2021 and \$200 million in 2021-2022 and 2022-2023.

Over the forecast period, the financial framework will make it possible to finance the deposits of dedicated revenues in the Generations Fund that are required to achieve the debt reduction objectives by 2025-2026.

— Deposits in the Generations Fund will reach \$2.5 billion in 2017-2018 and \$2.7 billion in 2018-2019.

TABLE A.18

**Consolidated financial framework, 2016-2017 to 2022-2023**

(millions of dollars)

	2016- 2017	2017- 2018	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023
<b>Consolidated revenue</b>							
Personal income tax	29 231	29 196	30 519	31 834	32 980	34 259	35 597
Contributions for health services	5 969	6 000	6 113	6 287	6 423	6 618	6 825
Corporate taxes	7 480	7 703	7 957	8 131	8 330	8 502	8 592
School property tax	2 169	2 250	2 329	2 395	2 475	2 561	2 561
Consumption taxes	19 292	19 946	20 488	20 886	21 311	21 820	22 459
Duties and permits	3 297	3 787	3 801	3 950	3 894	3 657	3 777
Miscellaneous revenue	10 391	10 243	10 725	11 211	11 851	12 450	12 715
Government enterprises	4 899	4 552	4 323	4 495	4 741	4 980	5 016
<b>Own-source revenue</b>	<b>82 728</b>	<b>83 677</b>	<b>86 255</b>	<b>89 189</b>	<b>92 005</b>	<b>94 847</b>	<b>97 542</b>
<b>% change</b>	<b>1.8</b>	<b>1.1</b>	<b>3.1</b>	<b>3.4</b>	<b>3.2</b>	<b>3.1</b>	<b>2.8</b>
Federal transfers	20 179	22 793	22 391	23 220	23 669	24 290	24 953
<b>% change</b>	<b>6.8</b>	<b>13.0</b>	<b>-1.8</b>	<b>3.7</b>	<b>1.9</b>	<b>2.6</b>	<b>2.7</b>
<b>Total consolidated revenue</b>	<b>102 907</b>	<b>106 470</b>	<b>108 646</b>	<b>112 409</b>	<b>115 674</b>	<b>119 137</b>	<b>122 495</b>
<b>% change</b>	<b>2.8</b>	<b>3.5</b>	<b>2.0</b>	<b>3.5</b>	<b>2.9</b>	<b>3.0</b>	<b>2.8</b>
<b>Consolidated expenditure</b>							
Health and Social Services	-38 737	-40 467	-41 789	-42 974	—	—	—
Education and Culture	-21 646	-22 735	-23 573	-24 277	—	—	—
Economy and Environment	-12 338	-13 598	-13 815	-14 132	—	—	—
Support for Individuals and Families	-9 585	-10 120	-10 531	-10 839	—	—	—
Administration and Justice	-6 712	-7 742	-7 920	-8 054	—	—	—
<b>Mission expenditures</b>	<b>-89 018</b>	<b>-94 662</b>	<b>-97 628</b>	<b>-100 276</b>	<b>-102 436</b>	<b>-104 837</b>	<b>-107 501</b>
<b>% change</b>	<b>2.9</b>	<b>6.3</b>	<b>3.1</b>	<b>2.7</b>	<b>2.2</b>	<b>2.3</b>	<b>2.5</b>
Debt service	-9 527	-9 508	-9 613	-9 753	-10 017	-10 193	-10 469
<b>% change</b>	<b>-4.8</b>	<b>-0.2</b>	<b>1.1</b>	<b>1.5</b>	<b>2.7</b>	<b>1.8</b>	<b>2.7</b>
<b>Total consolidated expenditure</b>	<b>-98 545</b>	<b>-104 170</b>	<b>-107 241</b>	<b>-110 029</b>	<b>-112 453</b>	<b>-115 030</b>	<b>-117 970</b>
<b>% change</b>	<b>2.1</b>	<b>5.7</b>	<b>2.9</b>	<b>2.6</b>	<b>2.2</b>	<b>2.3</b>	<b>2.6</b>
Contingency reserve	—	-100	-100	-100	-100	-200	-200
<b>SURPLUS</b>	<b>4 362</b>	<b>2 200</b>	<b>1 305</b>	<b>2 280</b>	<b>3 121</b>	<b>3 907</b>	<b>4 325</b>
<b>BALANCED BUDGET ACT</b>							
Deposits of dedicated revenues in the Generations Fund	-2 001	-2 450	-2 712	-3 031	-3 465	-3 907	-4 325
Use of the stabilization reserve	—	250	1 407	751	344	—	—
<b>BUDGETARY BALANCE<sup>(1)</sup></b>	<b>2 361</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

(1) Budgetary balance within the meaning of the *Balanced Budget Act* after use of the stabilization reserve.

## □ Mission expenditures

In 2017-2018, expenditures for the government's two chief missions will increase by:

- 4.5% for Health and Social Services, which includes primarily the activities of institutions of the health and social services network and the programs administered by the Régie de l'assurance maladie du Québec;
- 4.6% for Education and Culture, which consists primarily of the activities of educational institutions, student financial assistance, programs in the culture sector and immigration-related programs.

TABLE A.19

### Mission expenditures<sup>(1)</sup> (millions of dollars)

	2017-2018	2018-2019	2019-2020
Health and Social Services	40 467	41 789	42 974
<i>% change</i>	4.5 <sup>(2)</sup>	3.3	2.8
Education and Culture	22 735	23 573	24 277
<i>% change</i>	4.6 <sup>(2)</sup>	3.7	3.0
Economy and Environment	13 598	13 815	14 132
<i>% change</i>	10.2	1.6	2.3
Support for Individuals and Families	10 120	10 531	10 839
<i>% change</i>	6.4 <sup>(2)</sup>	4.1	2.9
Administration and Justice	7 742	7 920	8 054
<i>% change</i>	15.3	2.3	1.7
<b>TOTAL</b>	<b>94 662</b>	<b>97 628</b>	<b>100 276</b>
<i>% change</i>	<b>6.3</b>	<b>3.1</b>	<b>2.7</b>

(1) Consolidated expenditure excluding debt service.

(2) To assess growth in 2017-2018 based on comparable spending levels, the percent changes for that year were calculated by excluding, from 2016-2017 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 2016-2017 expenditures of the Education and Culture mission.

## Financial framework for the General Fund and consolidated entities

### Financial framework for the General Fund and consolidated entities, 2016-2017 to 2022-2023

(en millions de dollars)

	2016- 2017	2017- 2018	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023
<b>GENERAL FUND</b>							
<b>Revenue</b>							
Own-source revenue excluding government enterprises	54 831	55 570	57 694	59 656	61 407	63 400	65 488
% change	2.0	1.3	3.8	3.4	2.9	3.2	3.3
Government enterprises	4 735	4 122	3 863	3 995	4 151	4 300	4 236
% change	-3.7	-12.9	-6.3	3.4	3.9	3.6	-1.5
Federal transfers	18 582	20 261	20 323	21 566	22 132	22 955	23 618
% change	6.7	9.0	0.3	6.1	2.6	3.7	2.9
<b>Total revenue</b>	<b>78 148</b>	<b>79 953</b>	<b>81 880</b>	<b>85 217</b>	<b>87 690</b>	<b>90 655</b>	<b>93 342</b>
% change	2.7	2.3	2.4	4.1	2.9	3.4	3.0
<b>Expenditure</b>							
Program spending	-69 376	-72 591	-75 579	-77 951	-80 266	-82 669	-85 153
% change	3.3	4.6	4.1	3.1	3.0	3.0	3.0
Debt service	-7 543	-7 487	-7 425	-7 447	-7 466	-7 339	-7 460
% change	-5.2	-0.7	-0.8	0.3	0.3	-1.7	1.6
<b>Total expenditure</b>	<b>-76 919</b>	<b>-80 078</b>	<b>-83 004</b>	<b>-85 398</b>	<b>-87 732</b>	<b>-90 008</b>	<b>-92 613</b>
% change	2.4	4.1	3.7	2.9	2.7	2.6	2.9
<b>NET RESULTS OF CONSOLIDATED ENTITIES</b>							
Non-budget-funded bodies and special funds <sup>(1)</sup>	843	2	-174	-470	-202	-447	-529
Health and social services and education networks	289	-27	-9	—	—	—	—
Generations Fund	2 001	2 450	2 712	3 031	3 465	3 907	4 325
<b>Total consolidated entities</b>	<b>3 133</b>	<b>2 425</b>	<b>2 529</b>	<b>2 561</b>	<b>3 263</b>	<b>3 460</b>	<b>3 796</b>
Contingency reserve	—	-100	-100	-100	-100	-200	-200
<b>SURPLUS</b>	<b>4 362</b>	<b>2 200</b>	<b>1 305</b>	<b>2 280</b>	<b>3 121</b>	<b>3 907</b>	<b>4 325</b>
<b>BALANCED BUDGET ACT</b>							
Deposits of dedicated revenues in the Generations Fund	-2 001	-2 450	-2 712	-3 031	-3 465	-3 907	-4 325
Use of the stabilization reserve	—	250	1 407	751	344	—	—
<b>BUDGETARY BALANCE<sup>(2)</sup></b>	<b>2 361</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

(1) These results include consolidation adjustments.

(2) Budgetary balance within the meaning of the *Balanced Budget Act* after use of the stabilization reserve.

## ❑ Shares of revenue and expenditure in the economy

The shares of government revenue and expenditure in the economy generally follow similar paths.

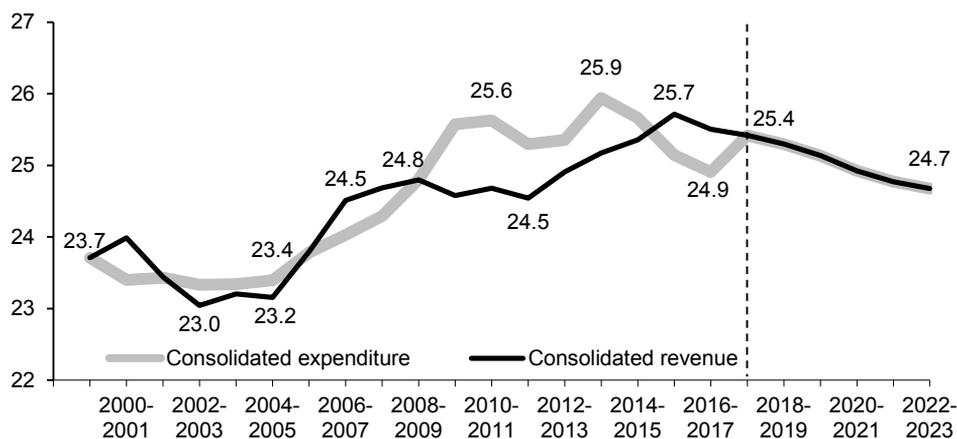
From 2009-2010 to 2014-2015, the share of expenditure in the economy exceeded that of revenue owing to the deficits. The share of expenditure rose steadily until 2013-2014, when it reached 25.9%.

In 2017-2018, revenue and expenditure as a share of GDP will each be 25.4%.

Within the next five years, the shares of both expenditure and revenue in the economy will gradually drop to 24.7%, a level comparable to that seen in 2007-2008, before the last recession.

CHART A.6

### Change in the share of consolidated revenue<sup>(1)</sup> and expenditure in the economy – 1999-2000 to 2022-2023 (percentage of GDP)



(1) Revenue takes into account the use of the stabilization reserve and excludes revenues dedicated to the Generations Fund as well as the contingency reserve.

## 3.2 Change in revenue

### □ Revenue growth in line with economic growth

Own-source revenue excluding government enterprises consists chiefly of tax revenue. Its growth generally reflects the changes in economic activity and the impact of measures introduced in the budgets.

In 2017-2018, growth in consolidated own-source revenue excluding government enterprises will be 1.7%.

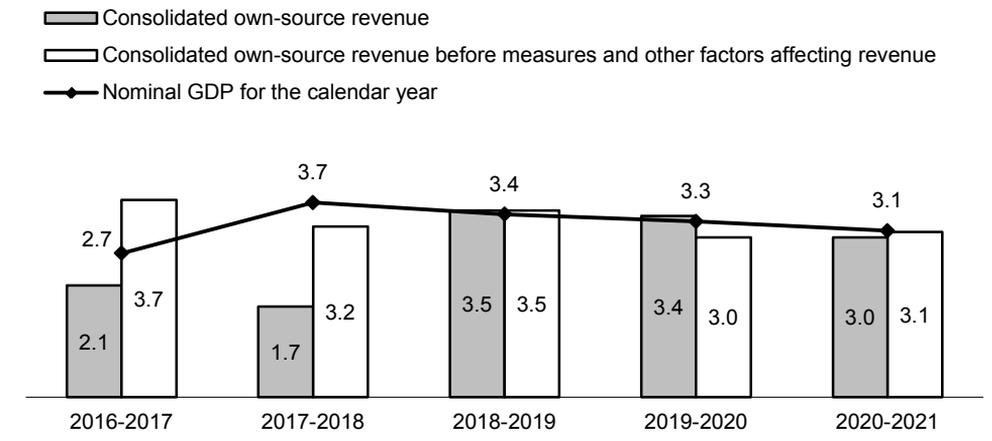
— This growth is offset, in particular, by the general tax reductions announced in this update and the March 2017 Québec Economic Plan, and by the tax relief and economic support measures announced since the March 2015 Québec Economic Plan, including elimination of the health contribution.

— Had it not been for these measures, own-source revenue growth would be 3.2%, a rate in line with economic growth.

Over the forecast period, revenue growth will keep pace with the economy.

CHART A.7

### Growth in consolidated own-source revenue excluding government enterprises – 2016-2017 to 2020-2021 (per cent)



## Revenue growth in line with economic growth

### Growth in consolidated own-source revenue excluding government enterprises – 2016-2017 to 2020-2021

(millions of dollars)

	2016- 2017	2017- 2018	2018- 2019	2019- 2020	2020- 2021
<b>Own-source revenue</b>	<b>82 728</b>	<b>83 677</b>	<b>86 255</b>	<b>89 189</b>	<b>92 005</b>
<b>% change</b>	<b>1.8</b>	<b>1.1</b>	<b>3.1</b>	<b>3.4</b>	<b>3.2</b>
Less: Government enterprises	4 899	4 552	4 323	4 495	4 741
<b>Own-source revenue excluding government enterprises</b>	<b>77 829</b>	<b>79 125</b>	<b>81 932</b>	<b>84 694</b>	<b>87 264</b>
<b>% change</b>	<b>2.1</b>	<b>1.7</b>	<b>3.5</b>	<b>3.4</b>	<b>3.0</b>
<b>Measures and other factors affecting revenue growth<sup>(1)</sup></b>					
Decrease in the bottom tax rate from 16% to 15%	—	-971	-955	-887	-905
Elimination of the health contribution	-705	-731	-754	-759	-759
Fight against climate change – Carbon market	266	623	477	495	306
Elimination of restrictions on input tax refunds for large businesses <sup>(2)</sup>	—	-22	-115	-220	-336
Five-year extension of the compensation tax for financial institutions	—	89	137	298	387
Maintenance of the tax credit with respect to age	-18	-38	-57	-77	-100
Other measures					
Québec Economic Plan, November 2017 Update	—	—	-13	-54	-98
Previous economic plans <sup>(3)</sup>	609	35	-77	-99	-114
Other <sup>(4)</sup>	422	379	706	917	1 176
<b>Subtotal</b>	<b>574</b>	<b>-637</b>	<b>-650</b>	<b>-386</b>	<b>-443</b>
<b>Own-source revenue excluding government enterprises before measures</b>	<b>77 255</b>	<b>79 762</b>	<b>82 582</b>	<b>85 080</b>	<b>87 707</b>
<b>% change</b>	<b>3.7</b>	<b>3.2</b>	<b>3.5</b>	<b>3.0</b>	<b>3.1</b>
<b>Nominal GDP growth</b>	<b>2.7</b>	<b>3.7</b>	<b>3.4</b>	<b>3.3</b>	<b>3.1</b>

Note: Totals may not add due to rounding. Save for some exceptions, the amounts correspond to those published in the budgets and fall updates.

(1) Main measures affecting consolidated revenue growth.

(2) For businesses with taxable sales of over \$10 million.

(3) Includes the measures in the Québec economic plans of March 2015, March 2016 and March 2017, as well as those in the fall 2014 *Update on Québec's Economic and Financial Situation*.

(4) Includes mainly the investment income of the Generations Fund.

## Change in the General Fund's revenue

The following table shows the revenue of the General Fund according to the reporting structure used in the monthly report on financial transactions.

### Change in the revenue of the General Fund (millions of dollars)

	2016-2017	2017-2018
<b>Own-source revenue excluding government enterprises</b>		
Income and property taxes		
Personal income tax	22 692	22 286
% change	4.0	-1.8
Contributions to the Health Services Fund	7 210	7 285
% change	-7.6	1.0
Corporate taxes	5 274	5 726
% change	13.5	8.6
Consumption taxes	17 947	18 597
% change	0.9	3.6
Other revenue sources	1 708	1 676
% change	1.0	-1.9
<b>Total own-source revenue excluding government enterprises</b>	<b>54 831</b>	<b>55 570</b>
% change	<b>2.0</b>	<b>1.3</b>
Revenue from government enterprises	4 735	4 122
% change	-3.7	-12.9
<b>Total own-source revenue</b>	<b>59 566</b>	<b>59 692</b>
% change	<b>1.5</b>	<b>0.2</b>
<b>Federal transfers</b>		
Equalization	10 030	11 081
% change	5.3	10.5
Health transfers	5 946	6 217
% change	8.4	4.6
Transfers for post-secondary education and other social programs	1 635	1 706
% change	6.0	4.3
Other programs	971	1 257
% change	12.5	29.5
<b>Total federal transfers</b>	<b>18 582</b>	<b>20 261</b>
% change	<b>6.7</b>	<b>9.0</b>
<b>TOTAL</b>	<b>78 148</b>	<b>79 953</b>
% change	<b>2.7</b>	<b>2.3</b>

### 3.3 Change in expenditure

Consolidated expenditure consists of mission expenditures, which are tied to the delivery of public services, and debt service.

— Mission expenditures consist of program spending, plus, in particular, other expenditures incurred by special funds, non-budget-funded bodies and bodies in the health and social services and education networks.

#### □ Mission expenditures

Due to the improvement in Québec's financial situation in recent years, the government was able to begin strengthening the funding of public services in 2016-2017.

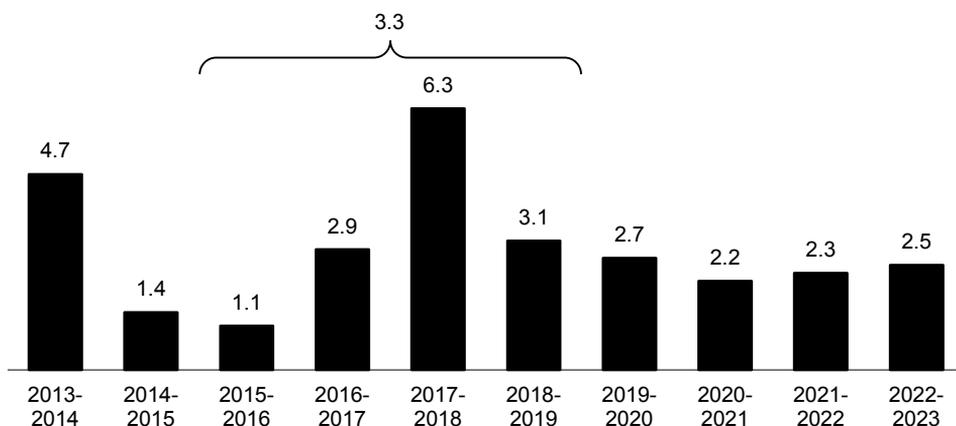
— Expenditure grew from 1.1% in 2015-2016 to 2.9% in 2016-2017 and will increase by 6.3% in 2017-2018.

— In 2017-2018, expenditure will grow by \$810 million relative to the March 2017 forecast, to \$94.7 billion.

From 2015-2016 to 2018-2019, the average annual rate of growth of mission expenditures will be 3.3%.

CHART A.8

#### Growth in mission expenditures<sup>(1)</sup> – 2013-2014 to 2022-2023 (per cent)



(1) Consolidated expenditure excluding debt service.

## ❑ Share of mission expenditures in the economy

Between 2007-2008 and 2013-2014, the economic weight of spending on government missions, i.e. consolidated expenditure excluding debt service as a percentage of GDP, rose from 21.4% to 23.0%.

Between now and 2022-2023, this spending as a share of the economy is expected to gradually fall to 22.5%.

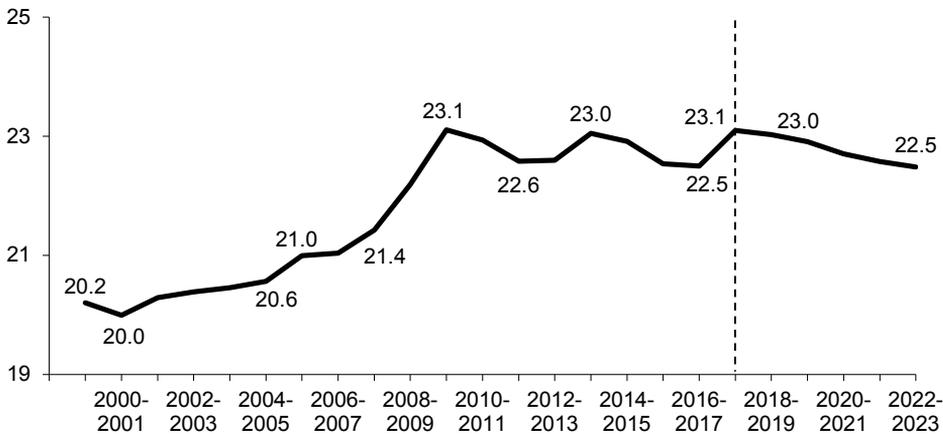
— At the end of that period, mission expenditures as a share of the economy will remain higher than in the early 2000s and at a level similar to that observed prior to the last recession.

Reducing the weight of spending in the economy will:

- prevent high spending from undermining Québec's tax competitiveness and restraining its economic growth;
- maintain, in the event of an economic slowdown, the government's ability to finance measures that may be needed to continue providing quality services and support the economy.

CHART A.9

### Change in the share of mission expenditures<sup>(1)</sup> in the economy – 1999-2000 to 2022-2023 (percentage of nominal GDP)



(1) Consolidated expenditure excluding debt service.

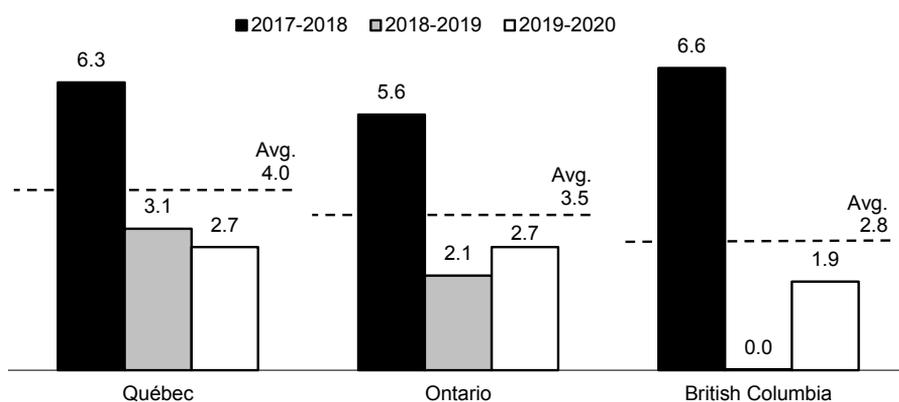
## A comparative look at changes in mission expenditures<sup>1</sup>

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

Like Québec, Ontario and British Columbia are forecasting more robust growth in their mission expenditures in 2017-2018 than in previous years, with rates of 5.6% and 6.6%, respectively. For the two subsequent years, that is, 2018-2019 and 2019-2020, spending growth in Québec will amount to roughly 3%, surpassing the rate in Ontario and British Columbia.

- In Québec, the average rate of annual growth in mission expenditures from 2017-2018 to 2019-2020 will be 4.0%, compared to 3.5% in Ontario and 2.8% in British Columbia.

### Growth in provinces' missions expenditures (per cent)



Sources: Department of Finance Canada, Ontario Ministry of Finance and Ministère des Finances du Québec.

<sup>1</sup> Consolidated expenditure excluding debt service.

## □ Program spending

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

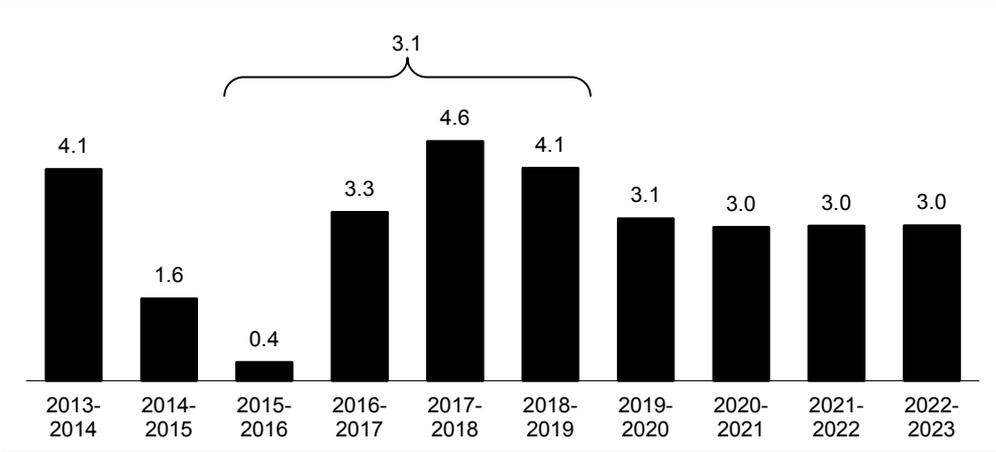
The forecast growth in program spending is 4.6% in 2017-2018, 4.1% in 2018-2019 and 3.1% in 2019-2020.

— The strong performance of the economy and sound management of public finances enable additional investments to be made in public services, particularly for families, education, higher education, health and support for the economy in all regions.

From 2015-2016 to 2018-2019, the growth rate of program spending will average 3.1% per year.

CHART A.10

**Program spending growth – 2013-2014 to 2022-2023**  
(per cent)



## ■ Program spending by major portfolio

Program spending will increase by 4.6% in 2017-2018, 4.1% in 2018-2019 and 3.1% in 2019-2020. In particular:

- program spending for the Santé et Services sociaux portfolio will rise by 4.2% in 2017-2018 and 3.8% in 2018-2019;
- program spending for the Éducation et Enseignement supérieur portfolio will increase by 5.4% in 2017-2018 and 4.0% in 2018-2019;
- overall, the funding allocated to the other portfolios will rise by 1.1% in 2017-2018 and 4.1% in 2018-2019.

In addition, the fiscal room included in program spending could be allocated to portfolios in a timely manner.

TABLE A.20

### Program spending, by major portfolio (millions of dollars)

	2016-2017	2017-2018	2018-2019	2019-2020
Santé et Services sociaux	35 388	36 869	38 274	39 440
% change	3.3	4.2 <sup>(1)</sup>	3.8	3.0
Éducation et Enseignement supérieur	17 061	17 901	18 619	19 262
% change	2.8	5.4 <sup>(1)</sup>	4.0	3.4
Other portfolios	16 927	17 199	17 900	18 214
% change	3.7	1.1 <sup>(1)</sup>	4.1	1.8
Contingency Fund	—	623	536	536
Fiscal room	—	—	250	500
<b>PROGRAM SPENDING</b>	<b>69 376</b>	<b>72 591</b>	<b>75 579</b>	<b>77 951</b>
% change	3.3	4.6	4.1	3.1

Note: Totals may not add due to rounding.

(1) To assess growth in 2017-2018 based on comparable spending levels, the percent changes for that year were calculated by excluding, from 2016-2017 expenditures, transfers from the provision for francization attributed to the Santé et Services sociaux portfolio (\$12 million) and the Éducation et Enseignement supérieur portfolio (\$79 million) and including them in the 2016-2017 expenditures of the other portfolios.

### 3.4 Public capital investments

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

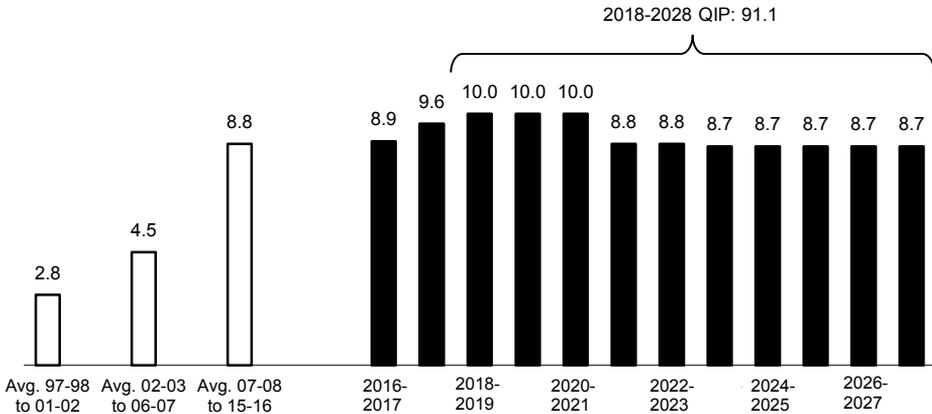
- Accordingly, investments under the 2018-2028 QIP will total \$91.1 billion, or the same level as under the 2017-2027 QIP.
- Capital investments of \$9.6 billion are expected in 2017-2018. They will reach \$10 billion a year in the three subsequent years.

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 A.11

**Investments under the 2018-2028 Québec Infrastructure Plan**  
(billions of dollars)



Furthermore, apart from the government’s investments under the QIP, substantial infrastructure investments are also made by government enterprises.

In 2018-2019, government enterprises will invest an anticipated \$3.7 billion. Taking into account the \$10 billion under the QIP, public capital investments for 2018-2019 are expected to total \$13.7 billion.

## ❑ Contribution of partners

In addition to the investments made under the Québec Infrastructure Plan, projects by the Québec government also benefit from the contribution of partners. Their contribution will represent \$3.5 billion in 2018-2019.

— Accordingly, capital investments for projects under the QIP will total \$13.5 billion in 2018-2019.

TABLE A.21

### Capital investments, 2018-2019

(billions of dollars)

	<b>2018-2019</b>
<b>2018-2028 QIP</b>	<b>10.0</b>
<b>Contribution of partners<sup>(1)</sup></b>	
– Federal government	1.9
– Other partners	1.6
<b>Total – Contribution of partners</b>	<b>3.5</b>
<b>TOTAL</b>	<b>13.5</b>

(1) Includes contributions by the federal government, municipalities and other partners.

## □ An increase in public capital stock in the economy

Over the next ten years, the level of Québec government investments will average more than \$9 billion a year, thus remaining much higher than pre-2008 levels.

These investments reached 2.3% of GDP in 2016-2017 and the same ratio is expected in the coming years.

— In 2016, the Québec government's share of total public investments reached nearly 55%.

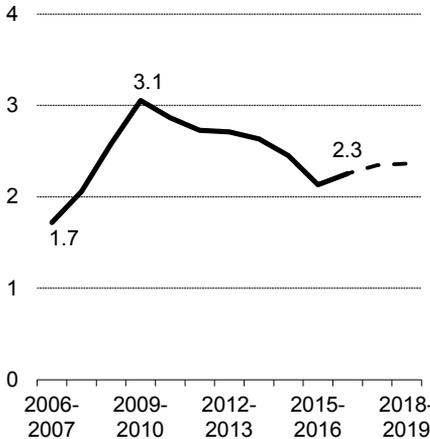
Investment targets of this level testify to the importance the government places on public infrastructure. Indeed, the Québec Infrastructure Plan contributes directly to the increase in public capital stock in the economy. Public capital stock is a key determinant of productivity and economic growth.

— Public capital stock in real terms rose by over 65% between 2000 and 2017.

— Public capital stock will reach 28.3% of real GDP in 2017.

CHART A.12

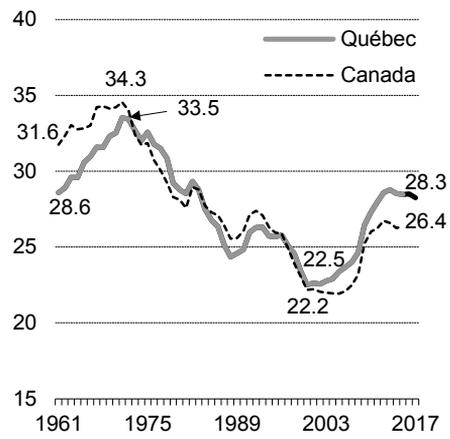
### Annual public capital investments of the Québec government (percentage of GDP)



Sources: Institut de la statistique du Québec, Statistics Canada, Secrétariat du Conseil du trésor and Ministère des Finances du Québec. Based on the economic accounts of November 8, 2017.

CHART A.13

### Change in public capital stock (percentage of GDP, in real terms)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec. Based on the economic accounts of November 8, 2017.

## Economic impact of public capital investments in Québec

Substantial amounts are earmarked for public capital investments. These investments will be a powerful driver of economic activity in all regions of Québec.

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

Projected capital investments of \$13.7 billion in 2018-2019 under the QIP and by government enterprises will:

- generate spinoffs equal to 2.2% of real GDP;
- help create or maintain 79 000 jobs, including 44 000 direct jobs.

### **Impacts of capital investments**

	<b>2018-2019</b>
Investments under the 2018-2028 QIP	\$10.0 billion
Investments by government enterprises	\$3.7 billion
<b>Total investments</b>	<b>\$13.7 billion</b>
Number of jobs created or maintained	79 000
Impact on GDP	2.2%

Sources: © Gouvernement du Québec, Institut de la statistique du Québec, results simulated using the Québec input-output model and Ministère des Finances du Québec.

### 3.5 Debt reduction

Reducing the debt burden is a priority. It is a matter of intergenerational equity. Debt reduction requires balancing the budget every year and making deposits in the Generations Fund.

The Québec government has set debt reduction objectives that have been included in the *Act to reduce the debt and establish the Generations Fund*. For fiscal year 2025-2026:

- the gross debt must not exceed 45% of GDP;
- the debt representing accumulated deficits must not exceed 17% of GDP.

As at March 31, 2017, the gross debt burden stood at 51.9% of GDP, decreasing for the second year in a row.

As at March 31, 2017, the debt representing accumulated deficits stood at 29.9% of GDP. It has been declining since 2013-2014.

The trajectories have been revised based on anticipated change in the debt and the economy.

CHART A.14

#### Gross debt as at March 31

(percentage of GDP)

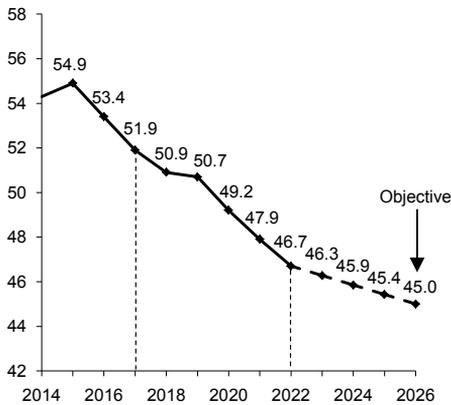
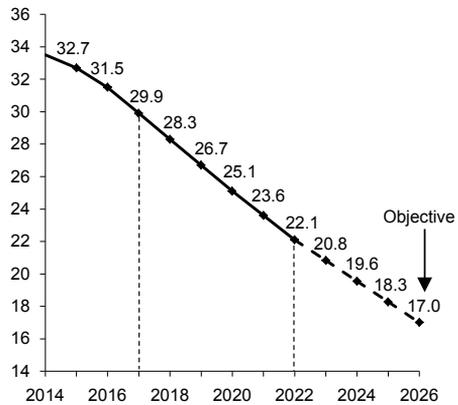


CHART A.15

#### Debt representing accumulated deficits as at March 31

(percentage of GDP)



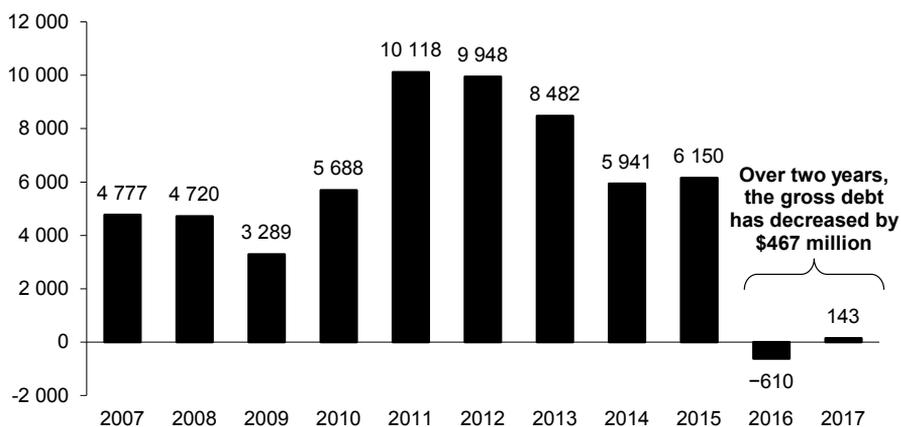
## The gross debt is lower than it was as at March 31, 2015

The gross debt grew slightly in 2016-2017. Indeed, the gross debt recorded as at March 31, 2017 is \$143 million higher than the level recorded as at March 31, 2016. This increase is explained by the government's investments in capital assets and enterprises.

However, compared to the last decade, this represents a major slowdown in the growth of the gross debt. It results from the combined impact of restored fiscal balance and the deposits made in the Generations Fund.

The gross debt has declined by \$467 million over the past two years. Indeed, as at March 31, 2017, the level of the gross debt was lower than that recorded as at March 31, 2015.

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





# Section B

## THE QUÉBEC ECONOMIC PLAN

- 1. Introduction ..... B.3**
  - 1.1 A vibrant economy fostering employment growth..... B.4
  - 1.2 New actions for the benefit of Quebecers ..... B.5
    - 1.2.1 Actions to raise the standard of living of Quebecers ..... B.6
    - 1.2.2 Supporting regional economies ..... B.8



# 1. INTRODUCTION

Implemented since April 2014, the Québec Economic Plan creates the conditions necessary to support economic development in all regions of Québec.

It embodies the government's vision of economic development, which is based, in particular, on:

- maintaining sound public finances;
- sharing the benefits stemming from the acceleration in economic growth;
- maintaining an environment favourable to economic growth and job creation by, among other things, ensuring a stable business environment conducive to investment.

Through its results, the Québec Economic Plan contributes to making Québec a leader in economic growth in Canada and to improving the standard of living of Quebecers by enabling the benefits of this excellent economic growth to be shared.

Since early 2017, the Québec economy has performed much better than forecast by private sector economists, while growth in economic activity has continued in all regions of Québec.

So that all Quebecers may reap the benefits of the Québec Economic Plan, the government is announcing, as part of the November 2017 update of the Québec Economic Plan, new initiatives totalling over \$11 billion by 2022-2023. These initiatives will make it possible to:

- improve Quebecers' standard of living, in particular by easing the tax burden on individuals and ensuring Quebecers have a higher income in retirement;
- reduce poverty;
- invest in educational success and health;
- support regional economies.

Including these new initiatives, all of the actions taken by the government since April 2014 will represent nearly \$30 billion by 2022-2023.

- Taken together, all of the initiatives in the Québec Economic Plan will total \$81 billion in support for the Québec economy.

## 1.1 A vibrant economy fostering employment growth

In the last two years, economic growth has accelerated. Strong economic activity continued in 2017, with real GDP rising by 2.6% for the first two quarters of the year, compared to the same period in 2016.

— The Québec economy has seen its highest first-quarter growth since 2002.

The vitality of the economy is reflected in the labour market, with exceptional job creation expected in 2017.

Since May 2014, 201 800 jobs have been created in Québec. The government's goal is to create 250 000 jobs in five years.

During the same period, the unemployment rate averaged 6.2% in Québec, a level below that for all of Canada.

These substantial economic growth and employment gains enable the government to immediately take steps that will sustainably contribute to improving the standard of living of Quebecers.

## 1.2 New actions for the benefit of Quebecers

The Québec Economic Plan is aimed at acting directly on the levers of prosperity and productivity, namely, human capital, investment, entrepreneurial vitality and exports.

As part of the November 2017 update, the government is enhancing the Québec Economic Plan so that Quebecers may benefit more from its positive effects.

The new actions are aimed primarily at improving the standard of living of all Quebecers, but also at addressing the major structural challenges of the Québec economy and seizing the opportunities related to its transformation. In particular, these initiatives represent:

- \$6.3 billion to ease the tax burden on individuals;
- \$2.6 billion to implement the third Plan to Combat Poverty and Social Exclusion;
- \$1.1 billion for investments in educational success and health;<sup>1</sup>
- \$667 million to support regional economies;
- \$544 million to ensure Quebecers have a higher income in retirement.

TABLE B.1

### Financial impact of the new actions in the November 2017 update of the Québec Economic Plan (millions of dollars)

	2017- 2018	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	Total
Easing of the tax burden on individuals	-1 082.6	-1 066.5	-1 000.9	-1 020.6	-1 040.5	-1 060.8	-6 271.9
Reduction of poverty	-41.3	-253.6	-405.4	-532.0	-625.8	-701.6	-2 559.7
Investments for educational success and health	-129.0	-185.0	-190.0	-190.0	-190.0	-190.0	-1 074.0
Support regional economies	-86.2	-138.0	-138.8	-113.9	-114.7	-75.0	-666.6
Ensure a higher income in retirement	—	-12.8	-53.5	-97.9	-155.9	-223.9	-544.0
<b>TOTAL</b>	<b>-1 339.1</b>	<b>-1 655.9</b>	<b>-1 788.6</b>	<b>-1 954.4</b>	<b>-2 126.9</b>	<b>-2 251.3</b>	<b>-11 116.2</b>

<sup>1</sup> The details of these investments are presented in Section A of this document.

## 1.2.1 Actions to raise the standard of living of Quebecers

Since the Québec Economic Plan of March 2015, the government has taken significant steps to substantially ease Quebecers' tax burden and make work effort more appealing.

The government is continuing its commitment to improve the standard of living of all Québec households, by sharing the results of this growth as of 2017. These new initiatives aim to:

- further ease the tax burden on Quebecers, primarily by reducing all taxpayers' income tax payable;
- increase financial assistance for low-income households and improve their living conditions, as part of the implementation of the third Plan to Combat Poverty and Social Exclusion;
- increase workers' retirement pension through enhancement of the Québec Pension Plan.

TABLE B.2

### Financial impact of the initiatives to increase Quebecers' disposable income (millions of dollars)

	2017- 2018	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	Total
Easing of the tax burden on individuals since March 2015	-2 273.4	-2 314.6	-2 233.8	-2 258.9	-2 284.2	-2 310.1	-13 675.0
Reduction of poverty	-41.3	-253.6	-405.4	-532.0	-625.8	-701.6	-2 559.7
<b>TOTAL</b>	<b>-2 314.7</b>	<b>-2 568.2</b>	<b>-2 639.2</b>	<b>-2 790.9</b>	<b>-2 910.0</b>	<b>-3 011.7</b>	<b>-16 234.7</b>

## ❑ Reduction in the tax burden of nearly \$2.3 billion per year

In the November 2017 update of the Québec Economic Plan, the government is announcing a decrease from 16% to 15% in the tax rate applicable to the first dollars of earned income.

In addition, a supplement of \$100 per child will be granted to families to help offset back-to-school expenses, which can be a significant burden for certain households.

These new initiatives are over and above the substantial tax relief announced in the Québec Economic Plan of March 2017.

- Quebecers no longer have to pay the health contribution, which was eliminated as of 2017. Moreover, the health contribution paid by most taxpayers for 2016 was refunded to them.
- All taxable taxpayers receive a maximum tax reduction of \$55 as of 2017, due to the increase in the basic personal amount.

Taken together, these initiatives will increase the disposable income of households while promoting work effort, in order to maintain a strong economy. The tax burden on taxpayers will be permanently reduced by \$2.3 billion per year as of 2017.

Thanks to these measures, the tax burden on a family in which each spouse earns an income of \$50 000 will be reduced by more than \$1 000 a year as of 2017.

## ❑ Reducing poverty

With the implementation of the third Plan to Combat Poverty and Social Exclusion, the government is seeking to achieve two objectives:

- increase the disposable income of persons living in poverty, while maintaining a strong incentive to enter the labour market;
- strengthen the social inclusion of low-income households.

Overall, these measures will lead to total investments of \$2.6 billion over six years.

## ❑ **Ensuring Quebecers have a higher income in retirement**

The government tabled a bill to enhance the Québec Pension Plan, which will raise the retirement pension for the next generations. The enhanced plan will gradually increase the contributions of employees, self-employed workers and employers.

In that regard, tax relief will be introduced to limit the impact for individuals and businesses.

### **1.2.2 Supporting regional economies**

The November 2017 update of the Québec Economic Plan provides for investments of nearly \$667 million to support major initiatives for all regions of Québec.

Thus, the government is continuing its action to put in place the conditions necessary to support business growth and encourage job creation.

Indeed, since April 2014, as part of the Québec Economic Plan, the government has taken concrete steps to encourage Québec's economic development, in particular by:

- improving the business environment, in order to support investment;
- fostering educational success and meeting labour needs;
- supporting key sectors of the Québec economy.

In particular, these measures enable businesses to have at their disposal the liquidity and access the capital necessary to carry out their strategic projects, as well as to rely on a skilled labour force.

## ❑ Improving the business environment to support investment

To position themselves advantageously on foreign markets, Québec businesses must be innovative and integrate new technologies.

To that end, the government has introduced numerous initiatives to improve the business environment, in order to support investment.

In particular, these initiatives resulted in:

- a reduction of nearly \$3 billion in the corporate tax burden, through measures of general application;
- the implementation of SMB support measures totalling almost \$3.8 billion.



# Section C

## THE QUÉBEC ECONOMIC PLAN: MEASURES FOR INDIVIDUALS

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# 1. Reduction of nearly \$2.3 billion in the personal tax burden as of 2017

Since the March 2015 Québec Economic Plan, the government has shared the fruits of economic growth by taking actions to substantially ease the tax burden on households while increasing the incentive to work. These initiatives have led to a significant increase in household disposable income.

In addition to pledging to reduce Quebecers' tax burden, the government has taken significant steps to further support the most disadvantaged households by improving both the financial support they receive and their living conditions.

Sound management of public finances and excellent performance by the economy once again enable the government to take more steps to help Québec households.

As part of the November 2017 update of the Québec Economic Plan, the government is planning additional investments as of 2017-2018 to:

- reduce the income tax payable on the first dollars of earned income;
- ease back-to-school costs for parents.

Taken together with previously announced measures, the new initiatives will reduce the tax burden by nearly \$2.3 billion a year starting in 2017.

- The tax burden on a family in which each spouse earns an income of \$50 000 will thus be reduced by over \$1 000 a year as of 2017.

TABLE C.1

## Financial impact of the reduction in Quebecers' tax burden<sup>(1)</sup> (millions of dollars)

	2017- 2018	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	Total
Decrease in the bottom tax rate from 16% to 15% <sup>(2)</sup>	-971.4	-954.5	-887.1	-904.8	-922.9	-941.4	-5 582.1
Supplement of \$100 per child for the purchase of school supplies	-111.2	-112.0	-113.8	-115.8	-117.6	-119.4	-689.8
<b>Subtotal</b>	<b>-1 082.6</b>	<b>-1 066.5</b>	<b>-1 000.9</b>	<b>-1 020.6</b>	<b>-1 040.5</b>	<b>-1 060.8</b>	<b>-6 271.9</b>
Already planned reductions <sup>(3)</sup>	-1 190.8	-1 248.1	-1 232.9	-1 238.3	-1 243.7	-1 249.3	-7 403.1
<b>TOTAL</b>	<b>-2 273.4</b>	<b>-2 314.6</b>	<b>-2 233.8</b>	<b>-2 258.9</b>	<b>-2 284.2</b>	<b>-2 310.1</b>	<b>-13 675.0</b>

(1) The tax burden excludes the measures in the third Plan to Combat Poverty and Social Exclusion.

(2) This reduction includes the impact of the decrease in the conversion rate for personal tax credits.

(3) These reductions include the increase in the basic personal amount announced as part of the March 2017 Québec Economic Plan, the complete elimination of the health contribution, the introduction and enhancement of the tax shield, the increased work premiums and the increases in the tax credit for experienced workers.

## 1.1 Additional tax relief measures as of 2017

In the November 2017 update of the Québec Economic Plan, the government is announcing a retroactive decrease from 16% to 15% in the tax rate applicable to the first dollars of earned income.

- The decrease will give 4.2 million taxpayers additional tax relief in the amount of nearly \$1 billion a year as of 2017-2018. The decrease applies retroactively to January 1, 2017.

This tax cut is in addition to the substantial tax relief measures announced in the Québec Economic Plan of last March.

- Quebecers no longer have to pay the health contribution, which was eliminated as of 2017. Moreover, the health contribution paid by most taxpayers for 2016 was refunded to them.
- The tax-exempt basic personal amount was increased, representing a tax cut of \$55 per taxpayer.

Taken together, the measures announced by the government in March and November represent \$2 billion a year in tax relief as of 2017-2018.

TABLE C.2

### Financial impact of tax relief measures for individuals (millions of dollars)

	2017- 2018	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	Total
Decrease in the bottom tax rate from 16% to 15% <sup>(1)</sup>	-971.4	-954.5	-887.1	-904.8	-922.9	-941.4	-5 582.1
Elimination of the health contribution	-731.2	-753.7	-759.2	-759.2	-759.2	-759.2	-4 521.7
Increase in the basic personal amount	-294.8	-289.3	-268.8	-274.2	-279.6	-285.2	-1 691.9
<b>TOTAL</b>	<b>-1 997.4</b>	<b>-1 997.5</b>	<b>-1 915.1</b>	<b>-1 938.2</b>	<b>-1 961.7</b>	<b>-1 985.8</b>	<b>-11 795.7</b>

(1) This decrease includes the impact of the decrease in the conversion rate for personal tax credits.

### 1.1.1 Decrease to 15% in the tax rate applicable to the first dollars of earned income

Under the Québec tax system, the tax rate applicable to the first \$42 705 of taxable income is 16% for the 2017 taxation year.

To enable all taxable taxpayers to reap the benefits of the tax reduction, the bottom tax rate will be decreased from 16% to 15%.

In addition, to preserve the coherence of the tax system, the conversion rate for personal tax credits will be harmonized with this change and, accordingly, will also be reduced from 16% to 15%.

TABLE C.3

#### Changes to the tax table – 2017 (dollars, unless otherwise indicated)

	Former tax table			New tax table		
	For income <sup>(1)</sup>		Marginal tax rate (%)	For income <sup>(1)</sup>		Marginal tax rate (%)
	Over	Up to		Over	Up to	
1st tax bracket	—	42 705	16	—	42 705	<b>15</b>
2nd tax bracket	42 705	85 405	20	42 705	85 405	20
3rd tax bracket	85 405	103 915	24	85 405	103 915	24
Top tax bracket	103 915	or over	25.75	103 915	or over	25.75
Conversion rate for personal tax credits	—	—	16	—	—	<b>15</b>

(1) Taxable income.

## Example of changes to the tax table

The proposed changes represent a tax cut of up to \$278 for every taxpayer.

For a person living alone, the decrease in the bottom tax rate to 15%, coupled with the decrease in the conversion rate for personal tax credits, represents a net tax cut of \$278.

### Person living alone with a work income of \$50 000<sup>(1)</sup> – 2017 (dollars)

	Former system (16%)	New system (15%)	Tax cut
Income tax according to the table	8 064	7 637	—
Basic personal amount			—
– Amount	14 890	14 890	
– <i>Conversion rate</i>	<u>16%</u>	<u>15%</u>	—
Tax value	2 382	2 234	—
<b>INCOME TAX PAYABLE<sup>(2)</sup></b>	<b>5 681</b>	<b>5 403</b>	<b>–278</b>

Note: Totals may not add due to rounding.

(1) After applying the deduction for workers, the taxable income is \$48 860.

(2) Income tax payable corresponds to the difference between the amount of income tax according to the tax table and the tax value of the basic personal amount.

### Adjustments to certain tax credits

Some households in specific situations, such as households faced with significant costs to pay for a child's vocational training, may see a lower tax cut.

Consequently, the following adjustments will be made to certain personal tax credits in order to maintain the level of tax assistance granted to such households.

#### Changes in amounts used to calculate certain personal tax credits – 2017 (dollars)

	Before the changes			After the changes		
	Amount	Rate	Value	Amount	Rate	Value
Amount for a child under 18 enrolled in vocational training or post-secondary studies	2 682	16%	<b>429</b>	2 861	15%	<b>429</b>
Amount for other dependants	3 907	16%	<b>625</b>	4 168	15%	<b>625</b>
Transferred amount representing the recognized parental contribution						
- Maximum amount	9 582	16%	<b>1 533</b>	10 222	15%	<b>1 533</b>
- Reduction when one term has been completed	2 682	16%	<b>429</b>	2 861	15%	<b>429</b>

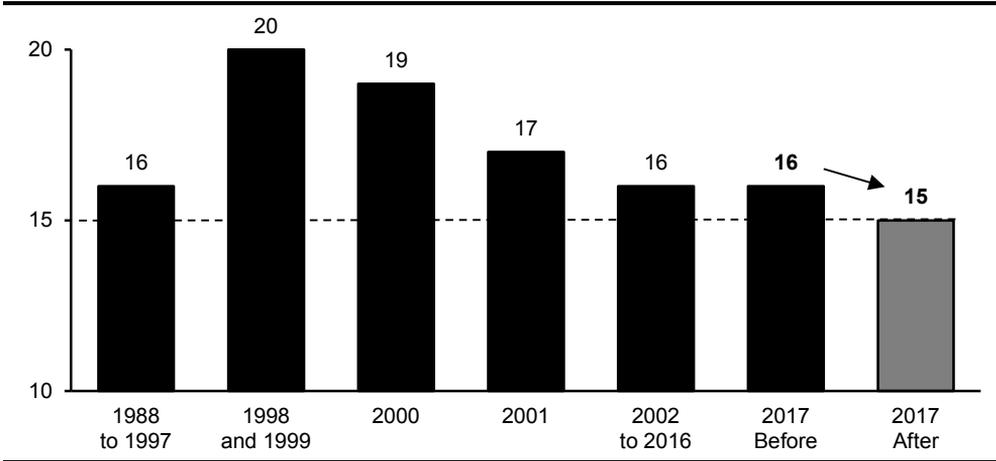
### 1.1.2 Historically low tax rate

This general tax reduction means that Quebecers will be taxed at a rate of 15% on the first \$42 705 of taxable income, the lowest rate seen for the middle class in 30 years.

The bottom tax rate was 16% in 1988. It was raised sharply to stand at 20% in 1998 and 1999 and then was gradually lowered back to 16% from 2000 to 2002. In the November 2017 update of the Québec Economic Plan, the rate is being decreased to 15% effective January 1, 2017.

CHART C.1

#### The bottom tax rate – Historically low (per cent)



### 1.1.3 A measure that will primarily benefit the middle class

Everyone who pays income tax in Québec, which means more than 4.2 million people, will gain from the measure, regardless of their income. The gain from the tax reduction could vary with a person's taxable income.

- To benefit from the tax cut, a person must pay income tax, that is, have a taxable income over \$16 597, in the case of a person living alone, or \$14 890, in the case of a person in a couple.
- For low-income taxpayers, the cut could be significant enough that they no longer have a taxable income. In fact, more than 11 000 people will no longer have to pay income tax in Québec as a result of this measure.
- The remaining taxpayers will generally benefit from the full amount of the tax reduction, that is, \$278, starting at a taxable income of \$42 705.

Lowering the bottom tax rate to 15% will put nearly \$1 billion more a year back in taxpayers' pockets in the form of a tax reduction as of 2017. Taxpayers with a taxable income below or equal to \$85 405 will receive 84% of the tax cut.

- One third of the total gain will go to taxpayers with a taxable income of \$42 705 or less, or over 2 million people. These taxpayers will see a total tax reduction of over \$300 million in 2017-2018.
- Over half of the total gain will be granted to taxpayers with a taxable income over \$42 705 up to \$85 405, representing more than 1.7 million people. The total tax reduction for these taxpayers will exceed \$516 million in 2017-2018.
- Higher-income taxpayers, or some 513 000 people, will see a total gain of \$154 million, or 16% of the total tax reduction.

TABLE C.4

**Gain from the decrease in the bottom tax rate to 15%**

Tax bracket	Number of recipient taxpayers	Maximum tax cut	Total gain in 2017-2018	
		(\$)	(\$million)	(%)
\$42 705 or less	2 011 459	278 or less	300.7	31
Over \$42 705 up to \$85 405	1 706 804	278	516.7	53
Over \$85 405 up to \$103 915	216 876	278	65.6	7
Over \$103 915	296 731	278	88.4	9
<b>TOTAL</b>	<b>4 231 870</b>	<b>278</b>	<b>971.4</b>	<b>100</b>

} 84%

## Payment of the announced personal income tax cuts

Taxpayers will benefit from the lower bottom rate and higher basic personal amount as of the 2017 taxation year.

Every taxpayer will reap the benefits of all of the tax cuts for 2017 in early 2018, when they file their 2017 income tax return. They will either receive a refund or pay less income tax.

In subsequent years, wage earners will enjoy the tax cuts year-round by way of source deductions starting on January 1, 2018.

For taxpayers who pay quarterly instalments, the amounts can be adjusted, according to the stipulated terms, when the instalments are paid.

The details concerning these announcements are presented in the information bulletin published in conjunction with the November 2017 update of the Québec Economic Plan.

### Payment of tax cuts by taxation year (dollars)

	2017	2018 and subsequent years
<b>Adjustment mechanism</b>	2017 income tax return <sup>(1)</sup>	Employee source deductions <sup>(1)</sup>
<b>Payment period</b>	One payment in early 2018	As of January 1, 2018 <sup>(2)</sup>

(1) Quarterly instalments will be adjusted accordingly.

(2) Source deductions will be adjusted as of January 1, 2018 and quarterly instalments will be adjusted as of the first payment.

### 1.1.4 Gain of over \$1 000 for families

As of 2017, families will see the combined effect of the decrease in the bottom tax rate to 15%, the increase in the basic personal amount and the elimination of the health contribution.

A family in the middle class with an income of \$88 100 will get \$1 000 a year in tax relief.

— This family will gain \$2 334 over three years.

TABLE C.5

#### Illustration of the tax relief for a couple (dollars)

	2016	2017	2018
<b>With two equal work incomes of \$22 500 (total income of \$45 000)</b>			
– Decrease in the bottom tax rate from 16% to 15% announced in the fall 2017 update	—	129	129
– Increase in the basic personal amount announced in the March 2017 Québec Economic Plan	—	110	110
– Elimination of the health contribution	200	200	200
<b>REDUCTION IN THE TAX BURDEN</b>	<b>200</b>	<b>439</b>	<b>439</b>
		} <b>\$1 078</b>	
<b>With two equal work incomes of \$44 050 (total income of \$88 100)</b>			
– Decrease in the bottom tax rate from 16% to 15% announced in the fall 2017 update	—	556	556
– Increase in the basic personal amount announced in the March 2017 Québec Economic Plan	—	110	110
– Elimination of the health contribution	334	334	334
<b>REDUCTION IN THE TAX BURDEN</b>	<b>334</b>	<b>1 000</b>	<b>1 000</b>
		} <b>\$2 334</b>	
<b>With two equal work incomes of \$62 500 (total income of \$125 000)</b>			
– Decrease in the bottom tax rate from 16% to 15% announced in the fall 2017 update	—	556	556
– Increase in the basic personal amount announced in the March 2017 Québec Economic Plan	—	110	110
– Elimination of the health contribution	400	400	400
<b>REDUCTION IN THE TAX BURDEN</b>	<b>400</b>	<b>1 066</b>	<b>1 066</b>
		} <b>\$2 532</b>	

Note: Estimate the reduction in your tax burden using the calculator “Estimate the reduction in your tax burden for 2016 to 2018” on the website of the Ministère des Finances at [www.finances.gouv.qc.ca](http://www.finances.gouv.qc.ca).  
These amounts exclude the impact of annual indexation of the tax system.  
Totals may not add due to rounding.

### 1.1.5 Gain of over \$500 for persons living alone

Taken together, the tax relief measures will ease the tax burden on a person living alone by over \$500 a year as of 2017.

A person living alone will see a total gain of \$1 167 over three years on a work income of \$44 050 and \$1 266 on a work income of \$75 000.

TABLE C.6

#### Illustration of the tax relief for a person living alone (dollars)

	2016	2017	2018
<b>With a work income of \$25 000</b>			
– Decrease in the bottom tax rate from 16% to 15% announced in the fall 2017 update	—	73	73
– Increase in the basic personal amount announced in the March 2017 Québec Economic Plan	—	55	55
– Elimination of the health contribution	100	100	100
<b>REDUCTION IN THE TAX BURDEN</b>	<b>100</b>	<b>227</b>	<b>227</b>
		} <b>\$554</b>	
<b>With a work income of \$44 050</b>			
– Decrease in the bottom tax rate from 16% to 15% announced in the fall 2017 update	—	278	278
– Increase in the basic personal amount announced in the March 2017 Québec Economic Plan	—	55	55
– Elimination of the health contribution	167	167	167
<b>REDUCTION IN THE TAX BURDEN</b>	<b>167</b>	<b>500</b>	<b>500</b>
		} <b>\$1 167</b>	
<b>With a work income of \$75 000</b>			
– Decrease in the bottom tax rate from 16% to 15% announced in the fall 2017 update	—	278	278
– Increase in the basic personal amount announced in the March 2017 Québec Economic Plan	—	55	55
– Elimination of the health contribution	200	200	200
<b>REDUCTION IN THE TAX BURDEN</b>	<b>200</b>	<b>533</b>	<b>533</b>
		} <b>\$1 266</b>	

Note: Estimate the reduction in your tax burden using the calculator “Estimate the reduction in your tax burden for 2016 to 2018” on the website of the Ministère des Finances at [www.finances.gouv.qc.ca](http://www.finances.gouv.qc.ca).  
These amounts exclude the impact of annual indexation of the tax system.  
Totals may not add due to rounding.

## 1.2 Supplement of \$100 per child for the purchase of school supplies

The start of the school year can be expensive in terms of new school supplies. Back-to-school costs are a significant burden for many Québec families.

To assist families, the government is announcing the payment of an annual supplement of \$100 per child of school age for the purchase of school supplies.

— This amount will be paid every year in July by Retraite Québec, at the same time as the child assistance payment.

The exception will be in 2018, when the government will make two \$100 payments per child.

— The first payment will be made in January 2018<sup>1</sup> for the school year that started in September 2017.

— The second payment will be made in July 2018<sup>2</sup> for the school year starting in September 2018.

As of 2019, the amount of the new supplement will be indexed annually to preserve the purchasing power of Québec families.

The supplement will be granted to families with children who are 4 to 16 years old on September 30 of the school year in question, regardless of the parents' income.

— In the case of handicapped children, the supplement will be paid to families whose handicapped child is aged 17 or under on September 30 of the given school year.

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<sup>1</sup> Families who receive payment by direct deposit will receive the payment in January 2018. Families who receive payment by cheque will receive the payment in February 2018. Families whose file is incomplete or not up to date will receive their payment in July 2018.

<sup>2</sup> Families who receive payment by cheque will receive the payment no later than August 2018.

## ❑ Over \$110 million a year to help Québec families

The supplement will represent an estimated gain of over \$110 million a year for Québec families, or nearly \$700 million over six years.

The assistance will be granted to some 700 000 Québec families, thereby helping more than 1.1 million children.

TABLE C.7

### Financial impact of the supplement of \$100 per child for the purchase of school supplies (millions of dollars)

	2017- 2018	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	Total
Supplement of \$100 per child for the purchase of school supplies	-111.2	-112.0	-113.8	-115.8	-117.6	-119.4	<b>-689.8</b>

Source: Ministère des Finances du Québec.

## ❑ A measure that will benefit all children of school age

The supplement for the purchase of school supplies is intended for parents of children aged 4 to 16, that is, the parents of:

- nearly 607 000 eligible children who are of elementary school age. Over half of the total assistance, or 54%, will be paid to their parents;
- roughly 514 000 other eligible children who are of secondary school age. Families with children of this age will receive \$51 million more in assistance, which represents 46% of the total assistance.

TABLE C.8

### Supplement for the purchase of school supplies, by level of education (millions of dollars, unless otherwise indicated)

	Number of children <sup>(1)</sup>	Cost in 2018-2019	
		Amount	%
Children in elementary school <sup>(2)</sup>	606 805	60.7	54
Children in secondary school <sup>(3)</sup>	513 610	51.4	46
<b>TOTAL</b>	<b>1 120 415</b>	<b>112.0</b>	<b>100</b>

Note: Totals may not add due to rounding.

(1) This number includes handicapped children under 18 years of age.

(2) Children between the ages of 4 and 11.

(3) Children between the ages of 12 and 16.

Source: Ministère des Finances du Québec.

## ❑ A supplement that will benefit nearly 700 000 families

All families with school-aged children, or roughly 700 000 households, will receive the supplement to ease their back-to-school costs.

For 2018-2019, an estimated:

- nearly 355 000 families with an eligible child will receive an amount of \$100, representing a gain of \$35 million, or 32% of the total assistance;
- nearly 257 000 families with two eligible children will receive an amount of \$200, representing a gain of \$51 million, or nearly half of the total assistance;
- over 77 000 families with three or more school-aged children will receive a minimum of \$300, representing \$25 million in assistance, or 22% of the total assistance, whereas they account for 11% of eligible Québec families.

TABLE C.9

### Supplement for the purchase of school supplies by number of children of school age

(millions of dollars, unless otherwise indicated)

Number of eligible children of school age	Assistance granted	Number		Cost in 2018-2019	
		Families	Children	Amount	%
One child	\$100	354 881	354 881	35.5	32
Two children	\$200	256 820	513 640	51.4	46
Three or more children	\$300 or more	77 368	251 894	25.2	22
<b>TOTAL</b>	—	<b>689 069</b>	<b>1 120 415</b>	<b>112.0</b>	<b>100</b>

Note: Totals may not add due to rounding.

Source: Ministère des Finances du Québec.

## ❑ Illustration of the tax relief for a family with two children of school age

The supplement of \$100 per child for the purchase of school supplies is over and above the \$1 000 reduction in the tax burden on families. Thus, the tax burden on a family with two children of school age and a family income of \$88 100 will reach \$1 200 a year.

TABLE C.10

**Illustration of the tax relief for a couple with two children of school age**  
 (dollars)

	2016	2017	2018
<b>With two equal work incomes of \$22 500</b> <b>(total income of \$45 000)</b>			
– Decrease in the bottom tax rate from 16% to 15% announced in the fall 2017 update	—	129	129
– Increase in the basic personal amount announced in the March 2017 Québec Economic Plan	—	110	110
– Supplement for the purchase of school supplies <sup>(1)</sup>	—	200	200
– Elimination of the health contribution	200	200	200
<b>REDUCTION IN THE TAX BURDEN</b>	<b>200</b>	<b>639</b>	<b>639</b>
		\$1 478	
<b>With two equal work incomes of \$44 050</b> <b>(total income of \$88 100)</b>			
– Decrease in the bottom tax rate from 16% to 15% announced in the fall 2017 update	—	556	556
– Increase in the basic personal amount announced in the March 2017 Québec Economic Plan	—	110	110
– Supplement for the purchase of school supplies <sup>(1)</sup>	—	200	200
– Elimination of the health contribution	334	334	334
<b>REDUCTION IN THE TAX BURDEN</b>	<b>334</b>	<b>1 200</b>	<b>1 200</b>
		\$2 734	
<b>With two equal work incomes of \$62 500</b> <b>(total income of \$125 000)</b>			
– Decrease in the bottom tax rate from 16% to 15% announced in the fall 2017 update	—	556	556
– Increase in the basic personal amount announced in the March 2017 Québec Economic Plan	—	110	110
– Supplement for the purchase of school supplies <sup>(1)</sup>	—	200	200
– Elimination of the health contribution	400	400	400
<b>REDUCTION IN THE TAX BURDEN</b>	<b>400</b>	<b>1 266</b>	<b>1 266</b>
		\$2 932	

Note: Estimate the reduction in your tax burden using the calculator “Estimate the reduction in your tax burden for 2016 to 2018” on the website of the Ministère des Finances at [www.finances.gouv.qc.ca](http://www.finances.gouv.qc.ca).

These amounts exclude the impact of annual indexation of the tax system.

Totals may not add due to rounding.

(1) For 2017, the supplement represents the amount paid in January 2018 for the school year that started in September 2017. For 2018, the supplement represents the amount paid in July 2018 for the school year starting in September 2018.

## Impact of the reduction in the personal tax burden on Québec's economy

To continue delivering on its commitment to ease Quebecers' tax burden and increase their disposable income, the government is announcing a reduction from 16% to 15% in the rate applicable to the first taxable income bracket.

In addition, to help parents cover the cost of school supplies, the government is announcing a supplement of \$100 per child. All told, nearly \$1.1 billion annually will be given back to taxpayers.

Simulations of the overall impact of the tax reduction and enhancement of family support on Québec's economy were performed using the Ministère des Finances du Québec's general equilibrium model (MEGFQ).

- The MEGFQ measures all of the effects of changes in the behaviour of economic agents stemming from this tax relief.

### Structuring effect on the economy

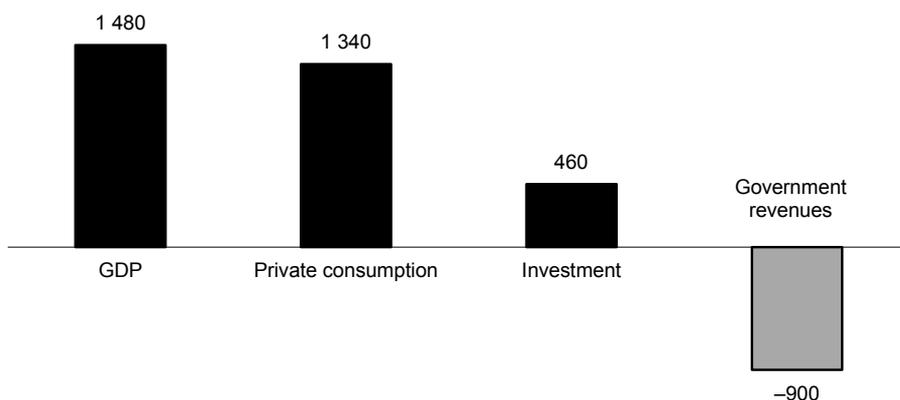
The simulation results show that the \$1.1-billion reduction in the tax burden will increase Québec's GDP by roughly \$1.5 billion in the long term, primarily as a result of the increase in household disposable income.

- In particular, private consumption will be \$1.3 billion higher, while business investment will grow by \$460 million in response to the increased demand for goods and services.
- In addition, the expansion in economic activity will create 14 485 jobs in Québec.

After accounting for these adjustments, the decrease in government revenue over the long term will be \$900 million. The difference in relation to the initial cost of the measure (\$200 million) is due to the positive impact on the economy, which leads to new tax revenues stemming from, in particular, increased consumption and employment growth.

### Long-term impact on some key variables in the Québec economy

(change in millions of dollars)



Source: Ministère des Finances du Québec.

## Impact of the reduction in the personal tax burden on Québec's economy (cont.)

### Stimulating employment in a context of population aging

Faced with an aging population, Québec needs all of its workers in order to support economic growth and continue improving Quebecers' standard of living.

The tax reduction announced by the government is part of that objective. Leaving more money in working Quebecers' pockets increases net employment compensation among households that benefit from the measure, while boosting their labour supply.

## 1.3 A more accessible income support system

Québec's tax system is based on the principle of self-reporting. Anyone who wishes to receive tax relief must file an income tax return and claim the assistance every year.

However, some people are not aware that they are eligible for certain tax credits or that they are required to fill out a specific schedule of their income tax return in order to claim the tax credit.

To make it easier for people to obtain the financial assistance to which they are entitled, the Expert Committee on Guaranteed Minimum Income recommends the automatic payment of certain refundable tax credits for which Revenu Québec has the necessary information.<sup>3</sup>

In the November 2017 update of the Québec Economic Plan, the government is announcing that it will automatically pay three tax credits to Quebecers who have not claimed them:

- the tax shield;
- the work premiums;
- the QST component of the solidarity tax credit.

Automatic payment of these tax credits will enable nearly 56 000 more people to receive the work premium or the tax shield and nearly 187 000 more to receive the QST component of the solidarity tax credit.

<sup>3</sup> *Guaranteed Minimum Income in Québec: A Utopia? An Inspiration for Québec*. Final Report of the Expert Committee on Guaranteed Minimum Income, vol. 1, pp.71-74.

**Automatic payment processing  
by Revenu Québec****Automatic payment of the QST component of the solidarity tax credit (STC)**

For people who file an income tax return for the 2017 taxation year without claiming the STC, Revenu Québec will determine whether they are entitled to receive the QST component of the STC based on their income for the year and, where applicable, their spouse's income. Those who are entitled to it could receive the payment no later than fall 2018.

In addition, Revenu Québec will inform concerned taxpayers that they might also be entitled to the housing component of the STC if they can provide the required information concerning their dwelling (in particular the RL-31 slip).

**Automatic payment of work premiums and the tax shield**

For people who file an income tax return for the 2018 taxation year without claiming the work premium or the tax shield, Revenu Québec will determine whether they are entitled to claim these two tax credits based on their income for the year and, where applicable, their spouse's income, when processing their income tax returns in spring 2019.

## 1.4 Change to the school tax system

The last major reform of the school tax system was nearly 25 years ago. The context of application has changed since then, making certain adjustments necessary.

- The amount of tax charged can vary widely within the same region or even municipality. This is particularly the case in regions where property values are heterogeneous, such as regions with rural areas adjacent to urban centres.
- In addition, an increasing number of taxpayers who do not have children in school have chosen to transfer to the linguistic school board offering the lowest tax rate.

The Minister of Finance and the Minister of Education, Recreation and Sports will be consulting school boards to propose the establishment of a single regional school tax rate based on the lowest effective tax rate for each region, as well as a basic tax exemption.

The five main goals of the proposed reform are to:

- stop taxpayers who do not have children receiving educational services from changing linguistic school boards;
- eliminate the unfairness to taxpayers of rate spreads within a given region;
- ease the tax burden on taxpayers;
- maintain the level of funding to school boards;
- respect the taxation power of school boards.

The potential difference in revenue between school boards stemming from such a reform will be offset by an increase in government funding to enable them to maintain their level of funding.

The proposed reform will necessitate legislative amendments to the *Education Act* to make the system fairer, simpler and more transparent for taxpayers. The Minister of Education, Recreation and Sports will be tabling a bill to implement the proposed changes as of the 2018-2019 school year.

The financial impacts of the proposed reform will be factored into the Québec Economic Plan of March 2018 based on the outcome of the consultations held with school boards.

**Transfer to another linguistic school board by taxpayers who do not have children receiving educational services**

Under the *Education Act*, taxpayers who do not have children receiving educational services may pay taxes to the linguistic school board of their choosing.

- When a school board loses taxpayers, the resulting erosion in its tax base while expenditures remain unchanged drives up the school property tax rate charged by the school board.
- Conversely, a school board that gains a significant number of taxpayers can afford to lower the tax rate needed to cover its expenditures.

## 1.5 Reduction in the personal tax burden by nearly \$14 billion over six years

Since the Québec Economic Plan of March 2015, the government has introduced a series of measures to increase Quebecers' disposable income.

- The health contribution was eliminated for all low- and middle-income taxpayers as of 2016 and for every Quebecer as of 2017.
- As of 2017, taxable taxpayers get a maximum tax cut of \$55 over and above the extra tax reduction of up to \$278 stemming from the reduction in the bottom tax rate to 15%.

In addition to easing the tax burden on individuals, the government has announced initiatives to make work effort more appealing by implementing the tax shield and enhancing existing measures, that is, the work premiums and the tax credit for experienced workers.

Taken together, these initiatives will permanently reduce Quebecers' tax burden by nearly \$2.3 billion a year as of 2017-2018, for total tax relief of nearly \$14 billion over six years.

TABLE C.11

**Reduction in Quebecers' tax burden since the March 2015  
Québec Economic Plan**  
(millions of dollars)

	2017- 2018	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	Total
<b>Update – November 2017</b>							
Decrease in the bottom tax rate from 16% to 15% <sup>(1)</sup>	-971.4	-954.5	-887.1	-904.8	-922.9	-941.4	-5 582.1
Supplement of \$100 per child for the purchase of school supplies	-111.2	-112.0	-113.8	-115.8	-117.6	-119.4	-689.8
<b>Subtotal</b>	<b>-1 082.6</b>	<b>-1 066.5</b>	<b>-1 000.9</b>	<b>-1 020.6</b>	<b>-1 040.5</b>	<b>-1 060.8</b>	<b>-6 271.9</b>
<b>Already planned reductions</b>							
Complete elimination of the health contribution	-731.2	-753.7	-759.2	-759.2	-759.2	-759.2	-4 521.7
Increase in the basic personal amount	-294.8	-289.3	-268.8	-274.2	-279.6	-285.2	-1 691.9
Introduction and enhancement of the tax shield	-60.7	-60.7	-60.9	-60.9	-60.9	-60.9	-365.0
Enhancements to the work premiums	-47.7	-47.7	-47.7	-47.7	-47.7	-47.7	-286.2
Increase in the tax credit for experienced workers	-56.4	-96.7	-96.4	-96.3	-96.3	-96.3	-538.4
<b>Subtotal</b>	<b>-1 190.8</b>	<b>-1 248.1</b>	<b>-1 232.9</b>	<b>-1 238.3</b>	<b>-1 243.7</b>	<b>-1 249.3</b>	<b>-7 403.1</b>
<b>TOTAL</b>	<b>-2 273.4</b>	<b>-2 314.6</b>	<b>-2 233.8</b>	<b>-2 258.9</b>	<b>-2 284.2</b>	<b>-2 310.1</b>	<b>-13 675.0</b>

Note: Totals may not add due to rounding.

(1) This decrease includes the impact of the decrease in the conversion rate for personal tax credits.

### 1.5.1 A 9% decrease in personal income tax

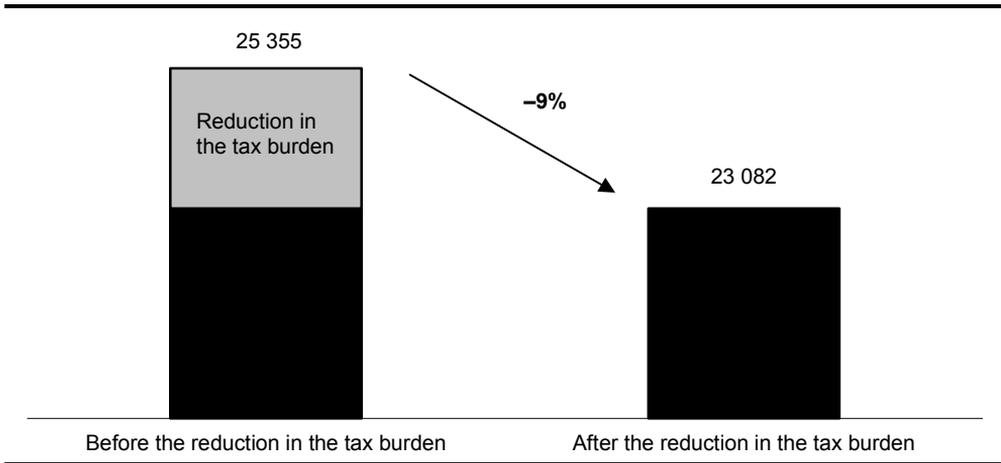
In 2017-2018, the government's efforts will reduce Québec households' tax burden by nearly \$2.3 billion.

Without the reduction, revenue from personal income tax would have been \$25.4 billion. It is now \$23.1 billion.

— That represents a 9% decrease in government revenue from personal income tax and the health contribution.

CHART C.2

**Illustration of the impact of the reduction in tax burden on government revenue from personal income tax and the health contribution – 2017-2018**  
(millions of dollars)



## 1.5.2 Substantial increase in disposable income since 2014

The strong performance by the economy as well as sound management of public finances have enabled the Québec government to share the fruits of economic growth by easing Quebecers' tax burden and, thereby, significantly improving both their disposable income and standard of living.

— The Québec government has introduced several measures that make it possible to give back some \$2.3 billion a year to Quebecers.

### □ Illustration for families

All Québec families will benefit from greater income support, regardless of their income level. Families in general will receive more assistance through the new supplement of \$100 per child announced in this update.

— A couple with no work income will see its disposable income go up by \$200.

— A couple in which each spouse has an income of \$50 000, for a total income of \$100 000, will gain \$1 266.

TABLEAU C.12

### Increase in disposable income from the tax relief measures for a couple with two equal incomes and two children of school age – 2017 (dollars)

Total work income	Disposable income before	Previously announced measures <sup>(1)</sup>	Tax relief		Total	Disposable income after
			Decrease in the bottom tax rate	Supplement for the purchase of school supplies <sup>(2)</sup>		
No income	29 368	—	—	200	200	29 568
10 000	35 080	—	—	200	200	35 280
20 000	40 203	—	—	200	200	40 403
30 000	46 599	—	—	200	200	46 799
40 000	50 209	126	79	200	405	50 614
45 000	51 080	310	129	200	639	51 719
50 000	52 245	310	179	200	689	52 934
75 000	64 060	310	429	200	939	64 999
88 100	71 151	444	556	200	1 200	72 351
100 000	76 834	510	556	200	1 266	78 100
125 000	90 161	510	556	200	1 266	91 427
150 000	104 361	510	556	200	1 266	105 627

Note: Totals may not add due to rounding.

(1) Elimination of the health contribution and increase in the basic personal amount.

(2) Amount paid for the school year starting in September 2017.

## ❑ Illustration for a single-parent family

Single-parent families will also see their disposable income go up, regardless of their income.

For example, a single-parent family with one school-aged child and a work income of \$10 000 will have \$100 more in disposable income.

A single-parent family with a work income of \$75 000 and one child of school age will gain \$633.

TABLEAU C.13

### Increase in disposable income from the tax relief measures for a single-parent family with one child of school age – 2017 (dollars)

Total work income	Disposable income before	Previously announced measures <sup>(1)</sup>	Tax relief		Total	Disposable income after
			Decrease in the bottom tax rate	Supplement for the purchase of school supplies <sup>(2)</sup>		
No income	18 949	—	—	100	100	19 049
10 000	24 541	—	—	100	100	24 641
20 000	31 330	63	23	100	185	31 515
25 000	34 146	155	73	100	327	34 473
30 000	36 289	155	123	100	377	36 666
40 000	40 279	155	232	100	487	40 766
44 050	41 832	222	278	100	600	42 432
50 000	43 942	255	278	100	633	44 575
75 000	56 696	255	278	100	633	57 329
100 000	70 022	255	278	100	633	70 655
125 000	82 446	255	278	100	633	83 079
150 000	94 038	806	278	100	1 184	95 222

Note: Totals may not add due to rounding.

(1) Elimination of the health contribution and increase in the basic personal amount.

(2) Amount paid for the school year starting in September 2017.



## 2. POVERTY REDUCTION

The November 2017 update of the Québec Economic Plan lays out the financial framework for the third Plan to Combat Poverty and Social Exclusion, as well as the tax measures to create an incentive to work. The plan aims to lift 100 000 people out of poverty by 2023. The measures in the third plan seek to achieve two objectives, namely:

- increase the disposable income of persons living in poverty, including by increasing the benefits paid under the last resort financial assistance and Objectif emploi programs, while maintaining a strong incentive to enter the labour market;
- foster the social inclusion of low-income households.

Through these measures, the most disadvantaged Quebecers will benefit from additional investments of \$700 million per year upon full implementation of the plan in 2022-2023.

The details of the budgetary measures will be set out in the third Plan to Combat Poverty and Social Exclusion, which the Minister of Employment and Social Solidarity will be unveiling soon.

TABLE C.14

### Financial impact of the measures in the third Plan to Combat Poverty and Social Exclusion (millions of dollars)

	2017- 2018	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	Total
<b>Increase the disposable income of persons living in poverty</b>							
– Increase benefits paid under the last resort financial assistance and Objectif emploi programs	-39.7	-189.3	-293.1	-387.4	-472.9	-539.2	-1 921.6
– Encourage labour market participation	-0.6	-13.8	-22.1	-30.9	-42.6	-54.8	-164.8
– Other measures to increase disposable income	-0.5	-18.2	-44.8	-63.2	-63.2	-63.2	-253.1
<b>Social inclusion measures</b>	-0.5	-32.3	-45.4	-50.5	-47.1	-44.4	-220.2
<b>TOTAL</b>	<b>-41.3</b>	<b>-253.6</b>	<b>-405.4</b>	<b>-532.0</b>	<b>-625.8</b>	<b>-701.6</b>	<b>-2 559.7</b>

Additional funding of \$40.7 million in 2017-2018, \$239.8 million in 2018-2019, \$383.3 million in 2019-2020, \$501.1 million in 2020-2021, \$583.2 million in 2021-2022 and \$646.8 million in 2022-2023 will be allocated to the departments responsible for implementing the respective budgetary measures. The details of the new initiatives for each of the responsible departments will be announced by the Minister of Employment and Social Solidarity at a later date.

— The necessary amounts for 2017-2018 will be drawn from the Contingency Fund.

## 2.1 Increase the disposable income of persons living in poverty

The third Plan to Combat Poverty and Social Exclusion will especially contain measures to increase the disposable income of persons living in poverty. To that end, an increase in last resort financial assistance benefits is planned as of January 2018. The enhanced benefits will take recipients' ability to join the labour market into account.

### Announcement of new provisions

The third Plan to Combat Poverty and Social Exclusion will set out the enhancements and adjustments that will be made to the last resort financial assistance and Objectif emploi programs.

Increasing the benefits paid under these programs requires amendments to the *Individual and Family Assistance Act* and the *Individual and Family Assistance Regulation*.

## 2.2 Encourage labour market participation

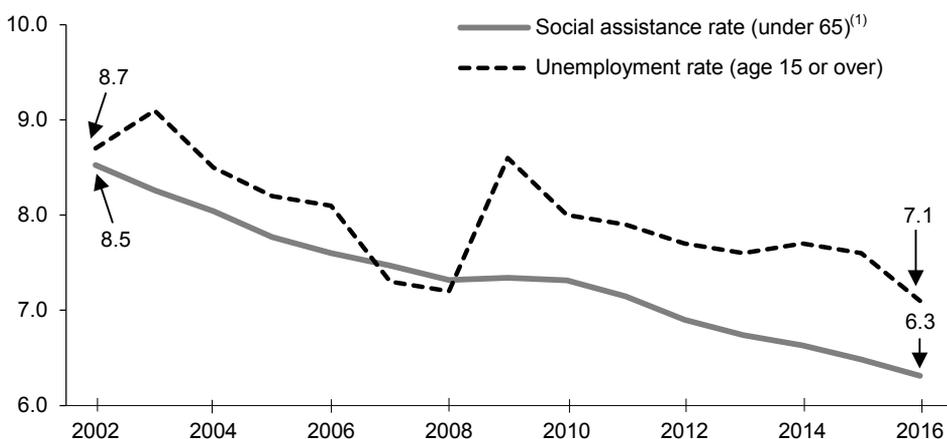
The combined effect of the improvement in Québec's economic situation and the initiatives and measures taken by the government has helped reduce poverty over the last few years.

This positive economic development has brought the unemployment rate down and contributed to a significant drop in the social assistance rate. The latter fell to a record low of 6.3% in 2016.

CHART C.3

### Social assistance and unemployment rates in Québec – 2002 to 2016

(per cent)



(1) The social assistance rate corresponds to the number of people receiving benefits under social assistance programs in proportion to the total number of Quebecers under 65.

The Objectif emploi program will also reduce the social assistance rate, primarily through faster, more lasting exits from social assistance.

#### Objectif emploi program

The Objectif emploi program is intended for first-time recipients under the Social Assistance Program. Every recipient will receive an enhanced benefit amount and get personalized, ongoing assistance in seeking employment, developing their vocational skills or developing their social skills so that they are more job-ready.

## ❑ Enhance the work premiums

Low- and middle-income workers are entitled to a work premium designed to support and value work effort as well as encourage individuals to leave last resort financial assistance and join the labour market. Workers may be entitled to claim:

- the general work premium;
- the adapted work premium, in the case of persons with a severely limited capacity for employment;
- the supplement to the work premium, in the case of long-term recipients leaving last resort financial assistance.

To make work more appealing to Québec households, the government is enhancing these three measures.

<b>Work premiums</b>
<p>Low- and middle-income workers are entitled to a general work premium in the form of a refundable tax credit. The tax credit is intended to support and value work effort as well as encourage individuals to leave last resort financial assistance and join the labour market.</p> <p>The amount of the work premiums is grossed up at a rate applied to work income to facilitate transition into the labour market. The work premiums are granted to recipients of last resort financial assistance as well as low- and middle-income workers. They are a good means of acknowledging work effort.</p>

## ❑ Financial impact of the enhancements to the work premiums

The increases in the general and adapted work premiums will have a financial impact of \$152.2 million over five years.

Expanding the eligibility requirements for the supplement to the work premium for long-term recipients leaving last resort financial assistance will have a financial impact of \$12.6 million over six years.

TABLE C.15

### **Financial impact of enhancements to the work premiums** (millions of dollars)

	<b>2017- 2018</b>	<b>2018- 2019</b>	<b>2019- 2020</b>	<b>2020- 2021</b>	<b>2021- 2022</b>	<b>2022- 2023</b>	<b>Total</b>
Increases in the work premiums	—	-11.4	-19.7	-28.5	-40.2	-52.4	-152.2
Expanding of the requirements for claiming the supplement to the work premium for long-term recipients	-0.6	-2.4	-2.4	-2.4	-2.4	-2.4	-12.6
<b>TOTAL</b>	<b>-0.6</b>	<b>-13.8</b>	<b>-22.1</b>	<b>-30.9</b>	<b>-42.6</b>	<b>-54.8</b>	<b>-164.8</b>

## 2.2.1 Enhanced benefits for households without children

In the case of households without children, the gross-up rate used to calculate the maximum amount of the general work premium will be raised in order to encourage these households to increase their work effort or leave social assistance.

- Within the next five years, the gross-up rate applied to work income for the purpose of calculating the general work premium will be raised from 9% to 10.8%, which will increase the combined rate for the general work premium and the working income tax benefit (WITB) from 29.5% to 31.3% for households without children.

TABLE C.16

### Gross-up rate used to calculate the general work premium and the WITB (per cent and percentage point increase)

	Work premium – Québec			Federal <sup>(1)</sup>	Combined rate	
	Current	Enhanced	Enhancement	WITB	Current	Enhanced
Person living alone	9.0	<b>10.8</b>	<b>1.8</b>	20.5	29.5	<b>31.3</b>
Couple without children	9.0	<b>10.8</b>	<b>1.8</b>	20.5	29.5	<b>31.3</b>
Single-parent family	30.0	30.0	—	12.0	42.0	42.0
Couple with children	25.0	25.0	—	8.0	33.0	33.0

(1) Based on the rate schedule for 2017.

As a result, the gross-up rate used to calculate the adapted work premium for households without children will also be raised by 1.8 percentage points, from 11% to 12.8%.

TABLE C.17

### Gradual increase in work premiums for households without children (per cent and dollars)

	Current system	New system				
		2018	2019	2020	2021	2022
<b>General work premium</b>						
Gross-up rate (%)	9.0	9.4	9.7	10.0	10.4	10.8
Maximum amounts						
– Person living alone	729.54	761.96	786.28	810.60	843.02	875.45
– Couple without children	1 138.32	1 188.91	1 226.86	1 264.80	1 315.39	1 365.98
<b>Adapted work premium</b>						
Gross-up rate (%)	11.0	11.4	11.7	12.0	12.4	12.8
Maximum amounts						
– Person living alone	1 345.08	1 393.99	1 430.68	1 467.36	1 516.27	1 565.18
– Couple without children	2 016.52	2 089.85	2 144.84	2 199.84	2 273.17	2 346.50

Note: The parameters are assessed based on 2017 and do not factor in indexation.

## ❑ Illustration of the enhanced work premiums

The enhancements to the work premiums will increase the maximum amounts of the general and adapted work premiums.

- For example, in the case of a person living alone who is entitled to claim the general work premium, the maximum amount will increase from \$729.54 to \$875.45.

TABLE C.18

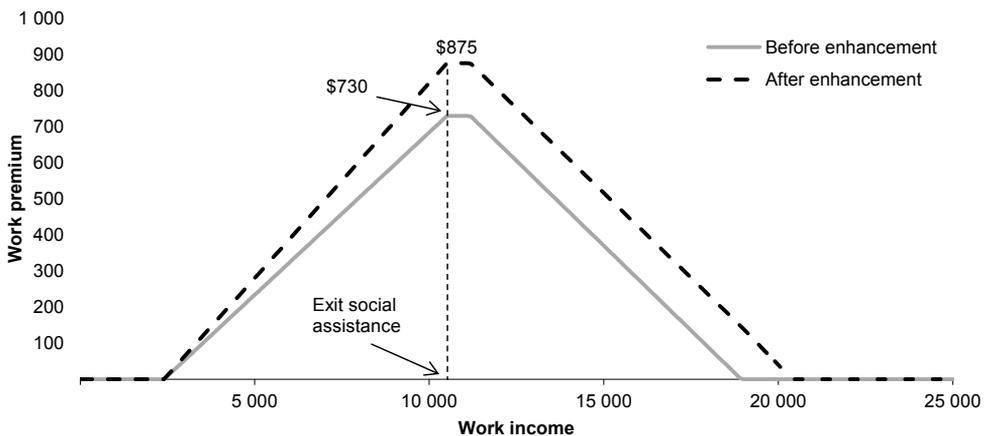
### Maximum amount of the work premium for households without children before and after the increase – When fully implemented (dollars)

	Maximum work premium		
	Before	After	Enhancement
<b>General work premium</b>			
– Person living alone	729.54	875.45	145.91
– Couple without children	1 138.32	1 365.98	227.66
<b>Adapted work premium</b>			
– Person living alone	1 345.08	1 565.18	220.10
– Couple without children	2 016.52	2 346.50	329.98

Note: The parameters are assessed based on 2017 and do not factor in indexation.

CHART C.4

### Illustration of the enhanced general work premium for a person living alone – When fully implemented (dollars)



Note: The parameters are assessed based on 2017 and do not factor in indexation.

## 2.2.2 Expanding of the requirements for claiming the supplement to the work premium

The supplement to the work premium granted to long-term recipients leaving last resort financial assistance is intended to facilitate their labour market integration by giving them the financial means to cope with the costs of transitioning to employment.

Currently, a monthly supplement of \$200 is granted to individuals who have been receiving last resort financial assistance during at least 36 of the preceding 42 months and leave the program because they have started earning an income. The supplement is granted for a maximum of 12 consecutive months.

To provide a stronger incentive for last resort financial assistance recipients to join the labour market, the requirements for claiming the supplement will be expanded so that more recipients are entitled to claim it. Accordingly, the length of time a person must have been receiving benefits under the last resort financial assistance or Objectif emploi program to be entitled to claim the supplement to the work premium will be reduced to 24 of the preceding 30 months.

— The enhancement will apply as of the 2018 taxation year.

— It will enable quicker intervention in respect of recipients who risk staying on last resort financial assistance for an extended period of time.

The full-year cost of the measure is estimated at \$2.4 million, based on the current exit rate from last resort financial assistance.

Eligible recipients may be able to claim the enhanced supplement to the work premium in addition to the enhanced general work premium or enhanced adapted work premium, as the case may be.

## 2.3 Social inclusion measures

The third Plan to Combat Poverty and Social Exclusion foresees the implementation of various other measures, including measures to strengthen the social inclusion of low-income households.

The measures put forward will be aimed at fostering access to housing, culture, justice and greater food security. They will also offer support to organizations that work with people living in poverty and social exclusion.



### 3. INVESTMENTS IN EDUCATIONAL SUCCESS

#### 3.1 Strategy on educational services for children aged 0 to 8

As part of the March 2017 Québec Economic Plan, the government announced an injection of over \$3.4 billion to better support children and students.

In addition, at the same time as it released the Policy on Educational Success, the government announced the development of the 2017-2022 strategy on educational services for children aged 0 to 8 (strategy 0-8 years) with the aim of acting early and rapidly to further develop children's ability to learn and succeed.

— More specifically, the new strategy supports children under 5 years of age and their families as well as preschoolers and children in elementary school.

##### 3.1.1 Additional investments to foster equal opportunity and improve the quality of education

The goal of the strategy 0-8 years is to ensure that children can develop their full potential under the best possible conditions from their earliest years.

— To that end, the Québec government already announced in the March 2017 Québec Economic Plan that over \$127 million would be invested over six years to ensure educational success from early childhood.

In the November 2017 update of the Québec Economic Plan, the government is announcing additional funding of \$125 million over six years for the strategy 0-8 years and educational success. The investments are aimed at:

- fostering equal opportunity for all young children by offering better conditions for developing their potential, including support adapted to their needs;
- ensuring a continuity of educational services and a smooth transition from daycare to school for students who are vulnerable or have special needs;
- consolidating and supporting projects designed to improve the quality of education by, in particular, providing educators with additional support so that they may work more effectively with children with special needs;
- enabling all children to develop essential competencies through actions to promote reading, writing and math skills from a very young age;
- helping equip parents to foster their children's development.

TABLE C.19

**Enhancement of measures in respect of the strategy 0-8 years targeting young children**  
(millions of dollars)

	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	Total
Foster equal opportunity <sup>(1)</sup>	0.5	6.3	6.3	6.4	7.7	7.7	34.9
Ensure a continuity of educational services and a smooth transition	3.0	3.0	4.0	3.0	3.0	3.0	19.0
Consolidate and support projects to improve the quality of education	1.0	8.0	6.3	7.6	6.7	6.7	36.3
Enable all children to develop essential competencies	0.1	0.7	0.7	0.7	0.7	0.7	3.6
Help equip parents and foster mobilization and concerted action	0.4	2.0	7.7	7.3	6.9	6.9	31.2
<b>TOTAL</b>	<b>5.0</b>	<b>20.0</b>	<b>25.0</b>	<b>25.0</b>	<b>25.0</b>	<b>25.0</b>	<b>125.0</b>

(1) Additional appropriations of \$0.1 million in 2019-2020 and 2020-2021 and \$0.3 million a year for subsequent years will be allocated to the Ministère de la Santé et des Services sociaux.

For that purpose, additional appropriations of \$5 million in 2017-2018, \$20 million in 2018-2019, \$24.9 million in 2019-2020 and 2020-2021 and \$24.7 million for 2021-2022 and 2022-2023 will be allocated to the Ministère de la Famille.

— The amounts for 2017-2018 will be drawn from the Contingency Fund.

### 3.1.2 500 more professionals in schools

The strategy 0-8 years is also aimed at accompanying and supporting preschoolers and first graders in achieving success. The March 2017 Québec Economic Plan announced investments totalling nearly \$1 billion over six years to that end.

As part of the November 2017 update of the Québec Economic Plan, the government wants to step up its investments in the strategy 0-8 years.

- A total injection of \$212 million will enable the hiring of 500 more professionals as of September 2018, including speech therapists and ortho-pedagogists, to enhance the services provided to students for the purpose of:
  - improving student access to specialized professional services;
  - fostering the development of personal and social skills;
  - supporting teachers in the development of students' skills.

The amounts for 2017-2018 will be drawn from the Contingency Fund.

TABLE C.20

#### **Enhancement of measures under the strategy 0-8 years targeting young children of school age** (millions of dollars)

	2017- 2018	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	Total
Additional professional resources to support students	12.0	40.0	40.0	40.0	40.0	40.0	<b>212.0</b>

## 3.2 Investing in higher education

Higher education institutions play a key role in the growth of a knowledge-based economy. To support the development of these institutions, the March 2017 Québec Economic Plan devoted \$1.5 billion to higher education and students.

These investments were intended to provide institutions with the funds to hire 500 more resources to train and support students as of the start of the 2017 school year and over 2 500 more resources by 2021-2022.

— Higher education institutions in Québec have hired more than 700 additional resources since September 2017.

The government wants to step up these investments so that 120 more resources, such as teachers, technicians and professionals, can be hired to train students.

To that end, an additional \$7 million in 2017-2018 and \$20 million in subsequent years will be injected into higher education. The new resources, particularly for direct services to students, will serve to improve student support, success and integration.

The amounts for 2017-2018 will be drawn from the Contingency Fund.

TABLE C.21

### **Additional investments in higher education** (millions of dollars)

	2017- 2018	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	Total
Improve student support, success and integration	7.0	20.0	20.0	20.0	20.0	20.0	<b>107.0</b>

## 4. ENSURING A HIGHER INCOME IN RETIREMENT

Saving for retirement is an issue of concern for workers and governments around the world. Canada's public pension plan has not been reviewed in depth for over 50 years.

Against this backdrop, an agreement in principle to enhance the Canada Pension Plan (CPP) was signed by nine Canadian provinces in June 2016. Québec did not sign the agreement because it wanted to take the time to consult Quebecers.

On November 2, 2017, following two consultation periods, the Québec government tabled Bill 149, *An Act to enhance the Québec Pension Plan and to amend various retirement-related legislative provisions*. The purpose of the bill is to gradually enhance the Québec Pension Plan (QPP) as of January 1, 2019 and up until 2025 to ensure that future generations have a better retirement income and improve living standards in retirement.

Moreover, the Québec Pension Plan will still be equivalent to the Canada Pension Plan, as the parameters of the Québec Pension Plan enhancement will be identical to those of the Canada Pension Plan enhancement. Harmonizing the enhancements will:

- provide working Quebecers with the same level of retirement protection as in the rest of Canada in terms of a mandatory public plan;
- avoid the complexity of recognizing benefit payments for Quebecers who contributed to the Canada Pension Plan while working in another province;
- avoid major administrative charges for businesses with operations in more than one province.

### Public consultations on the QPP

#### First consultation, held in January 2017

The Committee on Public Finance held special hearings from January 17 to 20, 2017. A number of groups expressed their points of view regarding the advisability of enhancing the QPP and the proposed enhancement options.

The consultation showed strong mobilization around certain issues, such as the importance of enhancing the QPP in a similar manner to the CPP, while maintaining its distinctive character, as well as the need to ensure the QPP's financial sustainability over the long term and take intergenerational fairness into account.

#### Second consultation, held in spring 2017

In addition to the public consultation held by the parliamentary committee, an online consultation process ran from April 24 to March 24, 2017 via the *Retraite Québec* website. Over 4 100 people responded to the questionnaire on the future of the QPP. The results of the online consultation are consistent with the views expressed during the parliamentary committee hearings.

## ❑ Québec Pension Plan

In 2017, the Québec Pension Plan contribution rate is 10.8%, split equally between the employer and employee, with each contributing 5.4%.

The total annual contribution is calculated based on a percentage of the employee's work income between the general exemption of \$3 500 and the yearly maximum pensionable earnings (YMPE) of \$55 300.

The amount of the retirement pension paid under the Québec Pension Plan at the time of retirement replaces 25% of the average income on which the worker has contributed.

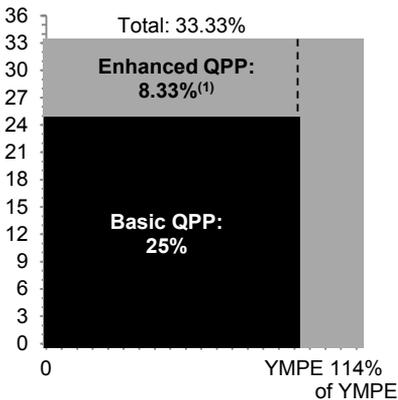
## ■ Enhancement of the Québec Pension Plan

The government tabled a bill to increase the rate of contribution effective January 1, 2019. When fully implemented, the enhanced Québec Pension Plan<sup>4</sup> will:

- raise the income replacement rate of retirement pensions from 25% to 33.33%;
- increase the yearly maximum pensionable earnings, that is, the maximum income on which a person contributes, by 14% from \$55 300 to \$63 000;
- raise the rate of contribution by 2 percentage points, to 12.8%, for income between \$3 500 and \$55 300;
- set a new rate of contribution of 8% for the portion of income between \$55 300 and \$63 000.

CHART C.5

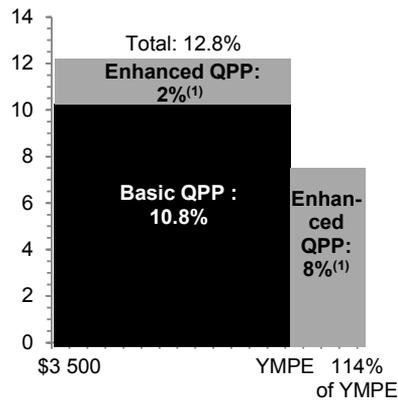
**Income replacement rate at the time of retirement – When fully implemented**  
(per cent)



(1) This increase will raise the income replacement rate at retirement to 33.33%.

CHART C.6

**Combined employer/employee contribution rate – When fully implemented**  
(per cent)



(1) Additional contribution rate of 2% on income between \$3 500 and the YMPE. The additional contribution applies to the 8% contribution rate between 100% of the YMPE and 114% of YMPE.

<sup>4</sup> Amounts in 2025 in 2017 dollars.

## ❑ Deductions respecting additional QPP contributions

Under Québec's tax system, contributions to the Québec Pension Plan are exempt from income tax. The government undertakes to preserve this principle and ensure that no income tax is payable on additional contributions to the Québec Pension Plan by making them tax deductible.

As of 2019, all working Quebecers who see their Québec Pension Plan contributions increase will be able to deduct the employee share of additional contributions from their income. This new deduction will represent \$270 million in tax relief upon full implementation.

Furthermore, employer contributions to the Québec Pension Plan for companies are tax deductible. When the enhancement is fully implemented, it will mean \$68 million a year in corporate income tax relief in respect of the additional employer contributions.

TABLE C.22

### Financial impact of tax relief for additional contributions to the Québec Pension Plan

(millions of dollars)

	2017- 2018	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	When fully implemented <sup>(1)</sup>
<b>Personal income tax</b>							
– New deduction respecting the employee share of additional QPP contributions	—	-10.1	-40.4	-73.9	-117.4	-167.9	-251.2
– Deduction of the employer share of additional QPP contributions for self-employed workers	—	-0.7	-3.0	-5.3	-8.4	-12.5	-18.9
<b>Subtotal: Personal income tax</b>	<b>—</b>	<b>-10.8</b>	<b>-43.4</b>	<b>-79.2</b>	<b>-125.8</b>	<b>-180.4</b>	<b>-270.1</b>
<b>Corporate income tax</b>							
Deductibility of additional employer contributions	—	-2.0	-10.1	-18.7	-30.1	-43.5	-68.4
<b>TOTAL</b>	<b>—</b>	<b>-12.8</b>	<b>-53.5</b>	<b>-97.9</b>	<b>-155.9</b>	<b>-223.9</b>	<b>-338.5</b>

Note: Totals may not add due to rounding.

(1) These amounts correspond to the financial impact of the increase in QPP contributions upon full implementation in 2025-2026.

## ❑ Continued roll-out of the voluntary retirement savings plan

Enhancement of the Québec Pension Plan will give future generations a higher retirement income. In addition, working Quebecers who do not have a private pension plan will be able to count on other sources of savings to help them maintain their standard of living into retirement, such as the voluntary retirement savings plan, which was specially designed to achieve that objective.

Under the voluntary retirement savings plan, participants who contribute at the default rate of 4%<sup>5</sup> will enjoy a substantially higher income in retirement. A worker with an average income of \$50 000 and no private pension plan<sup>6</sup> can:

- replace 70% of his or her career earnings, or 22% more than would be received under the enhanced Québec Pension Plan;
- increase his or her disposable income in retirement by approximately \$11 360 compared to roughly \$2 000 under the enhanced Québec Pension Plan.

The combination of the voluntary retirement savings plan and the Québec Pension Plan will provide working Quebecers with greater protection during retirement.

### **Voluntary retirement savings plan (VRSP)**

The VRSP is available to workers who do not have access to a private pension plan. To encourage them to save for retirement, the plan includes:

- automatic registration and a set of default parameters so that participants have fewer decisions to make;
- low management fees to foster a higher return and higher retirement income.

#### **Gradual implementation of the employer obligation to offer a VRSP**

As of December 31, 2016, employers with more than 20 employees are required to offer a VRSP to employees who do not have access to a private pension plan.

- As of December 31, 2017, employers with between 10 and 19 employees will be required to do the same.
- On a date determined by the government, but after December 31, 2018, employers with between 5 and 9 employees will also be required to offer a VRSP.

<sup>5</sup> The default contribution rate will be 4% effective January 1, 2019.

<sup>6</sup> This example is in the case of a worker who did not have a pension plan with his or her employer and would receive Old Age Security benefits at age 65.

# Section D

## THE QUÉBEC ECONOMIC PLAN: ECONOMIC DEVELOPMENT MEASURES

- 1. Supporting regional economies..... D.3**
  - 1.1 Support for the digital transformation of the economy..... D.4
    - 1.1.1 Ensuring access to a high-performance digital network in all regions of Québec ..... D.5
    - 1.1.2 Developing next-generation technologies in Québec..... D.8
  - 1.2 Support for economic development in all regions..... D.9
- APPENDIX: Financial impact of the measures in the November 2017 update of the Québec Economic Plan..... D.11**



# 1. SUPPORTING REGIONAL ECONOMIES

Québec's regions are an important source of wealth for our economy. They are key to Québec's economic development.

Since the launch of the Québec Economic Plan in April 2014, the Québec government has established several action priorities, in respect of which significant initiatives have been implemented. In this way, the Québec Economic Plan stimulates economic growth in all regions of Québec, by creating an environment conducive to the establishment of businesses, the development of new investment projects and job creation.

To advance these objectives, the November 2017 update of the Québec Economic Plan provides for additional investments of nearly \$667 million for the financing of new initiatives that will have a major impact throughout Québec, namely:

- \$367 million to support the digital transformation of the economy;
- \$300 million to support economic development in all regions.

TABLE D.1

## Financial impact of the initiatives to support regional economies (millions of dollars)

	2017- 2018	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	Total
Support for the digital transformation of the economy	-36.2	-88.0	-88.8	-63.9	-64.7	-25.0	-366.6
Support for economic development in all regions	-50.0	-50.0	-50.0	-50.0	-50.0	-50.0	-300.0
<b>TOTAL</b>	<b>-86.2</b>	<b>-138.0</b>	<b>-138.8</b>	<b>-113.9</b>	<b>-114.7</b>	<b>-75.0</b>	<b>-666.6</b>

## 1.1 Support for the digital transformation of the economy

Québec must seize the opportunity represented by the digital transformation of the economy.

The digital age has ushered in profound changes for both people and businesses. It has changed the way we interact, work, consume information and learn.

In this context, accessible, high-performance digital infrastructure facilitates innovation, skills development, increased business productivity and the attraction of skilled workers. It also enhances human and commercial interaction, as well as people's quality of life.

To give the necessary push to the Digital Strategy, which will be announced soon by the Deputy Premier, Minister of Economy, Science and Innovation and Minister responsible for the Digital Strategy, the government is taking further action. In addition to the initiatives already in place, the November 2017 update of the Québec Economic Plan provides for funding of almost \$367 million over six years for initiatives that are considered priorities within the framework the Digital Strategy, namely:

- ensuring access to a high-performance digital network in all regions of Québec, in particular through enhancement of the Québec branché program;
- developing next-generation technologies in Québec with the launch of the ENCQOR project<sup>1</sup> in 2017-2018.

TABLE D.2

### Financial impact of the initiatives to support the digital transformation of the economy (millions of dollars)

	2017- 2018	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	Total
Ensure access to a high-performance digital network in all regions of Québec	-25.0	-75.0	-75.0	-50.0	-50.0	-25.0	-300.0
Develop next-generation technologies in Québec	-11.2	-13.0	-13.8	-13.9	-14.7	—	-66.6
<b>TOTAL</b>	<b>-36.2</b>	<b>-88.0</b>	<b>-88.8</b>	<b>-63.9</b>	<b>-64.7</b>	<b>-25.0</b>	<b>-366.6</b>

<sup>1</sup> ENCQOR is the acronym for Evolution of Networked Services through a Corridor in Québec and Ontario for Research and Innovation.

### **1.1.1 Ensuring access to a high-performance digital network in all regions of Québec**

The digital revolution will propel Québec and its regions into the future.

With the rapid evolution in digital technology and, as a result, the increasing use of Internet services, the presence of high-performance, reliable infrastructure able to support the anticipated increase in the speed of such services has become indispensable.

Accordingly, be it in urban centres or in rural municipalities and remote regions, businesses and citizens must have at their disposal quality digital infrastructure providing access to a high-speed Internet network.

Access to high-speed Internet is essential today to enable regions to take their place in the new economy.

The November 2017 update of the Québec Economic Plan provides for an additional \$300 million for the deployment of high-performance, scalable digital infrastructure. This amount will enable the regions' needs to be met with respect to private and public digital infrastructure, the basic standards of which will undergo rapid change.

- This amount will be used in part to enhance the Québec branché program, in order to ensure infrastructure expansion and the deployment of high-performance, private digital infrastructure throughout Québec.
- The most promising projects will be selected by June 2018, after a new, soon-to-be-launched call for projects.

The necessary amounts for 2017-2018 will be drawn from the Contingency Fund. The details of these new initiatives will be announced at a later date by the Deputy Premier, Minister of Economy, Science and Innovation and Minister responsible for the Digital Strategy.

## ❑ A specific objective to achieve

The government's plan to connect the regions is concrete, targeted and yields results. Digital technology will increase the autonomy and prosperity of all our regions.

In 2016, 99% of Québec households had access to Internet speeds of at least 5 Mbps, 91%, to speeds of at least 25 Mbps, and 83%, to speeds of at least 100 Mbps.<sup>2</sup>

— For example, a 100 Mbps Internet connection enables businesses to efficiently carry out real-time data collection, intensive calculations remotely and video conferencing with several users. Moreover, it enables shows to be watched simultaneously on an Ultra HD Internet platform from a single residential connection.

The Québec government's target over the next five years is for 100% of citizens to have access to high-speed networks and for more than 90% of citizens to have access to ultra high-speed networks, that is, at least 100 Mbps for downloads and 20 Mbps for uploads.

In addition, one of the objectives of the Digital Strategy is to link remote or isolated communities to a high-performance digital infrastructure network.

In that regard, projects will be prioritized. Examples include the deployment of an underwater fibre optic network in the Nord-du-Québec region to link communities in Nunavik, the upgrading of the transport and distribution equipment of the communications network in Gaspé to improve the network's performance for users, and the raising of the fibre optic cables linking Îles-de-la-Madeleine to the mainland.

Digital technology represents an opportunity to help the regions build the prosperity of tomorrow.

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<sup>2</sup> These data are from *Communications Monitoring Report 2017* of the Canadian Radio-television and Telecommunications Commission (CRTC).

### Québec branché program

The Québec branché program, one of the pillars of the Digital Economy Action Plan, aims to ensure that citizens, organizations and businesses located in rural areas or remote regions where Internet service is poor or non-existent have access to quality high-speed Internet<sup>1</sup> at a cost comparable to that in urban areas.

The program has an envelope of \$100 million over five years and supports the funding of digital distribution and transportation infrastructure in rural communities, together with the federal government's new Connect to Innovate program.<sup>2</sup>

In the first call for projects under the Québec branché program, which ended on April 20, 2017, almost 240 projects were submitted.

Nearly one-third of these projects were selected and, consequently, will receive financial assistance for the establishment of digital infrastructure. This represents an investment on the order of \$100 million through the Québec branché program.

- Taking into account the federal government's contribution under the Connect to Innovate program, total investments will reach close to \$300 million.
- With these projects, close to 100 000 extra households will have adequate high-speed Internet.

1 The Québec branché program was developed in 2016 on the basis of the CRTC standards in effect at that time. Access was then considered to be high-speed if the download speed was at least 5 Mbps, the upload speed was at least 1 Mbps and the monthly data transfer capacity was equal to or exceeded the Canadian average. The CRTC has since set new targets for basic Internet services. It wants 90% of Canadian households and businesses to have, by 2021, broadband Internet access with a download speed of at least 50 Mbps and an upload speed of at least 10 Mbps.

2 The Connect to Innovate program, with a \$500-million envelope from the federal government, aims to improve high-speed Internet in Canadian rural and remote communities.

### 1.1.2 Developing next-generation technologies in Québec

The Québec government pledged to put in place conditions favourable to collaboration between researchers, businesses and organizations, in order to step up the transfer of new digital technologies by businesses.

To that end, it intends to join forces with the Ontario government and launch the ENCQOR project, which will consist in deploying a fifth-generation (5G) pre-commercial telecommunications network in the Québec-London Corridor and enabling partners to develop and test advanced software applications there.

The project, which requires a \$400-million investment over five years, will be carried out equally in Québec and Ontario.

In that regard, the government announced its intention, as part of the March 2016 Québec Economic Plan, to participate financially in the ENCQOR project, provided there is 50% private sector funding and the public sector contribution is shared equally by the governments of Québec, Ontario and Canada.

Considering the progress in discussions with the other partners, the November 2017 update of the Québec Economic Plan provides for an envelope of nearly \$67 million over five years for the ENCQOR project, including \$11.2 million in 2017-2018 for the first initiatives under the project.

The necessary amounts for 2017-2018 will be drawn from the Contingency Fund. The details of these new initiatives will be announced at a later date by the Deputy Premier, Minister of Economy, Science and Innovation and Minister responsible for the Digital Strategy.

## 1.2 Support for economic development in all regions

To continue supporting economic development in all regions, the November 17 update of the Québec Economic Plan provides for additional support of \$300 million over six years for the funding of new initiatives.

This new envelope will benefit all regions of Québec, because it will encourage job creation and private investment, while generating significant economic benefits throughout Québec.

The necessary amounts for 2017-2018 will be drawn from the Contingency Fund. The details of these new initiatives will be announced at a later date by the ministers responsible.

TABLE D.3

### Financial impact of the initiatives to support economic development in all regions (millions of dollars)

	2017- 2018	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	Total
Support for economic development in all regions	-50.0	-50.0	-50.0	-50.0	-50.0	-50.0	-300.0



# APPENDIX: FINANCIAL IMPACT OF THE MEASURES IN THE NOVEMBER 2017 UPDATE OF THE QUÉBEC ECONOMIC PLAN

TABLE D.4

## Financial impact of the measures in the November 2017 update of the Québec Economic Plan (millions of dollars)

	2017- 2018	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	Total
<b>1. Easing of the tax burden on individuals</b>							
– Decrease in the bottom tax rate from 16% to 15%	-971.4	-954.5	-887.1	-904.8	-922.9	-941.4	-5 582.1
– Supplement of \$100 per child for the purchase of school supplies	-111.2	-112.0	-113.8	-115.8	-117.6	-119.4	-689.8
<b>Subtotal</b>	<b>-1 082.6</b>	<b>-1 066.5</b>	<b>-1 000.9</b>	<b>-1 020.6</b>	<b>-1 040.5</b>	<b>-1 060.8</b>	<b>-6 271.9</b>
<b>2. Reduction of poverty</b>							
Increase the disposable income of persons living in poverty							
– Increase benefits paid under the last resort financial assistance and Objectif emploi programs	-39.7	-189.3	-293.1	-387.4	-472.9	-539.2	-1 921.6
– Encourage labour market participation	-0.6	-13.8	-22.1	-30.9	-42.6	-54.8	-164.8
– Other measures to increase disposable income	-0.5	-18.2	-44.8	-63.2	-63.2	-63.2	-253.1
Social inclusion measures	-0.5	-32.3	-45.4	-50.5	-47.1	-44.4	-220.2
<b>Subtotal</b>	<b>-41.3</b>	<b>-253.6</b>	<b>-405.4</b>	<b>-532.0</b>	<b>-625.8</b>	<b>-701.6</b>	<b>-2 559.7</b>
<b>3. Investments for educational success and health</b>							
<b>Education and childhood</b>							
– 2017-2022 strategy on educational services for children aged 0 to 8	-17.0	-60.0	-65.0	-65.0	-65.0	-65.0	-337.0
<b>Higher education</b>							
– Investments in higher education	-7.0	-20.0	-20.0	-20.0	-20.0	-20.0	-107.0
<b>Health and social services</b>							
– Additional services	-100.0	-100.0	-100.0	-100.0	-100.0	-100.0	-600.0
– Prevention of cannabis use	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0	-30.0
Subtotal	-105.0	-105.0	-105.0	-105.0	-105.0	-105.0	-630.0
<b>Subtotal</b>	<b>-129.0</b>	<b>-185.0</b>	<b>-190.0</b>	<b>-190.0</b>	<b>-190.0</b>	<b>-190.0</b>	<b>-1 074.0</b>

TABLE D.4

## Financial impact of the measures in the November 2017 update of the Québec Economic Plan (cont.)

(millions of dollars)

	2017- 2018	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	Total
<b>4. Support for regional economies</b>							
– Support for the digital transformation of the economy							
▪ Ensure access to a high-performance digital network	-25.0	-75.0	-75.0	-50.0	-50.0	-25.0	-300.0
▪ Develop next-generation technologies in Québec	-11.2	-13.0	-13.8	-13.9	-14.7	—	-66.6
Subtotal	-36.2	-88.0	-88.8	-63.9	-64.7	-25.0	-366.6
– \$50 million per year to support regional economies	-50.0	-50.0	-50.0	-50.0	-50.0	-50.0	-300.0
<b>Subtotal</b>	<b>-86.2</b>	<b>-138.0</b>	<b>-138.8</b>	<b>-113.9</b>	<b>-114.7</b>	<b>-75.0</b>	<b>-666.6</b>
<b>5. Ensuring a higher income in retirement</b>							
– Personal income tax							
▪ New deduction respecting the employee share of additional QPP contributions	—	-10.1	-40.4	-73.9	-117.4	-167.9	-409.7
▪ Deduction of the employer share of additional QPP contributions for self-employed workers	—	-0.7	-3.0	-5.3	-8.4	-12.5	-29.9
Subtotal	—	-10.8	-43.4	-79.2	-125.8	-180.4	-439.6
– Corporate income tax							
▪ Deductibility of additional employer contributions	—	-2.0	-10.1	-18.7	-30.1	-43.5	-104.4
<b>Subtotal</b>	<b>—</b>	<b>-12.8</b>	<b>-53.5</b>	<b>-97.9</b>	<b>-155.9</b>	<b>-223.9</b>	<b>-544.0</b>
<b>TOTAL</b>	<b>-1 339.1</b>	<b>-1 655.9</b>	<b>-1 788.6</b>	<b>-1 954.4</b>	<b>-2 126.9</b>	<b>-2 251.3</b>	<b>-11 116.2</b>

# Section E

## THE QUÉBEC ECONOMY: RECENT DEVELOPMENTS AND OUTLOOK FOR 2017 AND 2018

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# 1. THE ECONOMIC SITUATION IN QUÉBEC

## 1.1 Significant acceleration in the economy

The Québec economy accelerated sharply over the last two years. Growth in real gross domestic product (GDP) rose from 1.0% in 2015 to 1.4% in 2016.<sup>1</sup> In 2017, real GDP growth will be 2.6%, an upward adjustment of 0.9 percentage point from the March forecast.

Several factors contributed to the excellent economic situation:

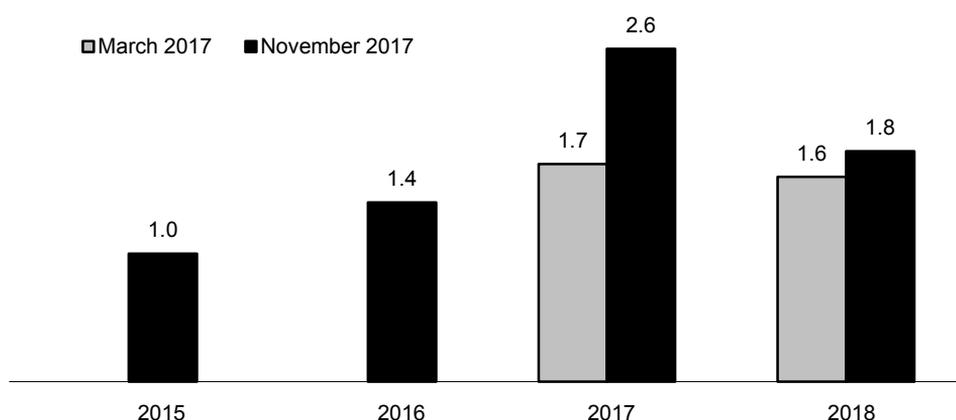
- Québec's favourable fiscal position, which boosts consumer and business confidence;
- consumption growth, which is primarily attributable to strong job creation. The increase in household disposable income, which rose at a faster rate than in Canada, was boosted by wage growth and tax relief;
- a rebound in non-residential business investment after several weak years.

In addition, the favourable situation of Québec's top trading partners and the more broadly based expansion of the global economy are spurring demand for Québec goods and services.

The conditions are thus in place for the Québec economy to continue this positive trend. Real GDP is expected to grow by 1.8% in 2018.

CHART E.1

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



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

<sup>1</sup> Unless otherwise indicated, this section contains data from the provincial economic accounts published by Statistics Canada on November 8, 2017. The forecast is based on the information available before that date.

## □ Household consumption expenditure and business investment – drivers of economic growth

The forecast real GDP growth of 2.6% in 2017 and 1.8% in 2018 will be driven primarily by higher household consumption and growth in non-residential business investment.

- Household spending will thus remain one of the main drivers of economic activity.
  - An increase in consumption of 3.4% in 2017 and 2.4% in 2018 will be supported primarily by employment growth. Moreover, household purchasing power is improving due to wage growth, moderate price increases and a reduction in the tax burden.
- After climbing by 1.2% in 2016, non-residential business investment is expected to continue increasing. It should rise by 2.9% in 2017 and 3.8% in 2018, driven by household consumption and heightened business confidence.
- Favourable economic conditions and robust job creation will continue supporting the residential sector. As a result, residential investment is expected to expand by 2.1% in 2017.
- Exports should increase by 1.1% in 2017 and 2.5% in 2018, fuelled, in particular, by stronger demand from Québec's top trading partners: the United States and Canada.

TABLE E.1

### Real GDP and its major components

(percentage change and contribution in percentage points)

	2016	2017	2018
<b>Contribution of domestic demand</b>	<b>2.3</b>	<b>2.7</b>	<b>2.1</b>
Household consumption	2.7	3.4	2.4
Residential investment	3.0	2.1	0.0
Non-residential business investment	1.2	2.9	3.8
Government spending and investment	1.7	1.4	1.3
<b>Contribution of the external sector</b>	<b>-0.8</b>	<b>-1.2</b>	<b>0.2</b>
Exports	1.7	1.1	2.5
Imports	3.1	3.5	1.9
<b>Contribution of inventories</b>	<b>0.0</b>	<b>0.9</b>	<b>-0.6</b>
<b>REAL GDP</b>	<b>1.4</b>	<b>2.6</b>	<b>1.8</b>

Note: Totals may not add due to rounding.

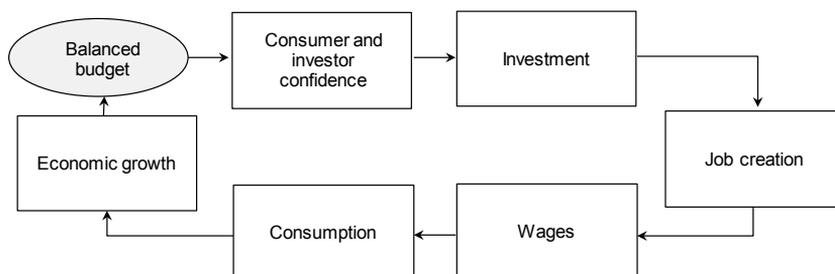
Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

## Reinforcing effect on economic growth

Québec's economic growth has accelerated significantly since the budget was balanced in 2015.

- Sound public finances were followed by a sharp increase in household and investor confidence.
- Increased household and business confidence spurred renewed investment and a sharp acceleration in job creation.
- Job creation drove wage growth, contributing to an increase in household purchasing power, which in turn further stimulated consumption.

### Balanced budget and economic growth



### The Québec economy has entered a virtuous circle of growth

The relationship between these economic and fiscal variables is complex and multidirectional. However, statistics show that these interactions have had a reinforcing effect.

Therefore, we can confirm that Québec's economy is currently in a virtuous circle where sound public finances and faster economic growth reinforce each other.

### Change in selected economic indicators in Québec

(annual averages, unless otherwise indicated)

	2015	2016	2017 <sup>(1)</sup>
Consumer confidence (points, 2014 = 100)	102.8	114.3	139.7
Business confidence (points)	57.9	63.9	67.6
Non-residential business investment in real terms (percentage change)	-3.8	1.2	2.0
Total job creation (thousands)	37.3	36.1	90.7
Average hourly wage (percentage change)	2.2	2.8	3.0
Retail sales in nominal terms (percentage change)	1.8	6.2	6.1
<b>Real GDP (percentage change)</b>	<b>1.0</b>	<b>1.4</b>	<b>2.6</b>

(1) Cumulative for available periods.

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

## 1.2 Job creation reflects good economic conditions

### □ Record labour market performance in the first ten months of 2017

During the first ten months of 2017, Québec gained 90 700 jobs compared to the same period in 2016. It thus contributed nearly one third of the jobs created in Canada over the same period.

— Of that number, 54 900 were full-time jobs and 51 300 new positions were created in the private sector.

Job creation, mostly full-time and private-sector employment, bears witness to businesses' optimism over Québec's economy and boosts household consumption expenditure.

Moreover, the unemployment rate has seen a sharp decline since 2015.

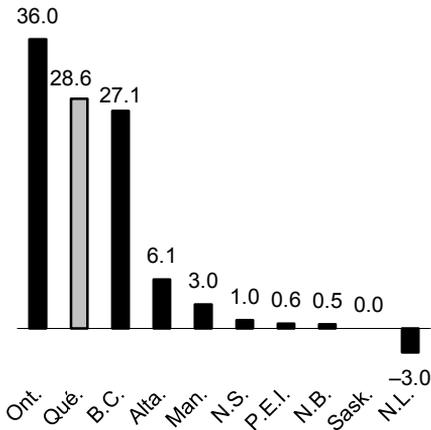
— In 2016, it was down to 7.1%, a one-year low not seen since Statistics Canada began its Labour Force Survey in 1976.

— In July 2017, Québec's unemployment rate hit a record monthly low of 5.8%.

Since May 2014, 201 800 jobs have been created in Québec. The government's goal is to create 250 000 jobs over five years.

CHART E.2

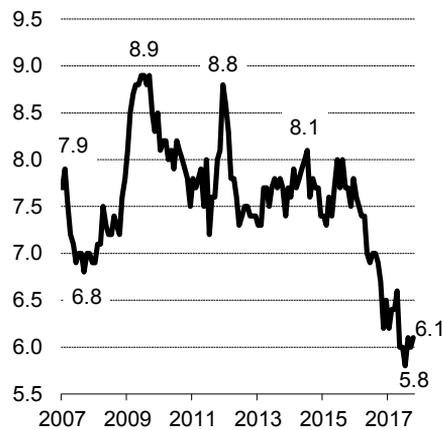
#### Share of total job creation in Canada, 2017<sup>(1)</sup> (per cent)



(1) Average for available ten months in 2017, compared to the same period in 2016.  
Source: Statistics Canada.

CHART E.3

#### Unemployment rate in Québec (per cent)



Source: Statistics Canada.

## 201 800 jobs created since May 2014

The labour market has been trending upward in recent years and stronger economic activity drove job creation.

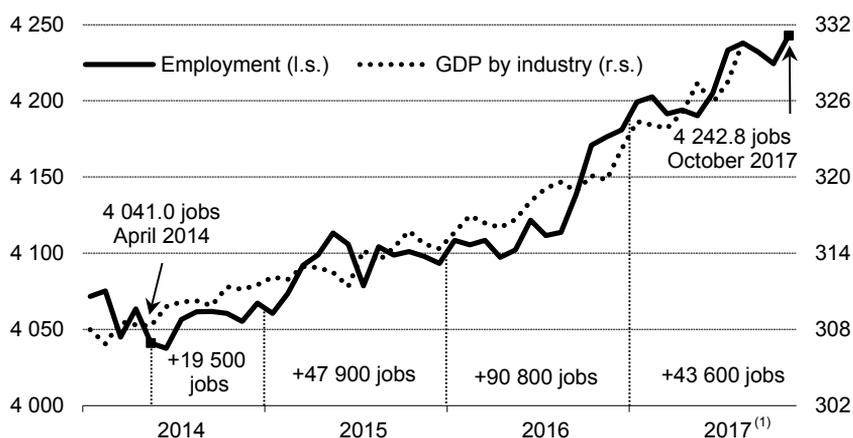
Since May 2014, Québec has created 201 800 jobs. More specifically, the Québec economy added:

- 19 500 jobs from May to December 2014;
- 47 900 from January to December 2015;
- 90 800 from January to December 2016;
- 43 600 jobs from January to October 2017.

Based on posted and projected employment growth, the government commitment to create 250 000 jobs over five years is on track to be met in 2019.

### Trend in employment and real GDP by Québec industry

(thousands of jobs, change in number of jobs and real GDP by industry in billions of 2007 dollars)



(1) First ten months of 2017 for employment and first seven months of 2017 for real GDP by industry.

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

## ❑ A strong performance by the economy will trigger further improvement in the labour market

The labour market performed well in 2016, with average creation of 36 100 jobs, an increase of 0.9% over 2015.

Exceptional job creation performance is forecast in 2017, at an average of 85 300 jobs for the full year, an increase of 2.1% over 2016.

Québec's labour market will remain dynamic in the coming years amid continued economic growth. However, the changing labour pool presents challenges for Québec.

— In 2018, 41 000 jobs should be created, an increase of 1.0%.

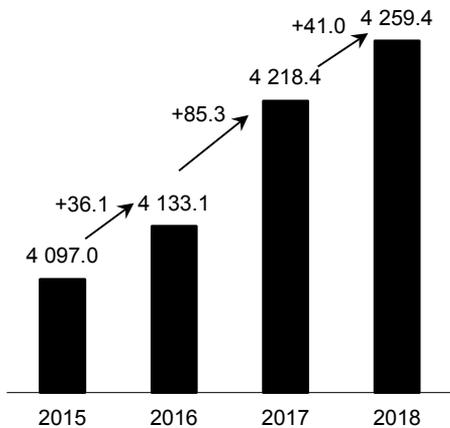
Continued job creation will drive a sharp decline in the unemployment rate.

— After falling to a historic one-year low of 7.1% in 2016, Québec's unemployment rate is expected to drop to 6.1% in 2017 and then to 5.9% in 2018.

— These never-before-seen levels of unemployment in Québec could translate into a relative labour shortage in various sectors and regions.

CHART E.4

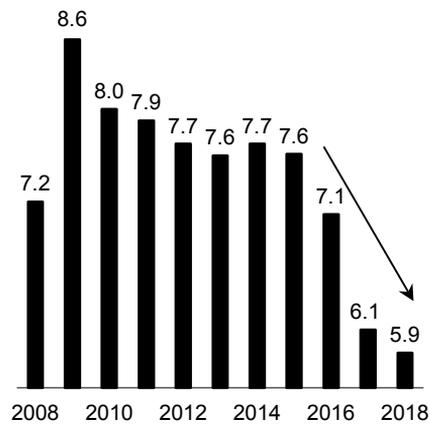
### Change in employment in Québec (thousands)



Sources: Statistics Canada and Ministère des Finances du Québec.

CHART E.5

### Unemployment rate in Québec (per cent)



Sources: Statistics Canada and Ministère des Finances du Québec.

### 1.3 Household consumption expenditure – a key driver of economic growth

Household consumption expenditure will remain a key driver of economic growth in Québec. After increasing by 2.7% in 2016, this expenditure is expected to accelerate to 3.4% growth in real terms in 2017 and increase a further 2.4% in 2018.

Several factors contributed to the growth in consumer spending in recent years, mainly:

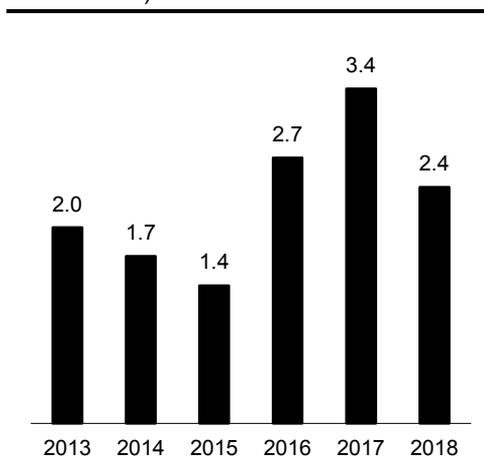
- good labour market conditions, which supported growth in households' income and influenced their willingness to spend;
- the tax relief granted by the Québec government<sup>2</sup> as well as the federal government;
- consumer confidence, which is historically high.

These factors will continue to support consumption. Moreover, sustained wage and salary growth is expected to continue.

- Nominal growth in wages and salaries is projected to be 3.8% in 2017 and 3.3% in 2018, following an increase of 2.6% in 2016.

CHART E.6

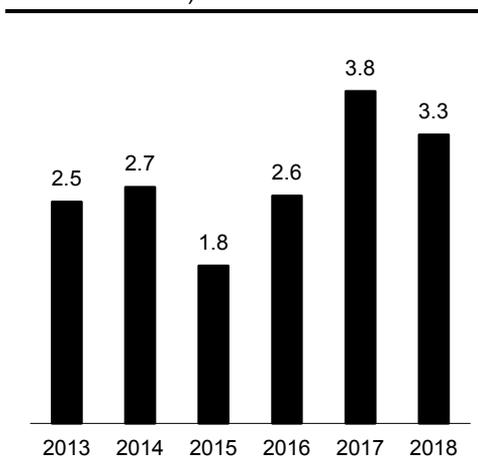
#### Household consumption expenditure in Québec (percentage change, in real terms)



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

CHART E.7

#### Wages and salaries (percentage change, in nominal terms)



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

<sup>2</sup> The forecast does not include the reduction in the tax burden announced in this update of the Québec Economic Plan.

## 1.4 Change in household income in Québec

### ❑ Real disposable income of Quebecers increased more than that of Canadians

Trending in pace with economic developments in recent years, growth in employee compensation, the main component of household disposable income, was similar in Québec to that in Ontario and Canada.

— More specifically, from 2014 to 2016, employee compensation<sup>3</sup> per capita in real terms rose by 2.9% in Québec, more than in Canada (+1.3%) but less than in Ontario (+3.2%).

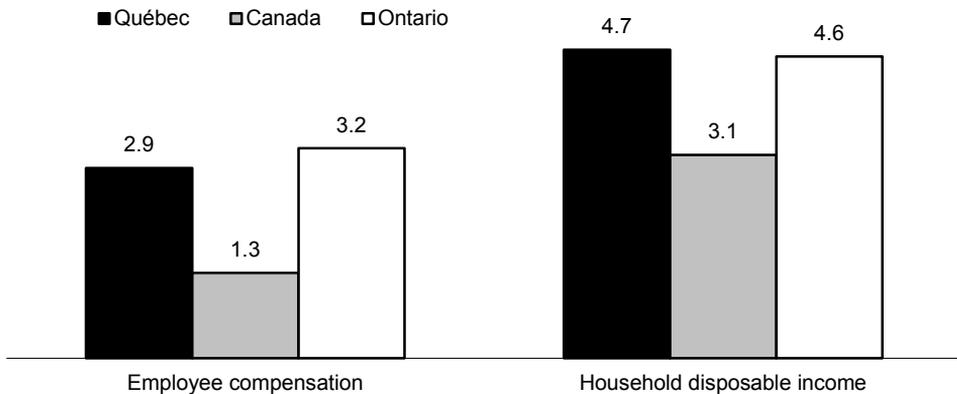
Household disposable income<sup>4</sup> per capita in real terms grew by 4.7% in Québec, outstripping both Canada (+3.1%) and Ontario (+4.6%).

— In addition to sustained growth in employee compensation, the faster pace of increase in real disposable income per capita in Québec stems primarily from a lower increase in the cost of living and from the tax relief granted by the Québec government.

CHART E. 8

### Employee compensation and household disposable income per capita, 2014-2016

(percentage change, in real terms)



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

<sup>3</sup> Employee compensation is defined as the total earnings, in cash and in kind, paid to employees for the work they perform.

<sup>4</sup> Household disposable income is the proportion of household income available for consumption and savings. It corresponds to the total combined income of households, including labour compensation and government transfers, less income tax and contributions.

## ❑ Faster wage growth than in Canada

The strong performance by the economy has had spillover effects on job creation, wage growth and household purchasing power. According to Statistics Canada's Labour Force Survey, the average hourly wage in Québec rose at a faster pace in the last few years.

- Average hourly wage growth accelerated from 2.2% in 2015 to 2.8% in 2016 and 3.0% in 2017.
- In 2016 and 2017, the average hourly wage rose faster in Québec than in Canada.

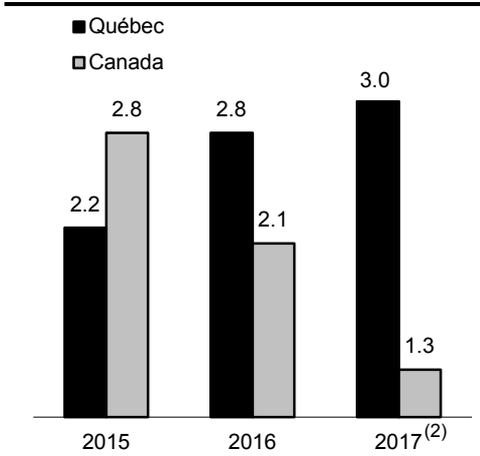
The faster wage growth in Québec than in Canada is all the more remarkable given that the cost of living increase was lower. Note that an increase in workers' purchasing power results from changes in two indicators:

- wage growth, which gives workers more purchasing power;
- price inflation, measured using the consumer price index (CPI), which lowers workers' purchasing power.

The combination of faster wage growth and lower inflation led to considerable improvement in the purchasing power of working Quebecers in recent years.

CHART E.9

### Average hourly wage<sup>(1)</sup> (percentage change, in nominal terms)



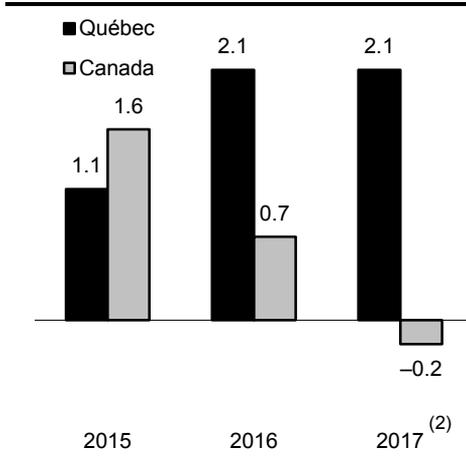
(1) Average hourly wage for all employees.

(2) Average for the first nine months of 2017 compared to the same period in 2016.

Source: Statistics Canada.

CHART E.10

### Purchasing power of workers<sup>(1)</sup> (percentage change, in real terms)



(1) Average hourly wage for all employees relative to the cost of living measured by the CPI.

(2) Average for the first nine months of 2017 compared to the same period in 2016.

Source: Statistics Canada.

## 1.5 Recovery in non-residential business investment

In 2016, non-residential business investment in Québec returned to growth, with a 1.2% increase in real terms, the first increase after a weak period that began in 2013.

— Whereas non-residential business investment rose in Québec in 2016, it contracted in Ontario (−7.8%), Canada (−8.8%) and the United States (−0.6%).

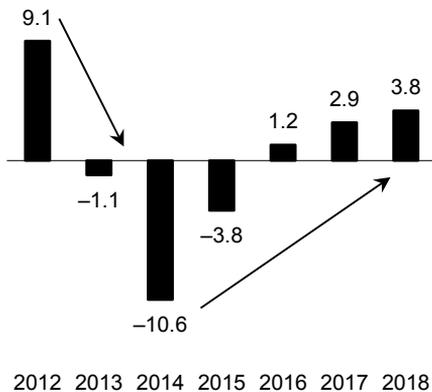
Non-residential business investment is expected to continue rising in Québec, with forecast growth of 2.9% in 2017 and 3.8% in 2018. The increase will be driven primarily by investments in machinery and equipment and investments in non-residential building construction.

— Investments in machinery and equipment are projected to increase by 8.7% in 2017 and 4.7% in 2018.

— Investments in non-residential building construction are expected to climb by 0.3% and 3.5% in 2017 and 2018, respectively.

CHART E.11

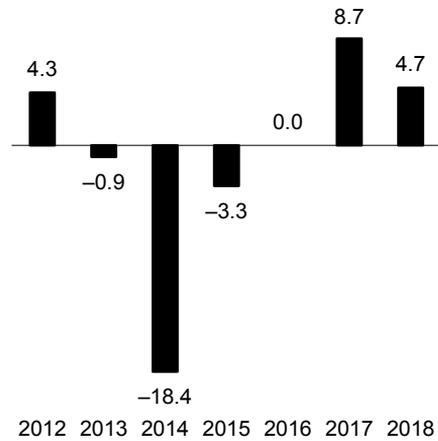
**Total non-residential business investment in Québec**  
(percentage change, in real terms)



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

CHART E.12

**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.

## ❑ The recovery in investment is on solid footing

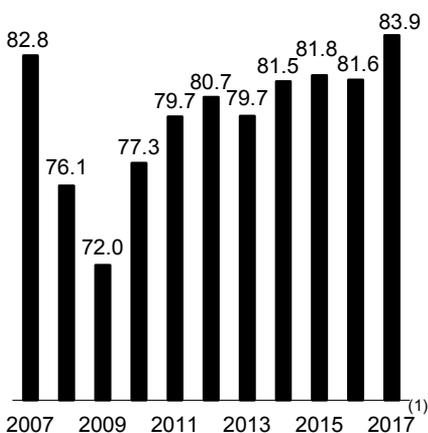
The recovery in business investment is on solid footing and various signs indicate that it will continue in the coming years:

- business owners' high confidence in the Québec economy;
- increased pressure on production capacity;
  - In the first two quarters of 2017, the industrial capacity utilization rate in Canada's manufacturing sector averaged 83.9%, exceeding the peak seen in 2007 (82.8%).
- sustained growth in corporate profits;
  - In 2016, the value of net operating surplus of corporations was at peak levels, enhancing companies' capacity to finance investment projects.

Furthermore, the favourable investment outlook is reinforced by projects that are either in the start-up phase or in full swing, in particular the new Champlain Bridge and the Réseau électrique métropolitain (REM).

CHART E.13

### Industrial capacity utilization rate in Canada's manufacturing sector (per cent)

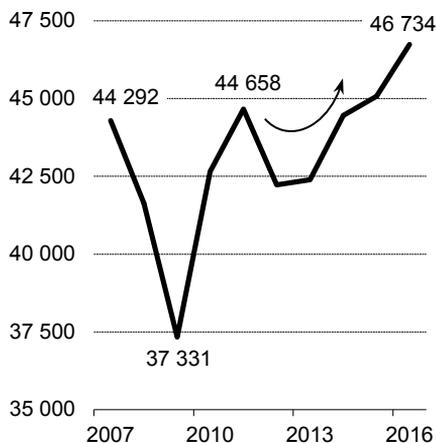


(1) Average for the first two quarters of 2017.

Source: Statistics Canada.

CHART E.14

### Net operating surplus of Québec corporations (millions of dollars, in nominal terms)



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

## Faster economic growth and sound public finances give investors more confidence in the Québec economy

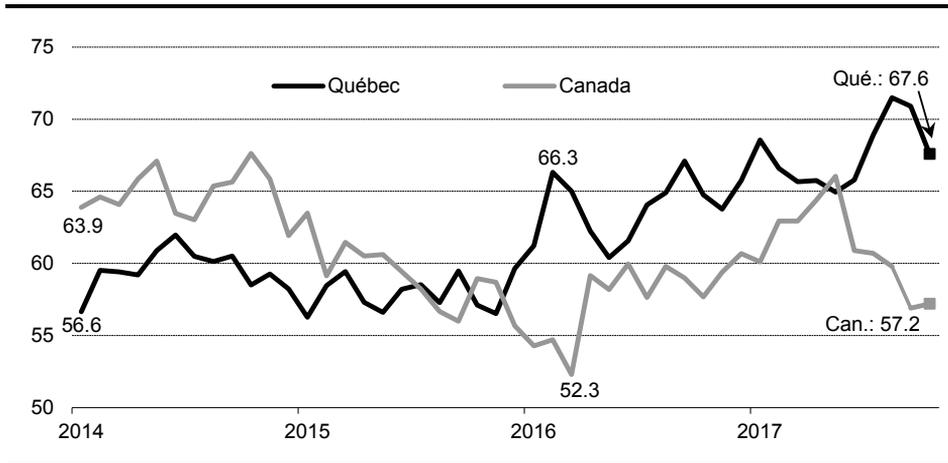
Faster economic growth and sound public finances have boosted investor confidence in the Québec economy.

- In October, the Canadian Federation of Independent Business' (CFIB) Business Barometer Index, which measures small and medium-sized business (SMB) confidence, reached 67.6 points in Québec.
- Québec is therefore the leading province in the country for the first time in 16 years.
  - By comparison, Canada's index was 57.2 points in October.
  - According to CFIB, one normally sees an index level of between 65 and 70 when the economy is growing at its potential.
- In 2017, Québec business owners are the nation's most optimistic, with an average index of 67.6 points for the first ten months of the year.
  - For the same period, the confidence index was 61.6 points for Ontario and 65.1 points for British Columbia.
  - The confidence index for SMBs in Canada as a whole averaged 61.2 points over the same period.

In addition, the strong performance of the public finances has been recognized by credit rating agencies, which confirms investors' positive image of Québec.

- The rating agency Standard & Poor's upgraded Québec's credit rating this year, while Fitch upgraded Québec's credit rating outlook last year.

### Business Barometer Index for SMBs (points)



Source: Canadian Federation of Independent Business.

## □ Government investments remain high

Public administrations in Québec, in particular the Québec government, municipalities and the federal government, will maintain a high level of investment over the coming years.

- In 2016, the annual value of investments by all levels of government reached \$16.2 billion.
- The value is expected to rise to \$16.5 billion in 2017 and \$17.2 billion in 2018.

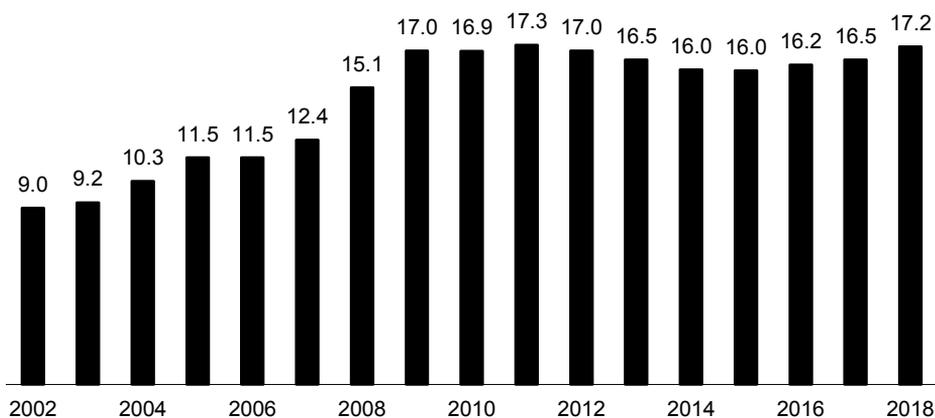
Government investments are an important economic engine and ensure better-quality public infrastructure for the benefit of citizens and businesses alike.

In particular, the Québec government will maintain a high level of investment under the Québec Infrastructure Plan (QIP), at more than \$90 billion over the ten-year period from 2018-2019 to 2027-2028.

- More specifically, over the next three years, capital investments under the QIP will total approximately \$10 billion a year.
- In 2017-2018, investments under the QIP alone account for roughly 60% of total public investment in Québec and for nearly 2.3% of Québec's GDP. Planned federal government spending on infrastructure over the same period equals 0.7% of Canada's GDP.

CHART E.15

### Government investments in Québec (billions of dollars, in nominal terms)



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

## 1.6 Robust activity in the residential sector

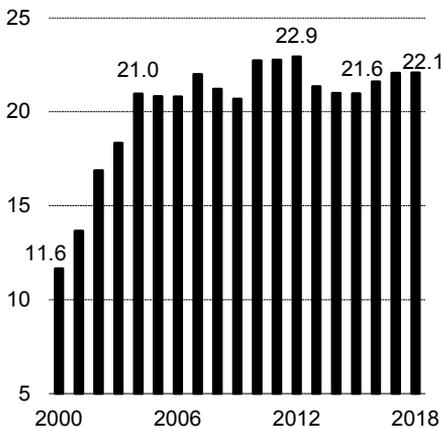
Favourable economic conditions and job creation will continue to support Québec's robust residential sector. After rising by 3.0% in 2016, residential investment is projected to grow by another 2.1% in 2017.

- More specifically, new housing construction will continue to expand in 2017, with housing starts expected to stand at 42 500 units.
  - The sharp increase in housing starts in 2017 reflects the heightened purchasing power of Québec households stemming from the favourable economic conditions.
  - In 2018, 39 700 new housing units are expected to be built, a number more in line with demographic determinants.

In addition, the gradual increase in borrowing costs as a result of the anticipated interest rate hikes by the Bank of Canada is expected to temper activity in the Québec and Canadian residential sectors in 2018.

CHART E.16

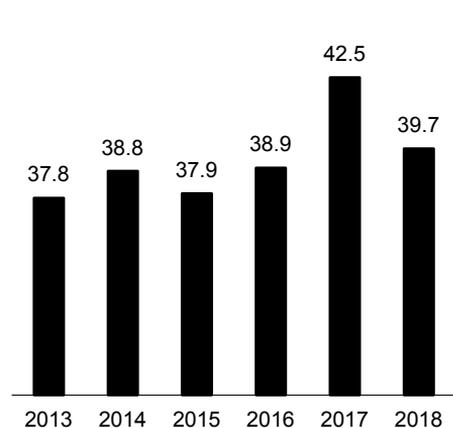
### Residential investment in Québec (billions of 2007 dollars, in real terms)



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

CHART E.17

### Housing starts in Québec (thousands of units)



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

## 1.7 Continued growth in exports

Québec exports are expected to grow by 1.1% in 2017 and 2.5% in 2018, driven primarily by:

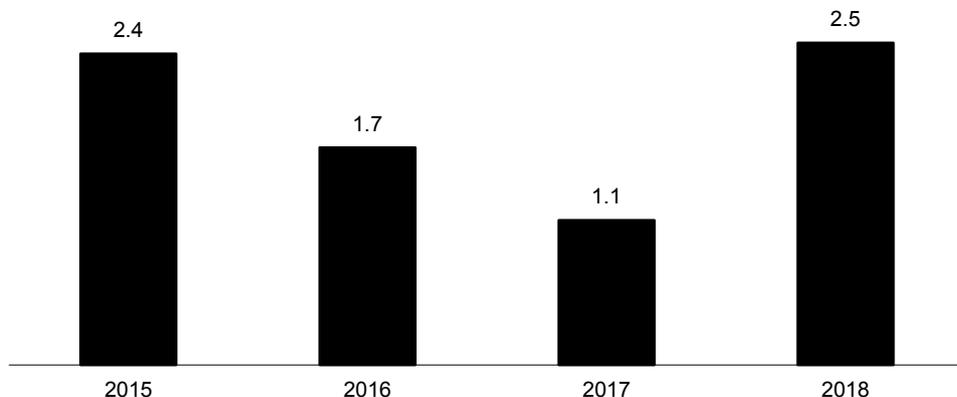
- economic growth in the United States, which is expected to accelerate to 2.1% in 2017 and 2.2% in 2018, after 1.5% growth in 2016;
- the Canadian economy, which is also expected to strengthen after seeing two weak years;
- provisional application of the Canada-European Union Comprehensive Economic and Trade Agreement (CETA), which provides new opportunities for Québec exporters;
- the Canadian dollar exchange rate, which remains favourable to Québec export competitiveness on international markets.

However, the current talks to renew the North American Free Trade Agreement (NAFTA), as well as the rising protectionism in the United States and other parts of the world, create uncertainty about trade developments in the medium term.

CHART E.18

### Québec's total exports

(billions of 2007 dollars, in real terms)



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

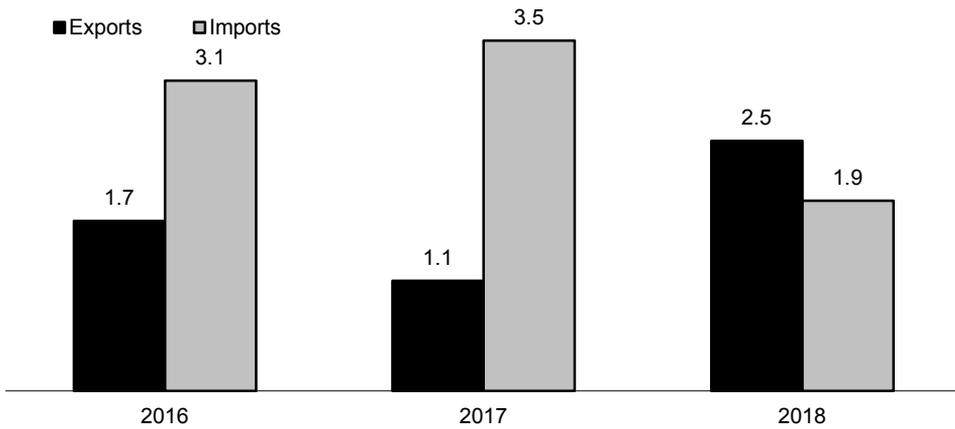
## ❑ Strong economic performance is driving an upturn in imports

After increasing by 3.1% in real terms in 2016, Québec's imports are projected to grow by 3.5% in 2017 and 1.9% in 2018. Growth will be spurred by robust domestic demand, in particular:

- an increase in household consumption, which is expected to rise by 3.4% in 2017 and 2.4% in 2018 in real terms;
- non-residential business investment, which is expected to increase by 2.9% in 2017 and 3.8% in 2018 in real terms.

CHART E.19

### Québec exports and imports (percentage change, in real terms)



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

## 1.8 Growth in nominal GDP accelerates as the economy grows

Following moderate growth of 2.7% in 2016, nominal GDP is projected to expand by 3.7% in 2017.

- The increase will be fuelled primarily by an acceleration in real economic activity (+2.6%), while price changes in the economy as a whole, measured by the GDP deflator, will remain moderate (+1.1%).

In 2018, nominal GDP growth in Québec is expected to be 3.4%.

- The expansion will stem from 1.8% growth in real GDP coupled with a more substantial increase of 1.6% in the GDP deflator.

TABLE E.2

### Economic growth in Québec (percentage change and percentage point adjustment)

	2015	2016	2017	2018
<b>Real GDP</b>				
November 2017	1.0	1.4	2.6	1.8
<i>Revision from March 2017</i>			+0.9	+0.2
<b>Prices – GDP deflator</b>				
November 2017	1.4	1.2	1.1	1.6
<i>Revision from March 2017</i>			-0.4	-0.1
<b>Nominal GDP</b>				
November 2017	2.4	2.7	3.7	3.4
<i>Revision from March 2017</i>			+0.4	+0.1

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

## ▣ Gradual upswing in consumer price growth

Like several advanced economies, Québec is experiencing a period of low inflation.

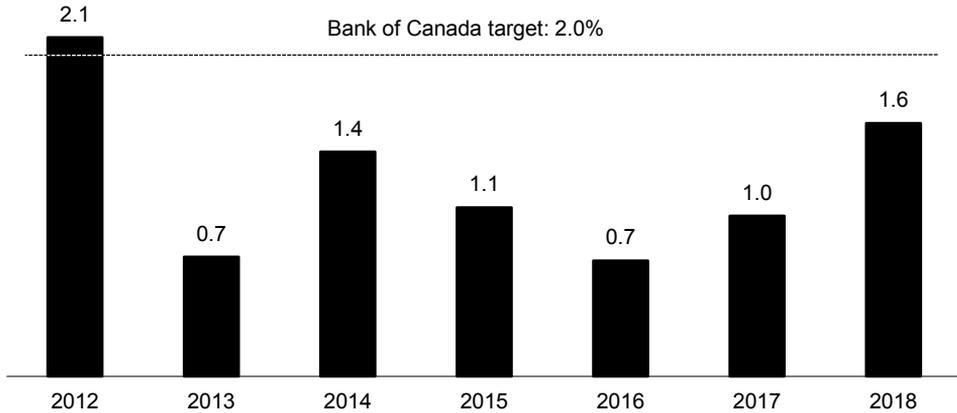
— In recent years, falling energy prices have slowed consumer price growth in several countries.

As pressure on production capacity rises and the impact of lower energy prices attenuates, total consumer price index (CPI) growth in Québec is expected to firm up, to 1.0% in 2017 and 1.6% in 2018.

— However, the acceleration in prices will be moderate. In 2018, for the sixth year in a row, total CPI growth in Québec will remain below the Bank of Canada's target inflation rate of 2.0%.

CHART E.20

**Total consumer price index in Québec**  
(percentage change)



Sources: Statistics Canada and Ministère des Finances du Québec.

## Québec households benefit from a modest cost-of-living increase

### The cost of living is rising more slowly in Québec than elsewhere in Canada

Since 2013, the increase in the consumer price index (CPI), a measure of the cost of living, has been slower in Québec than in Canada and Ontario.

- More specifically, in 2016 the CPI rose by 0.7% in Québec versus 1.4% in Canada and 1.8% in Ontario.
- It will be the same situation in 2017. For the first nine months of 2017, the CPI in Québec was up by 0.9% over the same period in 2016, compared to increases of 1.5% in Canada and 1.7% in Ontario.

### Québec households win under the moderate increase in consumer prices

Usually, prices are weak when an economy is struggling.

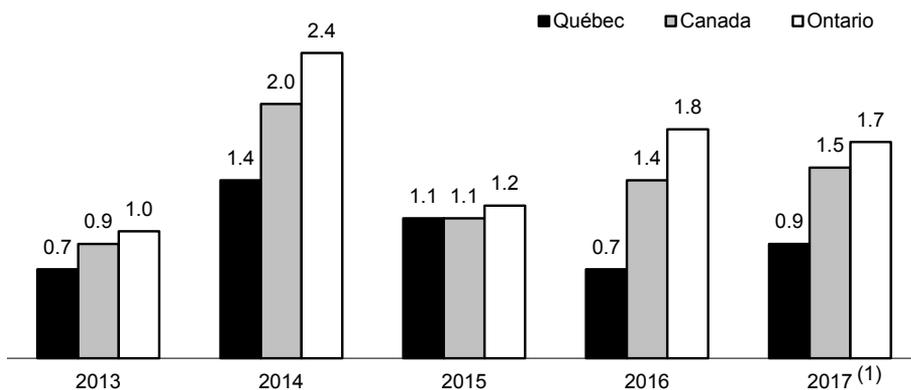
- In such a context, households find themselves in a weaker financial position and businesses find themselves forced to lower their prices in order to sell their products.

However, the currently low rate of inflation in Québec, and to a lesser extent in Canada, is taking place in a context of strong economic growth.

- The situation is partly attributable to the lower cost of fuel. However, the persistently low prices suggest that structural phenomena, such as increased global competition and advances in technology, are also at play.

The big winners are Québec households. First, they are seeing their income steadily go up thanks to a strong economy and, second, their purchasing power benefits from the slower growth in the cost of living.

### Change in total consumer price index (percentage change)



(1) Average for months available in 2017, compared to the same period in 2016.

Source: Statistics Canada.

## 1.9 Comparison with private sector forecasts

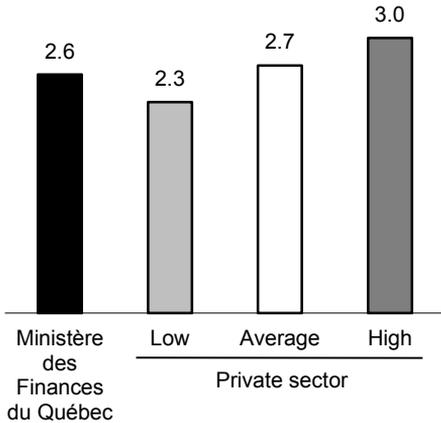
The Ministère des Finances du Québec's economic growth outlook for 2017 and 2018 is comparable to the average private sector forecast.

- For 2017, the real GDP growth forecast is 2.6%, which is slightly below the average private sector forecast of 2.7%.
- In 2018, real GDP is expected to expand by 1.8%, a slightly weaker growth rate than the average private sector forecast of 2.0%.

The forecasts made by the Ministère des Finances du Québec fall within the range of private sector forecasts, which runs from 2.3% to 3.0% for 2017 and from 1.7% to 2.3% for 2018.

CHART E.21

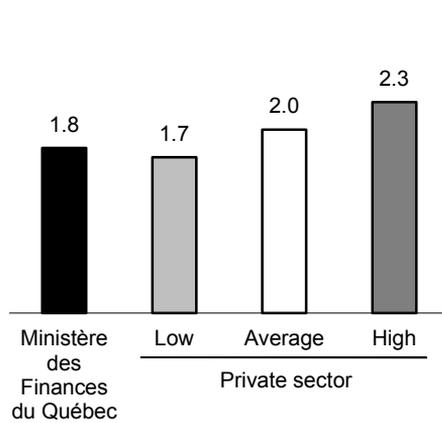
### Economic growth in Québec, 2017 (real GDP, percentage change)



Source: Ministère des Finances du Québec summary as of October 17, 2017, which includes the forecasts of 11 private sector institutions.

CHART E.22

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



Source: Ministère des Finances du Québec summary as of October 17, 2017, which includes the forecasts of 11 private sector institutions.

TABLE E.3

**Economic outlook for Québec**  
 (percentage change, unless otherwise indicated)

	2016	2017	2018
<b>Output</b>			
Real gross domestic product	1.4	2.6	1.8
– <i>March 2017</i>	1.7	1.7	1.6
Nominal gross domestic product	2.7	3.7	3.4
– <i>March 2017</i>	3.0	3.3	3.3
<b>Components of GDP (in real terms)</b>			
Household consumption	2.7	3.4	2.4
– <i>March 2017</i>	2.4	2.2	1.7
Government spending and investment	1.7	1.4	1.3
– <i>March 2017</i>	1.2	0.6	0.9
Residential investment	3.0	2.1	0.0
– <i>March 2017</i>	3.8	-0.7	-1.9
Non-residential business investment	1.2	2.9	3.8
– <i>March 2017</i>	-2.3	2.1	3.1
Exports	1.7	1.1	2.5
– <i>March 2017</i>	0.2	2.2	2.2
Imports	3.1	3.5	1.9
– <i>March 2017</i>	-1.5	2.0	1.8
<b>Labour market</b>			
Job creation (thousands)	36.1	85.3	41.0
– <i>March 2017</i>	36.1	40.0	30.0
Unemployment rate (%)	7.1	6.1	5.9
– <i>March 2017</i>	7.1	6.6	6.4
<b>Other economic indicators (in nominal terms)</b>			
Household consumption (excluding food and rent)	3.4	4.6	3.7
– <i>March 2017</i>	3.2	3.7	3.1
Wages and salaries	2.6	3.8	3.3
– <i>March 2017</i>	3.6	3.4	3.2
Household income	3.2	3.4	3.2
– <i>March 2017</i>	3.6	3.5	3.3
Net operating surplus of corporations	3.7	5.3	5.2
– <i>March 2017</i>	3.1	5.2	5.2

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

## 1.10 Five-year economic outlook for 2017-2021

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

- For real GDP, the Ministère des Finances du Québec forecasts an average growth rate of 1.7% from 2017 to 2021, compared to 1.8% growth forecast by the private sector.
- For nominal GDP, the Ministère des Finances du Québec forecasts an average growth rate of 3.3% from 2017 to 2021, which is slightly below the 3.5% average growth forecast by the private sector.

TABLE E.4

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

	2016	2017	2018	2019	2020	2021	Average 2017-2021
<b>Real GDP</b>							
Ministère des Finances du Québec	1.4	2.6	1.8	1.5	1.4	1.2	1.7
Private sector average	—	2.7	2.0	1.6	1.4	1.3	1.8
<b>Prices – GDP deflator</b>							
Ministère des Finances du Québec	1.2	1.1	1.6	1.7	1.7	1.7	1.6
Private sector average	—	1.6	1.7	1.8	1.8	1.8	1.8
<b>Nominal GDP</b>							
Ministère des Finances du Québec	2.7	3.7	3.4	3.3	3.1	2.9	3.3
Private sector average	—	4.3	3.7	3.4	3.2	3.1	3.5

Note: Averages may not add due to rounding.

Source: Ministère des Finances du Québec summary as of October 17, 2017, which includes the forecasts of 11 private sector institutions.

## □ Productivity and employment gains will drive growth in the coming years

Economic growth in Québec is expected to be 2.6% in 2017 and 1.8% in 2018. Real GDP is forecast to grow at an average annual rate of 1.4% from 2019 to 2021.

The key factors of economic growth, measured by the increase in real GDP, are as follows:

- 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 job.

From 1982 to 2010, the increase in GDP was based more or less equally on the three factors listed above. However, demographics stopped contributing to real GDP growth a few years ago.

- To maintain its economic growth, Québec must rely more heavily on ensuring labour force participation by all available workers, attracting skilled labour and improving worker productivity.

TABLE E.5

### Contribution of economic growth factors

(average annual percentage change and contribution in percentage points)

	Historical			Forecast		
	1982-2010	2011-2015	2016	2017	2018	2019-2021
Real GDP (percentage change)	2.0	1.4	1.4	2.6	1.8	1.4
<b>Growth factors (contribution):</b>						
Potential labour pool <sup>(1)</sup>	0.6	0.2	-0.1 <sup>(1)</sup>	-0.1	-0.1	-0.2
Employment rate <sup>(2)</sup>	0.6	0.6	1.0	2.2	1.1	0.8
Productivity <sup>(3)</sup>	0.8	0.6	0.5	0.5	0.8	0.8

Note: Totals may not add due to rounding.

(1) Population aged 15-64.

(2) Total number of workers in relation to the population aged 15-64.

(3) Real GDP per worker.

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

## Québec's labour market has caught up with Canada's, but improvement remains possible

### Efficient resource use in the main labour pool

Thanks to Québec's dynamic labour market, the gaps with the rest of Canada, especially in the unemployment rate, have narrowed considerably and even been closed over the past few years. At the same time, Québec has made significant gains in the employment rate for the main labour pool, that is, the population aged 15-64.

- In 1998, the employment rate for people between the ages of 15 and 64, that is, the proportion of individuals in this age group who were employed, was 64.7% in Québec, compared to 68.9% in Canada.
- Since 2015, the employment rate for 15-64 year-olds in Québec has outstripped the same rate for Canada. In 2016, the employment rate for 15-64 year-olds in Québec was 73.3% versus 72.6% in Canada.

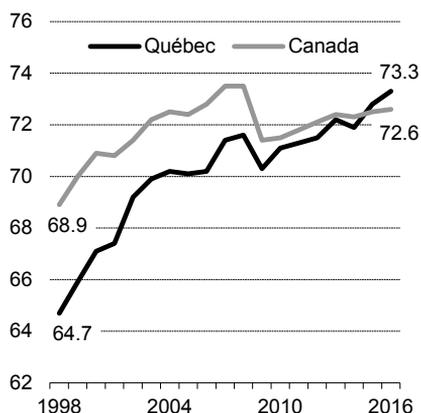
The increase in the employment rate for the Québec population between the ages of 15 and 64 reflects better use of the available labour pool and shows that Québec's labour market is adjusting to demographic changes.

### More gains are possible, especially for experienced workers

Major strides can still be made for experienced workers in Québec. Despite the higher employment rate of 15-64 year-olds, gaps remain among experienced workers. For example, in 2016 the employment rate of the population:

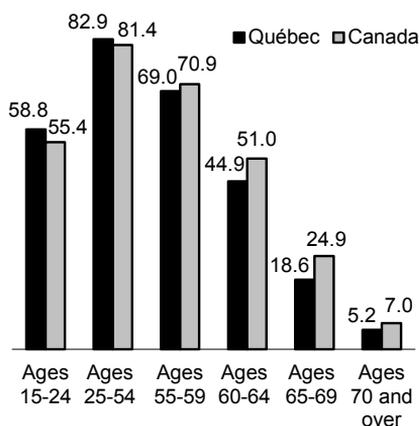
- aged 55-59 was 69.0% in Québec, compared to 70.9% in Canada;
- aged 60-64 was 44.9% in Québec, compared to 51.0% in Canada;
- aged 65-69 was 18.6% in Québec, compared to 24.9% in Canada.

**Change in employment rate among 15-64 year-olds in Québec and Canada**  
(per cent)



Source: Statistics Canada.

**Employment rate for selected age groups in Québec and Canada, 2016**  
(per cent)



Source: Statistics Canada.

## Québec's net interprovincial migration

In 2016, Québec had a positive migration balance of 56 466 people, reflecting a very high net international migration (+67 225 people) and a negative net interprovincial migration<sup>1</sup> (-10 759 people).

### Interprovincial mobility in Québec: negative net migration

Québec has posted annual negative net interprovincial migration since 1971. From 1971 to 2016, net migration averaged -13 170 people per year (roughly 0.2% of the population).

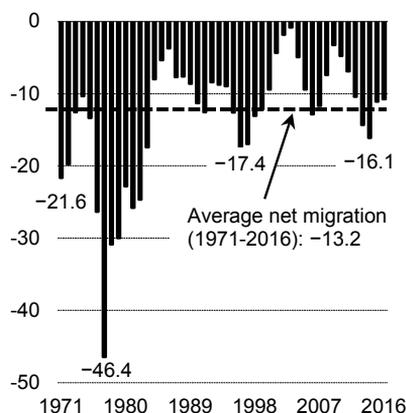
- Québec's cumulative total of annual net interprovincial migration reflects a significant population loss.
- For the entire period of 1971-2016, Québec lost 605 830 people, or the equivalent of 7.2% of its current population.

The negative net interprovincial migration is a loss for the economy, as Québec needs all of its workers in order to respond to a dynamic labour market.

The Québec labour market has improved significantly over the past few years. The strong performance by the economy resulted in sustained job creation, which reduced the unemployment rate, virtually closing the gap with Canada.

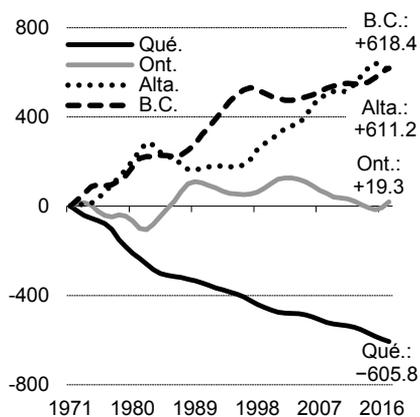
- From 2006 to 2016, the unemployment rate fell from 8.1% to 7.1% in Québec, whereas it rose from 6.3% to 7.0% in Canada.

**Québec's annual net interprovincial migration**  
(thousands of people)



Sources: Statistics Canada and Ministère des Finances du Québec.

**Cumulative total of net interprovincial migration, 1971 to 2016**  
(thousands of people)



Sources: Statistics Canada and Ministère des Finances du Québec.

<sup>1</sup> Interprovincial migration represents movements from one province or territory to another, involving a change in usual place of residence. Net interprovincial migration is the difference between the number of in-migrants and the number of out-migrants.

## Québec's net interprovincial migration (cont.)

### Strong labour market performance should lead to an improvement in Québec's net interprovincial migration

Several studies show that a province's net migration is correlated to the difference between the unemployment rate in that province and the rate in the other Canadian provinces.<sup>2</sup>

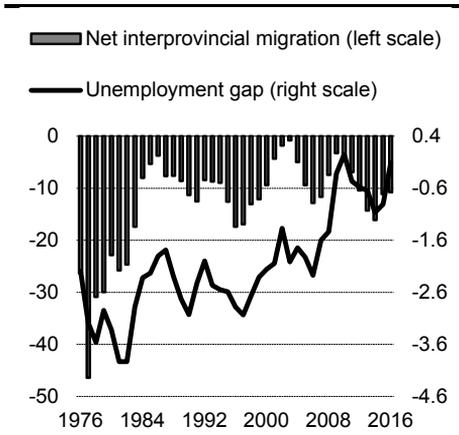
- Indeed, a province with a low unemployment rate attracts workers from other provinces who are looking for job opportunities.
- This was seen in Alberta, which attracted a high number of workers from the other provinces during the oil boom.

The Ministère des Finances du Québec projects that the lower unemployment rate and the continued strong performance of Québec's labour market will lead to an improvement in Québec's net interprovincial migration.<sup>3</sup>

- From 2016 to 2020, all other things being equal, Québec's net interprovincial migration rate is expected to improve by 30% due to the anticipated decline in unemployment. In 2020, Québec will see a net outflow of 3 200 fewer people to other provinces in Canada.
- Québec is expected to have a positive net migration rate by 2030.

### Québec's net interprovincial migration and the unemployment gap between Québec and the rest of Canada

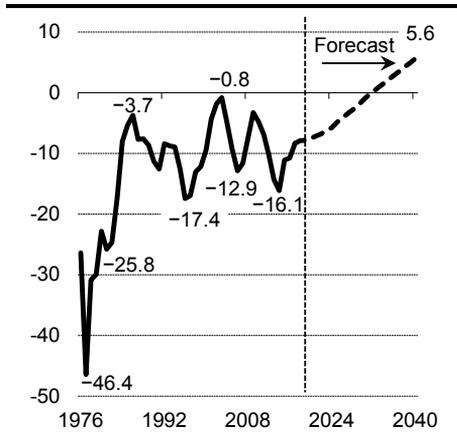
(net migration in thousands of people and percentage point spread)



Sources: Statistics Canada and Ministère des Finances du Québec.

### Québec's net interprovincial migration, 1976 to 2040

(thousands of people)



Sources: Statistics Canada and Ministère des Finances du Québec.

<sup>2</sup> See, among others, the empirical studies by Lucas (1988), Finnie (2004) and Coulombe (2005).

<sup>3</sup> Based on calculations performed by the Ministère des Finances du Québec, the correlation coefficient between Québec's net interprovincial migration and the unemployment gap with the rest of Canada is roughly 0.6 for the period 1976–2016.

## 2. THE SITUATION OF QUÉBEC'S MAIN ECONOMIC PARTNERS

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

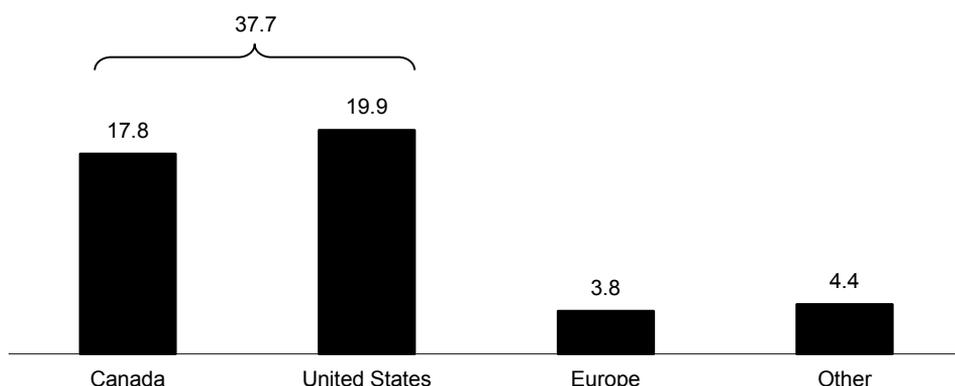
The Québec economy is open to the world. In 2016, total exports accounted for nearly 46% of Québec's nominal GDP. Although Québec has diversified its trade in recent years, Canada and the United States remain its main trading partners.

Economic activity in Québec is influenced by the situation of its main trading partners, in particular through exports. In 2017 and 2018:

- Canada's economy will firm up after two weak years, driven by robust growth in household spending. Furthermore, the stabilization of oil prices will spur energy investment.
- Real GDP growth in the United States is forecast to be 2.1% in 2017 and 2.2% in 2018, after 1.5% growth in 2016. The acceleration will be supported by household consumption and business investment.
- Exports to the rest of the world will get a boost from strengthening global economic activity and greater synchronization of growth between countries and regions. Furthermore, provisional application of the Canada-European Union Comprehensive Economic and Trade Agreement (CETA) provides new business opportunities for Québec exporters.

CHART E.23

### Share of exports in Québec's GDP by destination (percentage of nominal GDP, 2016)



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

## 2.1 The economic situation in Canada

### □ A strong rebound in the Canadian economy in 2017

The Canadian economy has adjusted to lower energy prices after two years of experiencing the effects of a slowdown in the oil-producing provinces.

As a result, after growing by 1.0% in 2015 and 1.4% in 2016, Canada's economy is expected to expand by 3.1% in 2017. The acceleration will be seen across most of the country's provinces and regions.

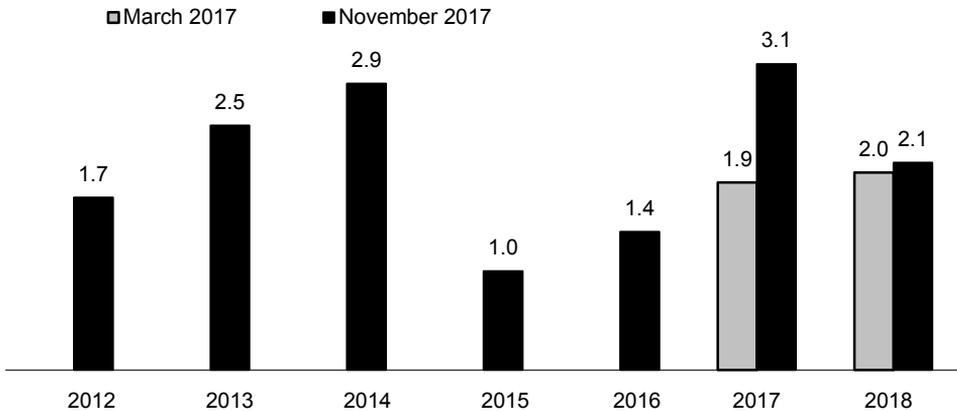
— Economic activity will remain strong, especially in Québec, Ontario and British Columbia, provinces that have become the main hubs of economic growth in Canada.

— In addition, stabilization of oil prices will drive an upswing in economic activity in oil-producing provinces.

Following the upswing in 2017, Canada's economy will return close to its potential growth rate in 2018, with an expected 2.1% increase in real GDP.

CHART E.24

### 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. Economic activity in Canada will be supported by, in particular:

- household consumption expenditure, fuelled by robust job creation;
- the upturn in non-residential business investment, including in the energy sector;
- strengthening of the U.S. economy, which will drive export growth;
- federal and provincial government fiscal and budgetary measures.

TABLE E.6

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

	2016	2017	2018
<b>Output</b>			
Real gross domestic product	1.4	3.1	2.1
<b>Components of GDP (in real terms)</b>			
Household consumption	2.4	3.7	2.6
Government spending and investment	2.7	1.5	1.8
Residential investment	3.3	2.5	-3.9
Non-residential business investment	-8.8	2.2	5.4
Exports	1.0	2.2	2.4
Imports	-1.0	3.2	2.4
<b>Labour market</b>			
Job creation (thousands)	133.3	326.6	214.7
Unemployment rate (%)	7.0	6.4	6.1
<b>Other economic indicators</b>			
Housing starts (thousands of units)	197.9	214.2	191.8
Consumer price index	1.4	1.5	1.8

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

## Economic growth more equally distributed across the provinces

The Canadian economy has adjusted to lower oil prices, after being slowed down by oil-producing provinces in the last two years. Since the beginning of 2017, the country has seen a sharp upswing in economic activity.

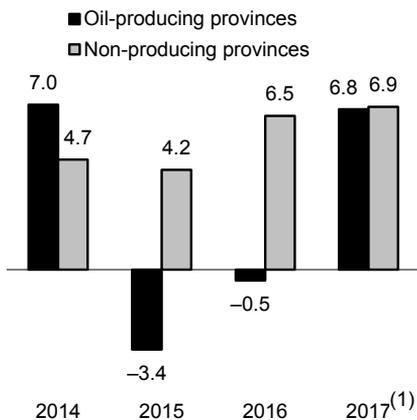
Furthermore, the recent economic expansion has been more equally distributed across the provinces.

- Economic activity remains strong in non-oil-producing provinces, particularly Québec, Ontario and British Columbia.
- In addition, with the stabilization of oil prices, activity is picking up in oil-producing provinces following a two-year recession.

Most of the latest indicators confirm these trends. Since the beginning of 2017:

- **retail sales** in nominal terms have continued their strong upward trend in non-oil-producing provinces (+6.9%), while rebounding in producing provinces (+6.8%) following a two-year decline;
- **job creation** has continued in non-oil-producing provinces, while renewed hiring can be seen in producing provinces;
- **housing starts** are up by 8.9% in provinces that do not produce oil, after increasing by 10.4% in 2016. They have climbed by 15.9% in oil-producing provinces, after falling by 13.4% in 2015 and 30.4% in 2016.

**Retail sales in various regions of Canada**  
(percentage change, in nominal terms)

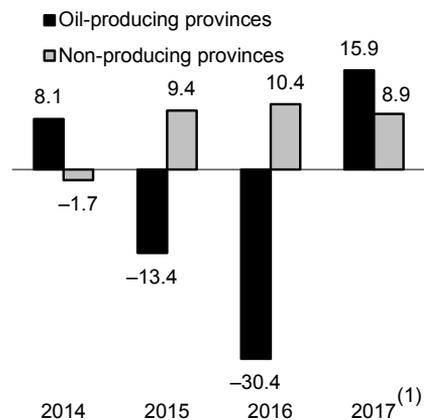


Note: The oil-producing provinces are Alberta, Saskatchewan and Newfoundland and Labrador.

(1) Cumulative growth for available months in 2017 compared to the same period in 2016.

Sources: Statistics Canada and Ministère des Finances du Québec.

**Housing starts in various regions of Canada**  
(percentage change)



Note: The oil-producing provinces are Alberta, Saskatchewan and Newfoundland and Labrador.

(1) Cumulative growth for available months in 2017 compared to the same period in 2016.

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

## ❑ Household consumption, a growth engine

Household consumption expenditure will be the main driver of economic growth in Canada. After growing by 2.4% in real terms in 2016, it is expected to jump by 3.7% in 2017 and then increase by 2.6% in 2018.

— Growth in household consumption expenditure will likely be fuelled by job creation. Canada is expected to gain 326 600 jobs in 2017 (+1.8%) and 214 700 in 2018 (+1.2%).

## ❑ Anticipated slowdown in the residential sector

Activity in Canada's residential sector was supported by strong job creation and an upswing in housing activity in provinces tied to oil production. Despite measures introduced by the federal and some provincial governments to curb speculation in the Vancouver and Toronto housing markets, the Canadian real estate sector remained dynamic in 2017.

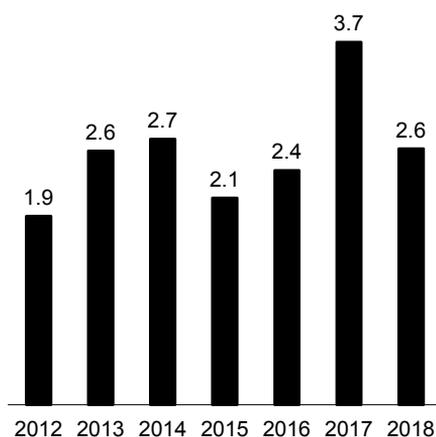
— The number of housing starts is projected to increase by 8.2% in 2017, to 214 200 housing units.

A high level of housing starts will still be seen in 2018, at over 191 000 units.

— Slower job creation, higher mortgage rates and the restrictive measures announced by the federal government and some provincial governments will likely moderate housing activity in Canada in 2018.

CHART E.25

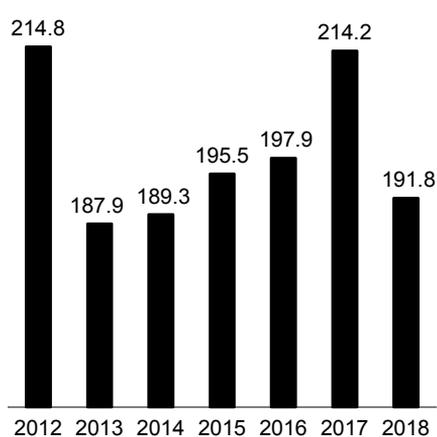
### Household consumption expenditure in Canada (percentage change, in real terms)



Sources: Statistics Canada and Ministère des Finances du Québec.

CHART E.26

### Housing starts in Canada (thousands of units)



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

## ❑ Upturn in business investment following a two-year downturn

After falling sharply two years in a row, non-residential business investment will pick up in Canada, growing in real terms by 2.2% in 2017 and 5.4% in 2018.

- Growth in non-residential investment will be fuelled by household consumption and stronger foreign demand, which put pressure on production capacity.
- Furthermore, the stabilization of oil prices will spur an upturn in energy investment. However, the level of investment in the energy sector will remain below the pre-2015 level.

## ❑ Faster growth in exports

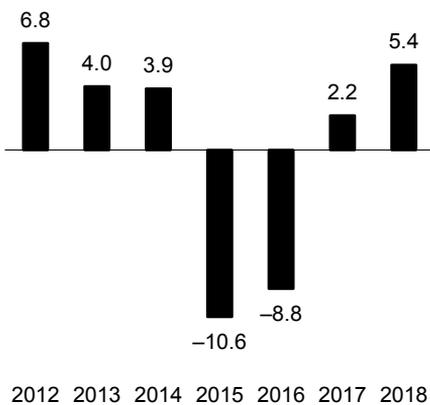
Following a modest growth of 1.0% in 2016, Canadian exports are projected to grow in real terms by 2.2% in 2017 and 2.4% in 2018.

- The recovery in economic growth in the United States and the favourable Canadian dollar exchange rate should boost Canadian exports.
- However, the current negotiations to renew the North American Free Trade Agreement (NAFTA), as well as the softwood lumber negotiations, are creating uncertainty among Canadian exporters.

CHART E.27

### Non-residential business investment in Canada

(percentage change, in real terms)

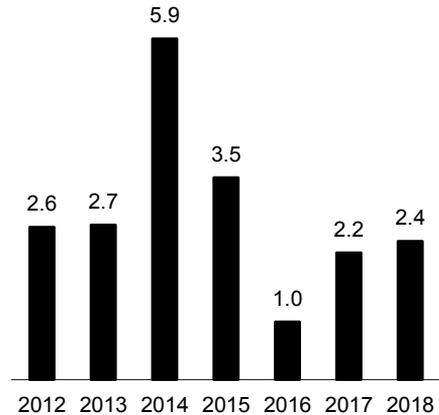


Sources: Statistics Canada and Ministère des Finances du Québec.

CHART E.28

### 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

### ❑ Faster economic growth

After standing at 1.5% in 2016, economic growth is expected to accelerate in the United States to 2.1% in 2017 and 2.2% in 2018. This is a downward adjustment of 0.1 percentage point in 2017 and 2018 from the forecast in the March 2017 Québec Economic Plan.

U.S. economic growth will be supported primarily by the major components of domestic demand. More specifically, in 2017 and 2018, the U.S. economy will benefit from:

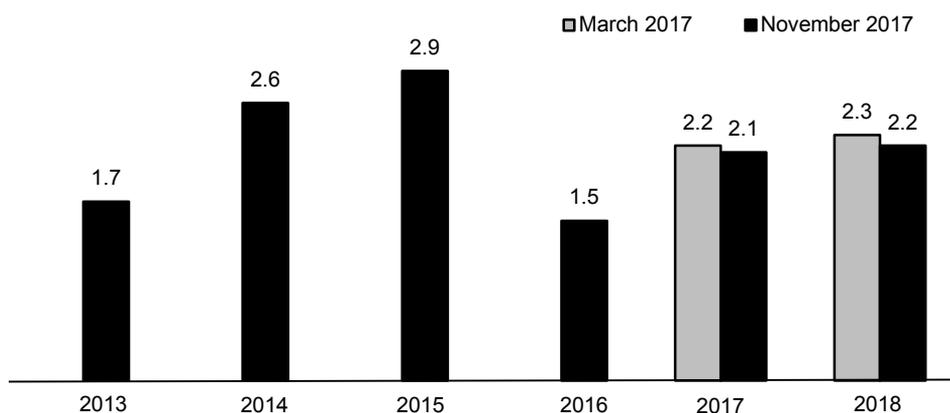
- sustained growth of household consumption expenditure. U.S. households will see their income go up as a result of continued job creation and wage growth;
- a contribution from business investment owing to the high business confidence and the recovery in energy investment;
- continued expansion of residential investment, as favourable economic and demographic factors continue to support demand in the residential sector.

In addition, U.S. exports will return to growth in 2017 and 2018, benefiting from the good global economic situation.

However, economic growth will be curbed by a sharp increase in imports driven by domestic demand, as well as continued monetary tightening by the U.S. Federal Reserve.

CHART E.29

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



Sources: IHS Markit and Ministère des Finances du Québec.

The following table presents the main elements of the U.S. economic outlook.

TABLE E.7

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

	2016	2017	2018
<b>Output</b>			
Real gross domestic product	1.5	2.1	2.2
<b>Components of GDP (in real terms)</b>			
Household consumption	2.7	2.7	2.5
Business investment	-0.6	4.4	3.7
Residential investment	5.5	2.3	2.9
Exports	-0.3	3.3	3.3
Imports	1.3	3.8	4.3
<b>Labour market</b>			
Job creation (millions)	2.5	2.1	1.8
Unemployment rate (%)	4.9	4.4	4.2
Average hourly wage – private sector	2.1	2.4	2.7
<b>Other economic indicators</b>			
Housing starts (millions of units)	1.2	1.3	1.4
Consumer price index	1.3	2.0	2.0

Sources: IHS Markit and Ministère des Finances du Québec.

## ❑ Consumer spending buoyed by job creation and heightened household confidence

Following 2.7% growth in 2016, household consumption expenditure is projected to rise by 2.7% in 2017 and 2.5% in 2018, spurred by:

- greater household wealth owing, in particular, to further job creation and faster wage growth;
- the high level of confidence, leading U.S. consumers to spend more.

## ❑ Housing prices at peak levels

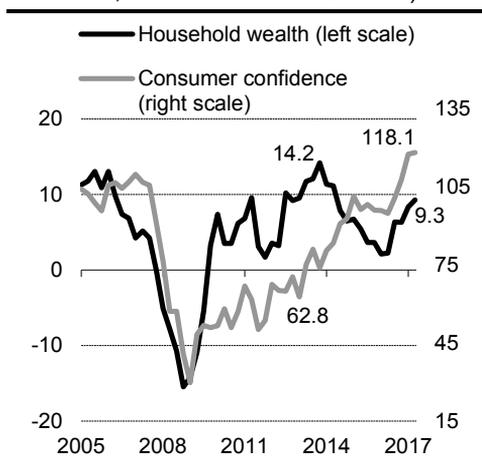
The U.S. residential sector continues to see growth. After increasing by 5.5% in 2016, residential investment is projected to grow by 2.3% in 2017 and 2.9% in 2018.

- Investments in the real estate sector will be fuelled by the steady rise in home prices, which have reached peak levels since the beginning of 2017, surpassing the pre-recession levels.
- In addition, spending in the residential sector should rise in the coming quarters with the rebuilding efforts in Texas and Florida in the wake of Hurricanes Harvey and Irma.

CHART E.30

### Household wealth<sup>(1)</sup> and consumer confidence index

(annual percentage change for wealth and index, 1985 = 100 for confidence)



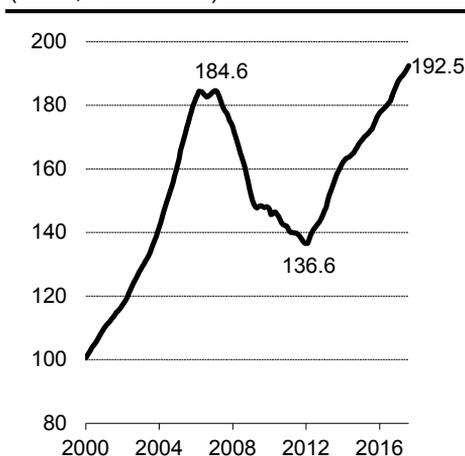
(1) Net value of financial and non-financial assets, including those of non-profit organizations.

Sources: IHS Markit, U.S. Federal Reserve and Ministère des Finances du Québec.

CHART E.31

### S&P Case-Shiller Home Price Index

(index, 2000 = 100)



Source: IHS Markit.

## ❑ Business investment returns to growth

Following a 0.6% contraction in 2016, U.S. business investment is expected to return to growth and increase by 4.4% in 2017 and 3.7% in 2018. The growth will be driven primarily by:

- heightened business confidence;
- a recovery in energy investment spurred by gradually rising oil prices. The recovery was already observed in the first half of 2017, when investment in energy structures surged by 136%.

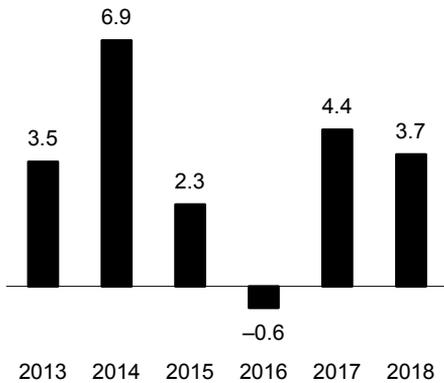
In addition, a number of favourable conditions should support growth in business investment by U.S. exporters, who will benefit from the combined effect of:

- global growth that is more synchronized and robust among the economies of several of the United States' major trading partners, such as Canada, Japan and the euro area;
- a weaker U.S. dollar, which makes U.S. exports more competitive on international markets.

CHART E.32

### Business investment in the United States

(percentage change, in real terms)

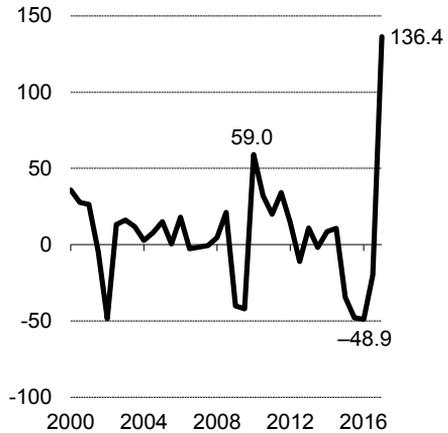


Sources: IHS Markit and Ministère des Finances du Québec.

CHART E.33

### Investment in energy structures

(percentage change, in real terms, semi-annual data)



Sources: IHS Markit and Ministère des Finances du Québec.

## U.S. Government's tax reform plan

### A plan to provide tax relief to individuals and businesses

The U.S. Federal Government unveiled a tax reform bill designed to ease the tax burden on individuals and businesses and simplify the tax system.

This bill lays out a framework for the tax reform the government hopes to adopt. It proposes, among other things, to:

- consolidate the seven existing personal income tax brackets to only four: 12%, 25%, 35% and 39.6%. The existing tax brackets range from 10% to 39.6%;
- reduce the corporate tax rate from 35% to 20%, which is below the average of the industrialized world;
- exempt future foreign profits of American companies to encourage their repatriation to the United States. Accumulated foreign earnings that are repatriated to the United States would be taxed at a rate of 12%.

The reduction in tax rates would be partially financed by the elimination of certain tax credits.

### Impacts of the U.S. tax reform

It is too early to say what impacts the reform could have on the U.S. economy. The tax reform proposed by the federal government is more of a framework for negotiating with Congress to determine what tax changes will actually be enacted.

- However, if adopted, the tax reform could potentially boost economic growth in the United States in the years ahead.



### 3. THE GLOBAL ECONOMIC SITUATION

#### 3.1 More synchronized global growth

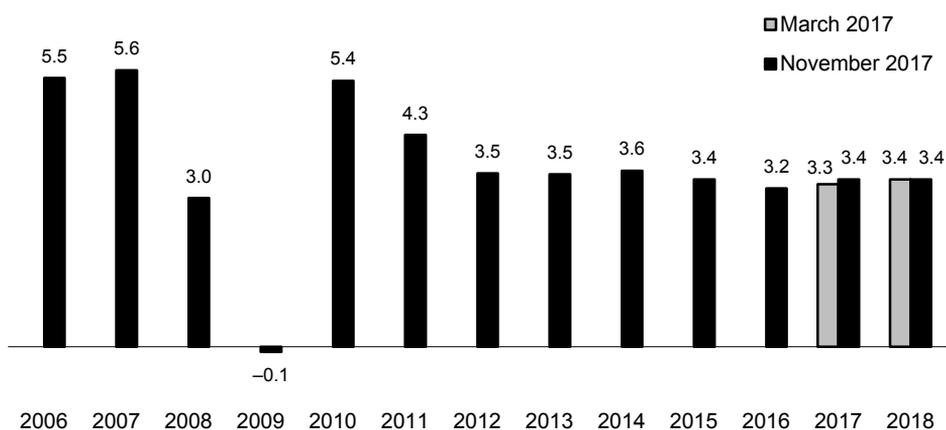
Global economic growth is expected to stand at 3.4% in both 2017 and 2018, up from 3.2% in 2016. The stronger growth is the result of improved economic conditions in most countries and regions in the world.

- **Advanced economies** should grow at a faster pace than in 2016, fuelled by stronger domestic demand in particular.
  - The United States will see robust economic expansion based on household consumption, business investment and the real estate sector.
  - Japan's economy is expected to accelerate slightly thanks to the stimulus measures introduced by the government.
  - In Europe, where the majority of countries have gotten their public finances in order, the economy is rebounding and is expected to continue expanding.
- **Emerging economies** should see growth supported by sustained demand from advanced economies and the upturn in commodity prices.
  - China and India will continue to enjoy high economic growth rates.
  - Brazil and Russia will see renewed growth after suffering the impact, in 2015 and 2016, of the decline in commodity prices.

CHART E.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.

In addition, with an aging population putting pressure on several countries and regions in the world, the global economy will grow near potential in the coming years.

The following table shows the detailed global economic outlook by principal countries and regions.

TABLE E.8

**Global economic growth outlook**  
(real GDP, percentage change)

	Weight <sup>(1)</sup>	2016	2017	2018
<b>World<sup>(2)</sup></b>	<b>100.0</b>	<b>3.2</b>	<b>3.4</b>	<b>3.4</b>
– <i>March 2017</i>		3.1	3.3	3.4
<b>Advanced economies<sup>(2)</sup></b>	<b>42.5</b>	<b>1.7</b>	<b>2.1</b>	<b>1.8</b>
– <i>March 2017</i>		1.7	1.8	1.8
Canada	1.4	1.4	3.1	2.1
– <i>March 2017</i>		1.4	1.9	2.0
United States	15.7	1.5	2.1	2.2
– <i>March 2017</i>		1.6	2.2	2.3
Euro area	11.9	1.8	2.0	1.5
– <i>March 2017</i>		1.7	1.3	1.3
United Kingdom	2.3	1.8	1.5	1.2
– <i>March 2017</i>		1.8	1.0	1.6
Japan	4.4	1.0	1.6	1.1
– <i>March 2017</i>		1.0	0.9	1.0
<b>Emerging and developing economies<sup>(2)</sup></b>	<b>57.5</b>	<b>4.3</b>	<b>4.4</b>	<b>4.6</b>
– <i>March 2017</i>		4.1	4.3	4.6
China	17.1	6.7	6.6	6.2
– <i>March 2017</i>		6.7	6.3	6.0
India <sup>(3)</sup>	7.0	7.1	7.0	7.3
– <i>March 2017</i>		7.1	7.3	7.4

(1) Weight in global GDP in 2015.

(2) Data based on purchasing power parity.

(3) 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.

## ❑ Recovery in world trade...

Following a year-over-year change of just 0.6% in the first quarter of 2016, world trade in goods firmed up in early 2017.

- World trade in goods grew by 4.3% in the second quarter of 2017, the biggest growth seen since the third quarter of 2011.
- Economic expansion across most countries, particularly China, the euro area and the United States, spurred trade in goods in various parts of the world in the first half of 2017.

## ❑ ...and world industrial production

World industrial production was up 3.7% year over year in the second quarter of 2017, again the biggest growth seen since the third quarter of 2011.

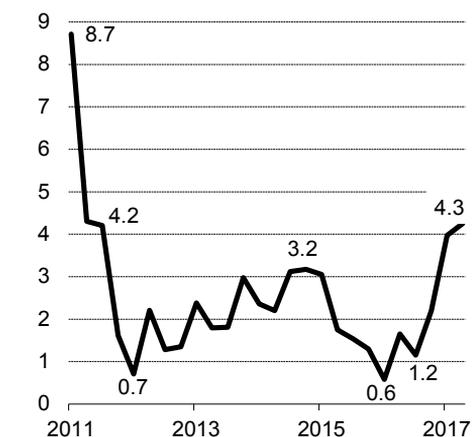
- Japan, the United States, the euro area and some emerging economies, in particular, saw sharp increases in their industrial production.

Economic activity benefited from strong world trade as well as the upturn in business investment in member countries of the Organisation for Economic Co-operation and Development (OECD), which expanded by 3.6% in the second quarter of 2017.

Several indicators, including the global Purchasing Managers Index, point to continued economic growth in the coming quarters. However, there are downside risks to this trend with monetary tightening expected in several economies.

CHART E.35

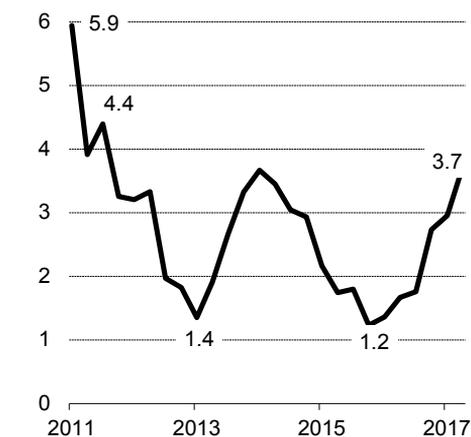
### World trade in goods (percentage change, in real terms)



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

CHART E.36

### World industrial production (percentage change, in real terms)



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

## □ Continued growth of advanced economies

The growth rate of advanced economies is expected to accelerate from 1.7% in 2016 to 2.1% in 2017 and stand at 1.8% in 2018.

- The United States will see robust growth. A strong labour market and heightened household and business confidence will support domestic demand.
- In the euro area, where most countries have gotten their public finances in order, the economy is picking up after years of debt crisis.
- Japan's economy should benefit from, in particular, the recovery plans introduced by authorities and stronger demand from Asian countries.

## □ Improved outlook for emerging economies

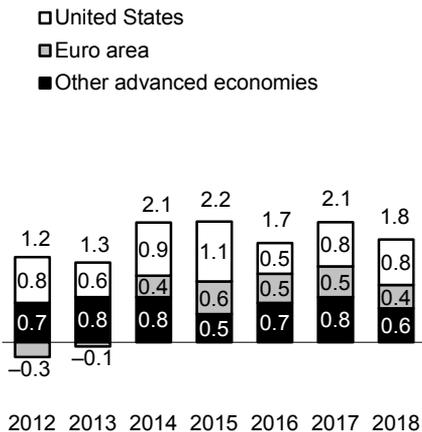
Growth of emerging economies is projected to accelerate from 4.3% in 2016 to 4.4% in 2017 and 4.6% in 2018, driven by:

- the economic turnaround in several commodity-exporting countries, in particular Russia and Brazil. Both of these countries are expected to see renewed growth in 2017 after emerging from a period of recession;
- continued economic expansion in China, whose authorities continue to support the economy, and in India, where economic growth will especially benefit from wage growth and the authorities' structural reforms.

CHART E.37

### Advanced economies

(real GDP growth in per cent and contribution in percentage points)

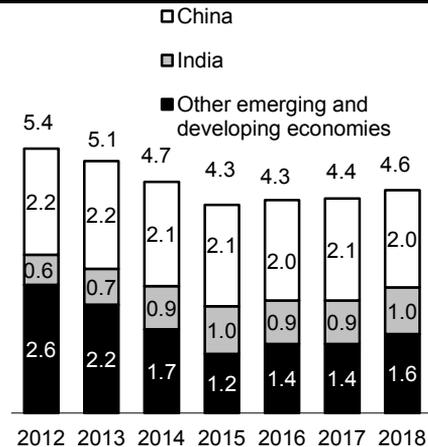


Note: Figures at the top indicate real GDP growth in purchasing power parity.  
Sources: International Monetary Fund, IHS Markit and Ministère des Finances du Québec.

CHART E.38

### Emerging economies

(real GDP growth in per cent and contribution in percentage points)



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

## Europe reaps the benefits of fiscal consolidation

### An increase in deficits led to higher borrowing costs

The budgetary situation in the euro area deteriorated considerably following the financial crisis in 2008-2009.

- In 2009, fiscal deficits in the European Monetary Union reached 6.3% of GDP, including 9.8% in Portugal, 11.0% in Spain and 13.8% in Ireland.

An erosion of investor confidence followed, resulting in a sharp increase in borrowing costs of governments in countries whose budgetary situation had deteriorated the most.

### Efforts to restore public finances...

A number of euro area countries made substantial fiscal consolidation efforts to reduce their deficits and restore public finances.

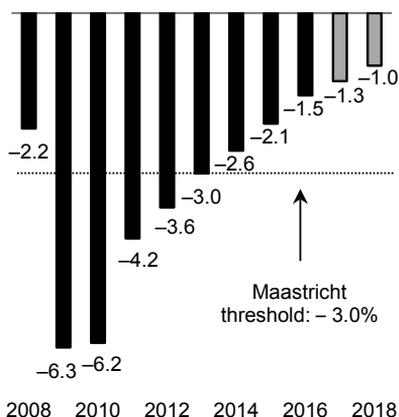
- The magnitude of the fiscal consolidation measures was substantial in struggling countries such as Portugal (10.6 percentage points<sup>1</sup>) and Ireland (7.3), which benefited from bailout plans, as well as Spain (7.4).

### ...contributed to lower financing costs

Since 2014, the fiscal consolidation efforts made by these countries have contributed to a sharp decrease in governments' borrowing costs, greater fiscal flexibility and lower interest rates for households and businesses.

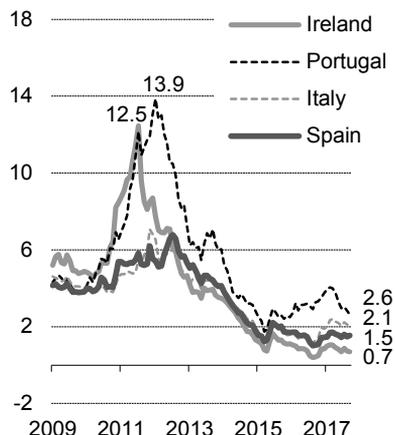
- Furthermore, credit rating agencies recently raised the sovereign rating of several previously struggling countries, including Portugal and Ireland.

**Budgetary balance in the euro area**  
(percentage of GDP)



Source: International Monetary Fund.

**10-year sovereign bond yields**  
(per cent)



Source: European Central Bank.

<sup>1</sup> The magnitude of the fiscal consolidation measures from 2011 to 2013 is measured by the change in deficit, not including interest, adjusted for cyclical changes, as a percentage of potential GDP.

## Europe reaps the benefits of fiscal consolidation (cont.)

### Return to economic growth

A few years after the deficit reduction measures were implemented, the economic situation of euro area countries has vastly improved.

- Economic growth in the euro area averaged 1.9% annually from 2015 to 2016, compared to 0.2% growth from 2011 to 2013. Countries that had been hard hit, in particular Spain, Portugal and Italy, have returned to growth.
- At the same time, the unemployment rate in the euro area fell from its peak level in April 2013 (12.1%), while both consumer and business confidence have improved considerably.

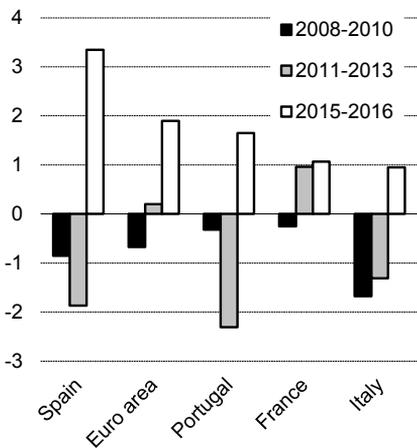
### Greater fiscal flexibility to support investment and growth

According to the International Monetary Fund (IMF), getting public finances under control gives governments a greater fiscal buffer to fund future expansionary policies.<sup>2</sup>

A number of euro area countries, including Italy, Ireland and Portugal, recently announced the adoption of fiscal measures to stimulate growth.

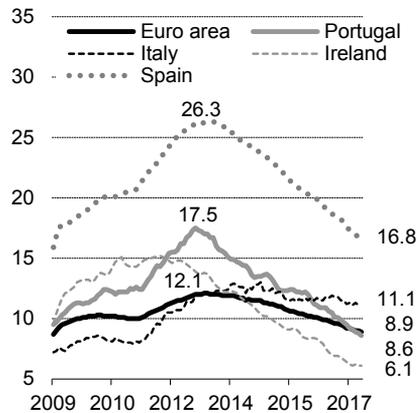
- The main measures introduce tax incentives, such as reductions in social contributions and tax on corporate profits, to encourage businesses to invest and hire young workers.

**Real gross domestic product**  
(average annual percentage change)



Sources: Eurostat and Ministère des Finances du Québec.

**Unemployment rate**  
(per cent)



Source: Eurostat.

<sup>2</sup> International Monetary Fund, "A Greater Role for Fiscal Policy" (Chapter1), Fiscal Monitor, April 2017, p. 2.

## 4. DEVELOPMENTS IN FINANCIAL MARKETS

### □ Improvement in the global economy is reflected in financial markets

The strengthening of the global economy since the start of 2017, while expansion was broadly based across various parts of the world, influenced developments in financial markets. More specifically:

- stock markets, particularly in the United States, have continued to climb. The S&P 500 index reached a new high in early November;
- both the Federal Reserve (Fed) and the Bank of Canada (BoC) adopted measures to gradually tighten monetary policy;
- despite the Fed's two interest rate hikes since the beginning of the year, U.S. bond yields have remained relatively low, while inflation expectations have fallen in the United States.

Canadian bond yields, for their part, have risen since June, driven by the two key interest rate hikes by the BoC in July and September.

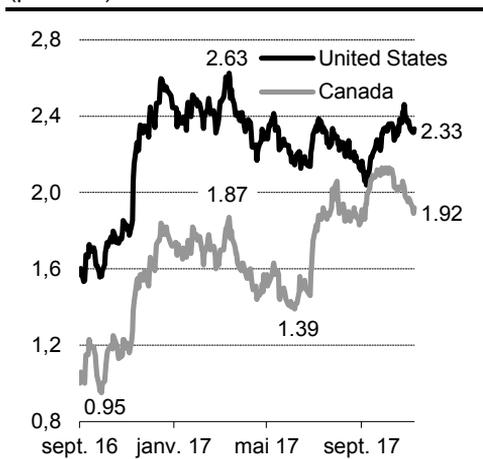
Both the Canadian dollar and the euro have appreciated in the last few months, driven by the stronger economies in Canada and the euro area.

- Meanwhile, the U.S. dollar depreciated against the major currencies.

CHART E.39

#### Yield on 10-year federal bonds

(per cent)

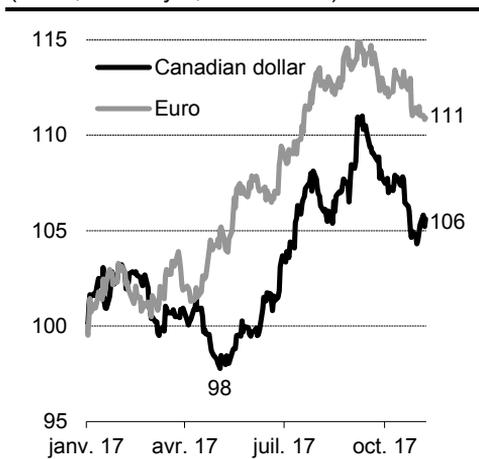


Sources: Statistics Canada and Bloomberg.

CHART E.40

#### Change in selected currencies against the U.S. dollar

(index, January 2, 2017 = 100)



Sources: Bloomberg and Ministère des Finances du Québec.

## ❑ Federal Reserve to continue its monetary tightening

The U.S. Federal Reserve has raised its benchmark interest rate twice since the start of the year to a range of 1% to 1.25%. In October 2017, it also began reducing the size of its balance sheet.

Despite strong economic and employment performance, inflation has remained relatively low in the United States since the beginning of the year. However, inflationary pressures are expected to intensify in the coming quarters with faster wage growth due to tighter labour market conditions.

— These developments will likely spur the Federal Reserve to raise its benchmark interest rate one more time in 2017 and three times in 2018.

## ❑ Bank of Canada has initiated a tightening cycle

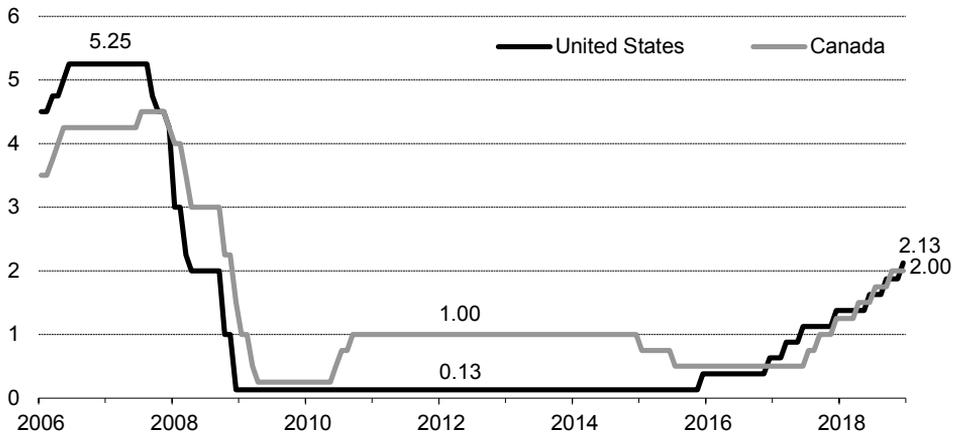
The Bank of Canada (BoC) raised its key interest rate in July and September in response to Canada's significantly stronger economy, increasing it to 1%, the level it was at before oil prices dropped.

— Although inflation in Canada remains below the 2% target, the country's good economic outlook is expected to prompt the Bank of Canada to raise its key interest rate one more time in 2017 and then, like the Federal Reserve, three times in 2018.

CHART E.41

### Key interest rates in the United States and Canada

(federal funds target rate and target for the overnight rate, per cent)



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

## Less monetary easing in several advanced economies

A divergence between U.S. monetary policy and that of other major central banks has become apparent over the past few years.

- The Federal Reserve has increased its benchmark interest rate four times since late 2015, while most of the other central banks have continued to follow expansionary monetary policies into 2017.

This is changing, though, with several major central banks having already begun, or being poised to begin, tightening their monetary policies.

### **Central banks respond to the improvement in economic conditions**

Over the last few years, the discourse of the major central banks has been in step with economic developments.

- The Bank of Canada hiked its key interest rate twice in summer 2017 in response to faster economic growth in Canada and is expected to continue its tightening path in the coming quarters.
- The European Central Bank announced in October that it will slow the pace of its asset purchases in early 2018.

### **Low inflation has not prevented central banks from taking action**

The low inflation seen in several regions around the world is a common characteristic of the current cycle of monetary tightening.

- In the first nine months of 2017, the CPI excluding food and energy rose an average of 1.9% in the United States and 1.6% in Canada compared to the same period last year.
- Central banks thus focused more on economic recovery than on the current level of inflation.

### **Interest rate hikes hurt borrowers but help savers**

Higher interest rates affect economic agents differently:

- on the one hand, they help savers, who enjoy a higher return on their investments;
- borrowers, on the other, find themselves having to pay more in interest charges, particularly for mortgage, automobile and consumption loans.

In addition, monetary tightening in several advanced economies is primarily a reflection of their more robust economies. If the central banks decided to raise interest rates, it was because they did not think it would put a significant damper on growth.

## ❑ Bond yields will continue their gradual rising trend

The yields on Government of Canada bonds have risen sharply over the last few months in conjunction with the acceleration in economic activity.

- Canadian bond yields have increased primarily in response to the two interest rate hikes by the Bank of Canada this past summer.
- The yield on 10-year Canadian government bonds has risen by more than 50 basis points since the beginning of June, settling at 1.92% in early November.

Continued monetary tightening in the United States and Canada is expected to translate into a gradual increase in U.S. and Canadian bond yields in the coming quarters.

## ❑ The Canadian dollar will stay close to current levels

The Canadian dollar has appreciated over the last few months, rising from 72.7 U.S. cents at the beginning of May to 79 U.S. cents in early November.

- The increase is mainly due to the two interest rate hikes by the Bank of Canada this past summer.

The loonie will stay close to current levels in the coming quarters. The value of the Canadian dollar will be influenced by a relative stabilization of the spread between key interest rates in Canada and the United States as well as by still-relatively low oil prices.

- Thus, after averaging 75.6 U.S. cents in 2016, the Canadian dollar is projected to average 78.2 U.S. cents in 2017 and 81.7 U.S. cents in 2018.

TABLE E.9

### Canadian financial markets

(average annual rate in per cent, unless otherwise indicated)

	2016	2017	2018
Target for the overnight rate	0.5	0.7	1.6
– March 2017		0.5	0.8
3-month Treasury bills	0.5	0.8	1.7
– March 2017		0.5	0.8
10-year bonds	1.3	1.8	2.6
– March 2017		2.0	2.4
Canadian dollar (in U.S. cents)	75.6	78.2	81.7
– March 2017		74.1	76.4

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

## ▣ Gradual rebalancing of the oil market

The price of Brent crude oil has rebounded slightly since the turn of 2017, averaging US\$53 a barrel, compared to US\$45 in 2016.

- The recovery was driven primarily by the efforts of the Organization of the Petroleum Exporting Countries and its partners to cut production as well as by stronger global demand.

The supply and demand rebalancing process will likely continue into 2018, but will be gradual owing to the increase in U.S. oil production, which puts downward pressure on oil prices. As a result, oil prices are expected to average below US\$60 a barrel.

- The price of Brent crude oil is expected to average US\$53 a barrel in 2017 and US\$55 in 2018. West Texas Intermediate (WTI) crude is projected to settle at US\$49 a barrel in 2017 and US\$52 a barrel in 2018.

## ▣ Still-rising metal prices

Metal prices have been following an upward trend since 2016, driven by increasing global demand.

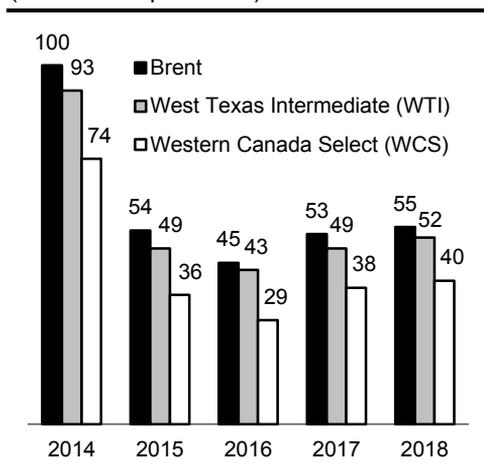
- The price of iron ore, in particular, has jumped by 47% since January 2016, while the price of aluminum has climbed by 44% and that of gold, by 17%.

This trend should continue in the coming years, with prices generally being pushed up by higher demand for metals. However, the outlook for prices may differ from one metal to another.

CHART E.42

### Brent, WTI and WCS oil prices

(U.S. dollars per barrel)

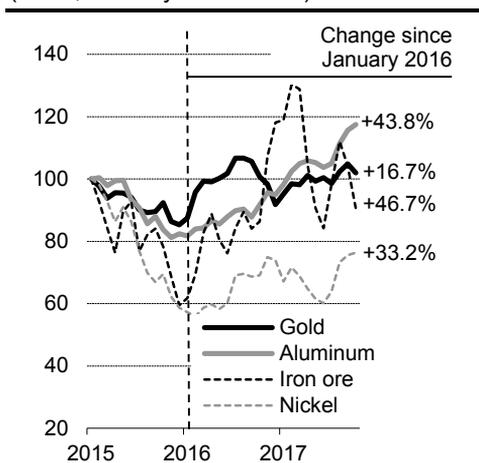


Sources: Bloomberg and Ministère des Finances du Québec.

CHART E.43

### Selected metal prices

(index, January 2015 = 100)



Sources: Bloomberg and Ministère des Finances du Québec.

## World price index for metals from Québec

Since the start of 2017, the world price index for metals from Québec (WPIMQ), which tracks prices for the principal metals mined in Québec, along with aluminum, has continued the upward trend begun in 2016. From January 2016 to October 2017:

- the **aluminum** price subcomponent rose by 43.8% with the increased use of aluminum worldwide and the restrictions on production in China, which led to a higher supply deficit;
- the **industrial metal** price subcomponent increased by 43.0%, driven mainly by stronger global economic growth;
  - Higher industrial production in China spurred demand for certain industrial metals, including iron ore, nickel and zinc.
- the **precious metals** sub-index climbed by 16.5% in response to low long-term interest rates, depreciation of the U.S. dollar and renewed geopolitical tensions, all of which fostered demand for these metals as safe havens.

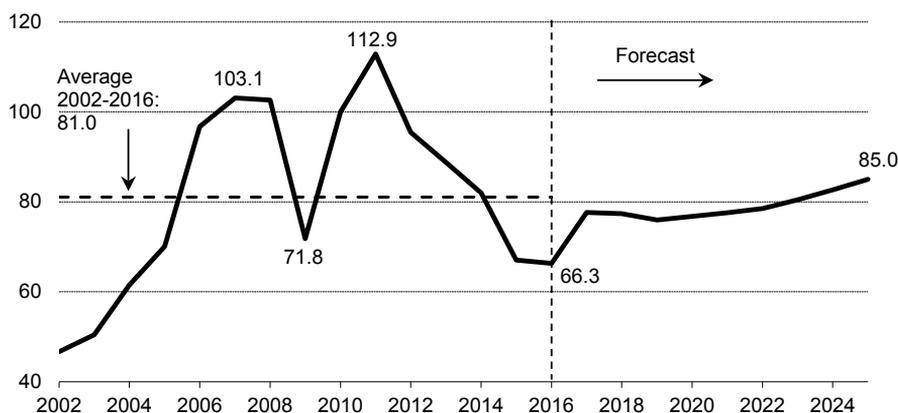
### WPIMQ outlook

After rising by 17.1% in 2017, the world price index for metals from Québec is expected to be relatively flat in 2018 and 2019 and then start gradually climbing again.

- Aluminum and gold prices will likely increase, while the price of iron ore could fall due to a market glut.
- The WPIMQ will trend close to its historical average of 81.0 seen between 2002 and 2016.

### World price index for metals from Québec<sup>(1)</sup>

(index, 2010 = 100, monthly data)



(1) The index includes the prices for the principal metals mined in Québec (iron, nickel, zinc, copper, gold and silver), as well as aluminum. Prices used to calculate the index are expressed in U.S. dollars.

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

## 5. A PORTRAIT OF THE HOUSING MARKETS IN QUÉBEC AND CANADA

Québec's housing market is still strong, with over 40 000 housing starts in 2017, a level not seen since 2012. At the same time, the home resale market is firming up, pushing home prices higher.

The real estate market is very active in other parts of Canada, especially Greater Vancouver and Toronto.

— The federal as well as provincial governments have introduced measures to curb speculation and cool an overheated real estate market in these areas.

This situation has led the Québec government to pay close attention to Québec's real estate market in general and Montréal's in particular.

### □ **The real estate sector in Québec is dynamic but balanced**

An analysis of the parameters of Québec's real estate sector does not indicate that the sector is overheated. Rather, it is dynamic due mainly to the good economic conditions and the favourable financial situation of Québec households.

— New housing construction in Québec reflects demand driven by robust economic growth and strong job creation.

— The increase in home resales helps keep the housing market in balance.

— Furthermore, housing is still affordable in Québec and the price of real estate has not gone up nearly as much as in Ontario and Canada as a whole.

Consequently, the available data show no signs of a speculative market that would warrant Québec government intervention.

— However, given the economic importance of the real estate sector, the Québec government will continue to monitor the situation closely.

## ■ Growing demand in the resale market

The number of existing property sales has been trending upward since 2015 in Québec.

- The number of residential properties resold using an inter-agency system rose by 5.0% in 2015 and 5.4% in 2016. In the first nine months of 2017, home resales were up 5.5% over the same period in 2016.

At the same time, the number of new property listings has fallen in Québec since 2015.

- Property listings were down 0.3% and 5.3% in 2015 and 2016, respectively. In the first nine months of 2017, they were down 3.7% over the same period in 2016.

## ■ An overall balanced housing market

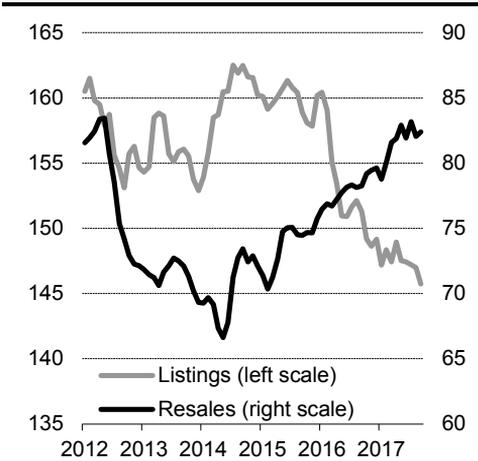
These trends have led to a slight increase in the sales-to-new listings ratio, which is nevertheless within the balanced range. The ratio of sales to new listings measures the balance between demand (sales) and short-term supply (new listings). It can serve as an indicator of future price trends.

- A ratio between 40% and 60% is generally consistent with balanced market conditions. In September 2017, the sales-to-new listings ratio in Québec was 56.5%.

CHART E.44

### Home resale market in Québec<sup>(1)</sup>

(thousands)



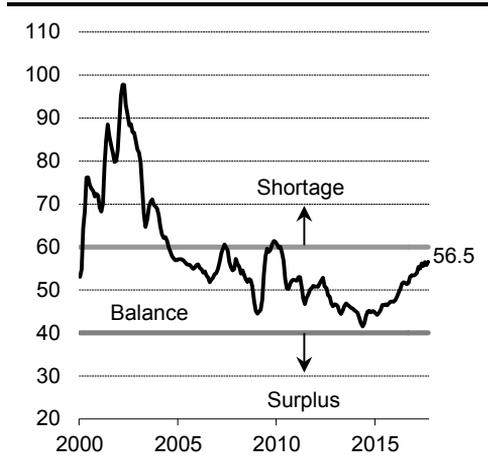
(1) Three-month moving average.

Sources: Haver Analytics and Ministère des Finances du Québec.

CHART E.45

### Sales-to-new listings ratio in Québec<sup>(1)</sup>

(per cent)



(1) Three-month moving average.

Sources: Haver Analytics and Ministère des Finances du Québec.

## ■ Moderate price increase in Québec

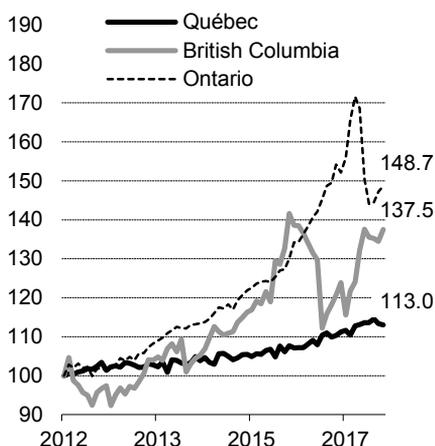
Several analysts maintain that housing prices in Canada are currently inflated, particularly in the Vancouver and Toronto areas.

Despite sustained activity, the real estate sector in Québec is different from that in Ontario and British Columbia. Property prices have not gone up nearly as much as in Ontario and British Columbia and housing is considerably more affordable in Québec.

- Since 2012, the average price of a resale property has risen by 13.0% in Québec, compared to 37.5% in British Columbia and 48.7% in Ontario.
- The average price of a resale property in Montréal, Québec's busiest housing market, was around \$350 000 in 2016, compared to nearly \$730 000 in Toronto and over \$1 million in Vancouver.

CHART E.46

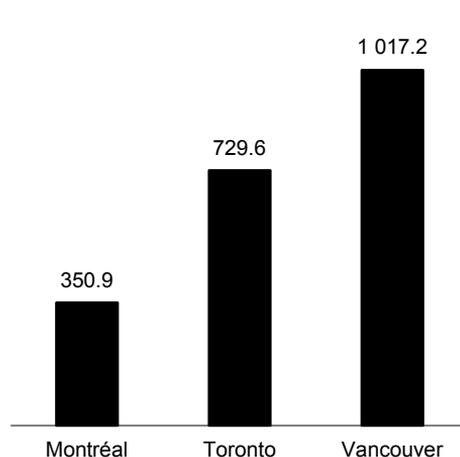
### Average residential property resale price (index, January 2012 = 100)



Sources: Haver Analytics and Ministère des Finances du Québec.

CHART E.47

### Average residential property price, 2016 (thousands of dollars)



Sources: Haver Analytics and Québec Federation of Real Estate Boards.

## ■ Housing is more affordable in Québec

Québec households are more able to afford a home than households in the other provinces and Canada as a whole.

Using the most recent data of Statistics Canada's Canadian Income Survey, in 2015, the average property price was:

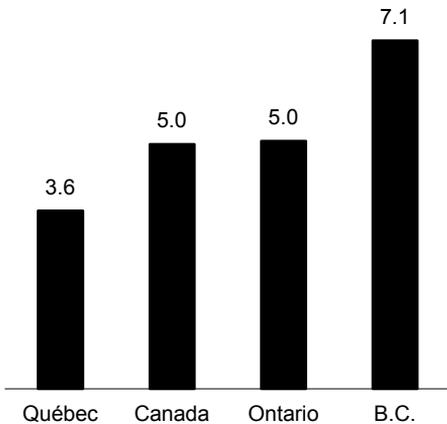
- 3.6 times household disposable income<sup>5</sup> in Québec;
- 5.0 times household disposable income in Canada and Ontario and 7.1 times household disposable income in British Columbia.

In 2016, housing remained more affordable for Québec households than for Canadian households.

- In 2016, the average property price in Québec rose by 2.9%, compared to 10.9% in Canada, 15.4% in Ontario and 8.6% in British Columbia.
- The same year, Québec households' disposable income<sup>6</sup> increased by 3.5%, while that of Canadian households grew by 2.2%.

CHART E.48

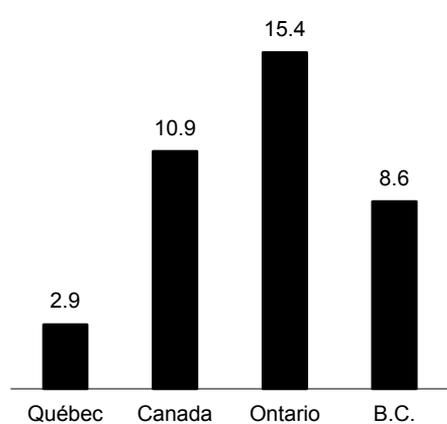
**Average property price relative to household disposable income, 2015**  
(number of years of income)



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

CHART E.49

**Increase in average property price, 2016**  
(percentage change)



Sources: Haver Analytics and Ministère des Finances du Québec.

<sup>5</sup> Economic family based on Statistics Canada's Canadian Income Survey.

<sup>6</sup> Household disposable income based on Statistics Canada economic accounts.

## Recent developments in regulation of the Ontario and B.C. real estate sectors

To help bring stability to the housing market and combat speculative activity, the governments of British Columbia and Ontario recently introduced a number of measures to address foreign homebuyers, increase the housing supply, and protect renters and homebuyers.<sup>1</sup>

### Property tax provisions for foreign buyers in Vancouver and Toronto

Effective August 2, 2016, foreign entities purchasing residential property in the Greater Vancouver Regional District<sup>2</sup> must pay an additional property transfer tax of 15%.

- The additional tax applies to individuals who are not Canadian citizens or permanent residents of Canada, foreign corporations and foreign trusts.

Certain exemptions apply, however, such as to foreign nationals who receive confirmation under the B.C. Provincial Nominee Program, provided the person uses the home as his or her principal residence.

Following on the heels of British Columbia, Ontario introduced its own additional property transfer tax of 15% on April 21, 2017, called the Non-Resident Speculation Tax (NRST), in the Greater Golden Horseshoe Region.<sup>3</sup>

- The additional tax applies to virtually the same entities as the tax in the Greater Vancouver Regional District.
- The NRST applies to the transfer of land that contains at least one and not more than six residences, such as single family homes, condominium units or a triplex. It does not apply to agricultural land, commercial land or industrial land or rental apartment buildings with more than six units.

Exemptions may be granted to refugees and foreign nationals who jointly purchase residential property with a spouse who is a Canadian citizen, provided they occupy the property as their principal residence.

### Additional measures to stabilize Toronto's real estate market<sup>4</sup>

As part of its Fair Housing Plan, the Government of Ontario introduced additional measures to bring stability to the real estate market, including:

- actions to increase housing supply: a vacant homes property tax, use of surplus land assets to build affordable housing, an investment of \$125 million over five years to encourage the construction of new rental apartment buildings;
- actions to protect renters: strengthening of the *Residential Tenancies Act* to further protect tenants;

1 See page E.59 for information on the measures introduced by the federal government.

2 The Greater Vancouver Regional District includes the following geographic areas in particular: North Vancouver City and District, Vancouver, West Vancouver and Richmond.

3 The Greater Golden Horseshoe Region includes the following geographic areas in particular: Barrie, Guelph, Hamilton, Toronto and York.

4 British Columbia adopted similar measures as well.

## Recent developments in regulation of the Ontario and B.C. real estate sectors (cont.)

- actions to further protect homebuyers and increase information sharing: review the rules real estate agents are required to follow to ensure that consumers are fairly represented in real estate transactions, and establishment of a housing advisory group to provide the government with ongoing advice about the state of the housing market.

### Impact of the new measures on the Vancouver and Toronto housing markets

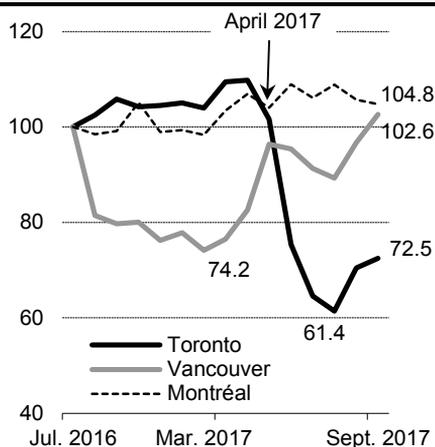
The new measures introduced in Ontario and British Columbia have had a mitigated impact on property sales and prices in Vancouver and Toronto. However, it is too soon to gauge their impact on the housing market over the long term.<sup>5</sup>

- **Vancouver** saw a large correction in property sales (–25.8%) and prices (–17.9%) between July 2016 and January 2017. However, prices and sales subsequently went up again and are currently near the levels in July 2016, before the 15% tax took effect.
  - In September 2017, the average house price in Vancouver was \$1.05 million versus \$1.04 million in July 2017.
- In **Toronto**, property sales have dropped by 28.7% since the Non-Resident Speculation Tax took effect in April 2017, while prices have fallen by 10.4% over the same period.

Montréal's property resale market does not appear to have been influenced by the implementation of the foreign buyers' taxes in Vancouver and Toronto. Since April 2017, property sales have climbed by 0.7% while the average home price has increased by 0.4%.

#### Property sales

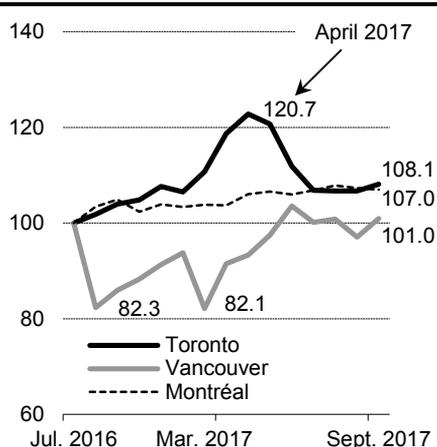
(index, July 2016 = 100)



Sources: Haver Analytics, Québec Federation of Real Estate Boards and Ministère des Finances du Québec.

#### Average property price

(index, July 2016 = 100)



Sources: Haver Analytics, Québec Federation of Real Estate Boards and Ministère des Finances du Québec.

<sup>5</sup> Note that other variables, such as household formation, immigration, mortgage rates and availability of land for construction, influence market trends.

## Canada's new mortgage rules since 2015

On December 11, 2015, the Department of Finance Canada announced changes to the rules for mortgage insurance backed by the federal government.<sup>1</sup>

- Effective February 15, 2016, the minimum down payment for new insured mortgages increased from 5% to 10% for the portion of the house price above \$500 000.
  - The new measure, which requires a higher down payment for more expensive homes, is intended to contain risks in the housing market by increasing the portion that comes from the borrower's own funds.
  - The 5% minimum down payment for homes up to \$500 000 remains unchanged. Properties valued at \$1 million and above still require a minimum down payment of 20%.
- Note that federally regulated mortgage lenders were already required to obtain mortgage insurance when the down payment is less than 20% of the purchase price of a property.
  - Under this requirement, federally regulated mortgage lenders must obtain mortgage insurance for homebuyers who put less than 20% down on the home's purchase price.
  - While the homebuyer pays the premium, the insurance protects the lender if the borrower defaults on the loan.

On December 11, 2015, the Canada Mortgage and Housing Corporation (CMHC) announced increases to guarantee fees charged to lenders for CMHC-sponsored securitization programs, Mortgage Backed Securities under the *National Housing Act*, and Canada Mortgage Bonds.

- These adjustments aim to ensure that mortgage funding markets are fairly priced so that lenders also consider programs backed by the private sector.

On October 3, 2016, the federal government announced three new measures targeting the mortgage market. The measures:

- bring consistency to mortgage insurance rules by standardizing eligibility criteria for insured mortgages, including a mortgage rate stress test;
  - As of October 17, 2016, all new insured mortgages must undergo a more robust mortgage rate stress test by lenders. This includes fixed-rate mortgages with terms of 5 years (and greater) that were previously excluded from this requirement.
  - As of November 30, 2016, mortgage loans that lenders insure using portfolio insurance and other discretionary low loan-to-value (LTV) ratio mortgage insurance have to meet loan eligibility criteria that previously only applied to high-ratio insured mortgages.

<sup>1</sup> For further details on the changes in mortgage rules since 2004, see the box "New measures regarding insured mortgage loans" in *Budget 2013-2014 – Budget Plan*, p. B.12.

## Canada's new mortgage rules since 2015 (cont.)

- The LTV ratio is the amount of the mortgage loan compared to the value of the property. A ratio over 80% is considered high.
- improve tax fairness by closing loopholes surrounding the capital gains tax exemption for non-residents on the sale of a principal residence;
  - Under this measure, the principal residence exemption from capital gains tax is available only to Canadian residents. Families may designate only one property as the family's principal residence for any given year.
- consult on how to better protect taxpayers by ensuring that the distribution of risk in the housing finance system is balanced.

### **New mortgage rules set by the Office of the Superintendent of Financial Institutions: Guideline B-20**

On October 17, 2017, the Office of the Superintendent of Financial Institutions (OSFI) released new standards for residential mortgage underwriting practices and procedures (Guideline B-20). The changes take effect on January 1, 2018.

The new standards address the Bank of Canada's concerns<sup>2</sup> about the elevated level of household indebtedness and the risks associated with a significant house price correction in Vancouver and Toronto.

The main purpose of the new rules set by the OSFI is to:

- set a new minimum qualifying rate, or "stress test", for uninsured mortgages;
  - Under Guideline B-20, the minimum qualifying rate for uninsured mortgages should be the greater of the five-year benchmark rate published by the Bank of Canada and the contractual mortgage rate plus 2%.
- require lenders to enhance their loan-to-value (LTV) ratio and establish LTV limits that are reflective of risk and are updated;
  - Under Guideline B-20, federally regulated financial institutions must establish and adhere to appropriate LTV ratio limits that are reflective of risk and are updated as housing markets and the economic environment evolve.
- place restrictions on certain lending arrangements that are designed or appear designed to circumvent LTV limits.
  - Under Guideline B-20, a federally regulated financial institution is prohibited from arranging with another lender a mortgage, or a combination of a mortgage and other lending products, in any form that circumvents the maximum LTV ratio or other limits in its residential mortgage underwriting policy, or any other requirements established by law.<sup>3</sup>

<sup>2</sup> Bank of Canada, Financial System Review, June 2017.

<sup>3</sup> For more details, see Residential Mortgage Underwriting Practices and Procedures – effective January 1, 2018, Office of the Superintendent of Financial Institutions, at [http://www.osfi-bsif.gc.ca/Eng/fi-if/rg-ro/gdn-ort/gld/Pages/b20\\_dft.aspx](http://www.osfi-bsif.gc.ca/Eng/fi-if/rg-ro/gdn-ort/gld/Pages/b20_dft.aspx).

## 6. MAIN RISKS THAT MAY INFLUENCE THE FORECAST SCENARIO

The economic and financial forecasts in the November 2017 update of the Québec Economic Plan 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, which is open to the world.

- A number of the risks are external. For example, the geopolitical climate around the world, or certain economic and financial variables, such as growth in the major economies, oil and other commodity prices, and even financial indicators, might trend in different directions than forecasted.
- Other risks are internal and could drive some of Québec's economic variables in a different direction than expected.

### **□ A broad-based global slowdown**

Generally speaking, the economic growth outlook has improved across countries and regions of the world since the March 2017 Québec Economic Plan. However, the global economic cycle has reached a mature phase and a broad-based slowdown is still possible.

- Turnarounds in global economic cycles are hard to predict.
- Events such as a geopolitical crisis can act as triggers.

The current climate is characterized by a rise in protectionist sentiment in various countries, on trade, immigration and investment, as well as the pursuit of national interest policies to the detriment of multilateral agreements.

- Should new geopolitical conflicts or an escalation of protectionist measures fuel uncertainty, it could weaken the global economy and slow the growth momentum currently observed.
- Such shocks could spur a widespread slowdown in the global economy.

## ❑ **Renegotiation of trade agreements with the United States and rising protectionism**

The stronger U.S. economy and favourable Canadian dollar will drive growth in both Canadian and Québec exports over the coming years.

However, the uncertain outcome of the North American Free Trade Agreement (NAFTA) negotiations has led to greater uncertainty over the anticipated developments in exports.

In addition to their potential impact on exports, the uncertainties surrounding the NAFTA negotiations could affect the upturn in business investment in Canada and Québec.

— Moreover, a number of economic sectors have already been hit by measures aimed at curbing their exports to the U.S. market. An example is the softwood lumber dispute with the United States.

## ❑ **Sudden real estate slowdown in some Canadian provinces**

Moderation in the Canadian residential real estate market is expected, especially in British Columbia and Ontario, where the market has expanded dramatically over the last few years.

— The federal government, along with the governments of British Columbia and Ontario, have introduced various measures to curb speculation in the Vancouver and Toronto housing markets.

— More interest rate hikes by the Bank of Canada will also help cool the Canadian real estate market. Higher interest rates mean higher borrowing costs.

Several analysts still think that real estate in the Vancouver and Toronto areas is overpriced and that the risk of a bubble burst is still present. If that risk materializes, it could trigger a rapid and disorderly adjustment in home prices.

— A development of that kind would lead to instability in financial markets and negatively affect the financial situation of households in the Vancouver and Toronto areas, as well as Canada's overall economic growth.

# Section F

## DETAILED FINANCIAL FRAMEWORK

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## INTRODUCTION

This section of the November 2017 update of the Québec Economic Plan presents the government's detailed financial framework for 2017-2018 to 2019-2020.<sup>1</sup>

The information provided concerns:

- the detailed change in consolidated revenue and expenditure, as well as adjustments made since the March 2017 Québec Economic Plan;
- the change in the financial framework for each of the reporting entity's sectoral components, particularly the General Fund, special funds, specified purpose accounts, non-budget-funded bodies and the health and social services and education networks;
- the Québec government's non-budgetary transactions and net financial requirements.

The financial framework for 2016-2017 to 2022-2023 is presented in Section A of this document.

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<sup>1</sup> The budgetary data presented throughout this section for 2017-2018 and subsequent years are forecasts.



# 1. CHANGE IN CONSOLIDATED REVENUE AND EXPENDITURE

## 1.1 Change in the budgetary balance

The November 2017 update of the Québec Economic Plan presents a financial framework with a balanced budget.<sup>2</sup> The improvement of results in 2016-2017 makes it possible to invest more in the government's priority missions and to further reduce personal income tax, while maintaining a balanced budget for 2017-2018 and subsequent years.

In 2017-2018, consolidated revenue will reach \$106.5 billion, with growth of 3.5%, while consolidated expenditure will stand at \$104.2 billion, with growth of 5.7%.

In 2018-2019, consolidated revenue will increase by 2.0% and consolidated expenditure by 2.9%.

TABLE F.1

### Change in the summary financial framework (millions of dollars)

	March 2017		November 2017		
	2017-2018	Adjustments	2017-2018	2018-2019	2019-2020
Own-source revenue	84 279	-602	83 677	86 255	89 189
% change	2.8		1.1	3.1	3.4
Federal transfers	22 029	764	22 793	22 391	23 220
% change	7.5		13.0	-1.8	3.7
<b>Consolidated revenue</b>	<b>106 308</b>	<b>162</b>	<b>106 470</b>	<b>108 646</b>	<b>112 409</b>
% change	3.7		3.5	2.0	3.5
Mission expenditures	-93 852	-810	-94 662	-97 628	-100 276
% change	3.8		6.3	3.1	2.7
Debt service	-9 868	360	-9 508	-9 613	-9 753
% change	1.9		-0.2	1.1	1.5
<b>Consolidated expenditure</b>	<b>-103 720</b>	<b>-450</b>	<b>-104 170</b>	<b>-107 241</b>	<b>-110 029</b>
% change	3.6		5.7	2.9	2.6
Contingency reserve	-100	—	-100	-100	-100
<b>SURPLUS (DEFICIT)</b>	<b>2 488</b>	<b>-288</b>	<b>2 200</b>	<b>1 305</b>	<b>2 280</b>
<b>BALANCED BUDGET ACT</b>					
Deposits of dedicated revenues in the Generations Fund	-2 488	38	-2 450	-2 712	-3 031
Use of the stabilization reserve	—	250	250	1 407	751
<b>BUDGETARY BALANCE<sup>(1)</sup></b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

(1) Budgetary balance within the meaning of the *Balanced Budget Act* after use of the stabilization reserve.

<sup>2</sup> After use of part of the stabilization reserve.

## □ Detailed adjustments made in 2017-2018 since the March 2017 Québec Economic Plan

The adjustments made to the financial framework since the March 2017 Québec Economic Plan are making it possible to keep the budget balanced.

The economic and budgetary situation leads to a positive adjustment of \$1 339 million in the financial framework. This improvement makes it possible to finance the cost of the measures in the November 2017 update of the Québec Economic Plan, which total the same amount.

TABLE F.2

### Adjustments made to the financial framework in 2017-2018 since March 2017 (millions of dollars)

	Adjustments				November 2017
	March 2017	Economic and budgetary situation	Québec Economic Plan	Total adjustments	
Own-source revenue excluding government enterprises					
– Tax revenue	65 770	296	–971	–675	65 095
– Other revenue	14 029	1	—	1	14 030
Subtotal	79 799	297	–971	–674	79 125
Government enterprises	4 480	72	—	72	4 552
Federal transfers	22 029	764	—	764	22 793
<b>Consolidated revenue</b>	<b>106 308</b>	<b>1 133</b>	<b>–971</b>	<b>162</b>	<b>106 470</b>
Mission expenditures					
– Program spending	–72 591	256	–256	—	–72 591
– Other expenditure	–21 261	–698	–112	–810	–22 071
Subtotal	–93 852	–442	–368	–810	–94 662
Debt service	–9 868	360	—	360	–9 508
<b>Consolidated expenditure</b>	<b>–103 720</b>	<b>–82</b>	<b>–368</b>	<b>–450</b>	<b>–104 170</b>
Contingency reserve	–100	—	—	—	–100
<b>SURPLUS (DEFICIT)</b>	<b>2 488</b>	<b>1 051</b>	<b>–1 339</b>	<b>–288</b>	<b>2 200</b>
<b>BALANCED BUDGET ACT</b>					
Deposits of dedicated revenues in the Generations Fund	–2 488	38	—	38	–2 450
Use of the stabilization reserve	—	250	—	250	250
<b>BUDGETARY BALANCE<sup>(1)</sup></b>	<b>—</b>	<b>1 339</b>	<b>–1 339</b>	<b>—</b>	<b>—</b>

(1) Budgetary balance within the meaning of the *Balanced Budget Act* after use of the stabilization reserve.

## 1.2 Change in consolidated revenue

This section presents the government's updated consolidated revenue and the change in this revenue for 2017-2018 to 2019-2020.

In 2017-2018, consolidated revenue will total \$106.5 billion, that is, \$83.7 billion in own-source revenue and \$22.8 billion in revenue from federal transfers.

— Consolidated revenue is adjusted upward by \$162 million compared with the forecast in the March 2017 Québec Economic Plan.

This revenue is expected to grow by 3.5% in 2017-2018, 2.0% in 2018-2019 and 3.5% in 2019-2020.

TABLE F.3

### Change in consolidated revenue (millions of dollars)

	March 2017		November 2017		
	2017-2018	Adjustments	2017-2018	2018-2019	2019-2020
Own-source revenue excluding government enterprises	79 799	-674	79 125	81 932	84 694
<i>% change</i>	3.3		1.7	3.5	3.4
Government enterprises	4 480	72	4 552	4 323	4 495
<i>% change</i>	-5.7		-7.1	-5.0	4.0
<b>Own-source revenue</b>	<b>84 279</b>	<b>-602</b>	<b>83 677</b>	<b>86 255</b>	<b>89 189</b>
<i>% change</i>	<b>2.8</b>		<b>1.1</b>	<b>3.1</b>	<b>3.4</b>
Federal transfers	22 029	764	22 793	22 391	23 220
<i>% change</i>	7.5		13.0	-1.8	3.7
<b>TOTAL</b>	<b>106 308</b>	<b>162</b>	<b>106 470</b>	<b>108 646</b>	<b>112 409</b>
<i>% change</i>	<b>3.7</b>		<b>3.5</b>	<b>2.0</b>	<b>3.5</b>

## 1.2.1 Own-source revenue excluding government enterprises

Own-source revenue excluding government enterprises consists chiefly of tax revenue, which is made up of personal income tax, contributions for health services, corporate taxes, school property tax and consumption taxes. How it changes is closely tied to economic activity in Québec and to changes in the tax systems.

Own-source revenue excluding government enterprises also includes revenue from other 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 excluding government enterprises is deposited in the General Fund to finance the government's missions. The remainder of this revenue is paid, in particular, into special funds (for funding specific programs) and the Generations Fund (for reducing the debt), as well as to non-budget-funded bodies and the health and social services and education networks (for funding their activities).

### □ Adjustments for 2017-2018

For fiscal 2017-2018, own-source revenue excluding government enterprises will total \$79.1 billion, which represents an increase of 1.7% relative to the revenue observed for fiscal 2016-2017.

Compared with the forecast in the Québec Economic Plan of March 2017, own-source revenue excluding government enterprises is adjusted downward by \$674 million, which represents a decrease of 0.8% in forecast revenue.

### ■ Tax revenue

Revenue from personal income tax is adjusted downward by \$1.4 billion for fiscal 2017-2018 relative to the forecast in the March 2017 Québec Economic Plan.

- This adjustment is explained mainly by the additional reduction in the tax burden of nearly \$1 billion per year as of 2017-2018 resulting from the lowering of the tax rate from 16% to 15% for the first dollars of income earned.
- It also reflects the recurrence of the lower level of tax payable for 2016.
- However, this adjustment is partly offset by higher-than-expected withholdings at source since the beginning of the fiscal year due to the higher-than-anticipated level of wages and salaries observed in 2017.

Monitoring of contributions for health services leads to a downward adjustment of \$36 million for 2017-2018.

TABLE F.4

**Change in own-source revenue excluding government enterprises**  
(millions of dollars)

	March 2017		November 2017		
	2017-2018	Adjustments	2017-2018	2018-2019	2019-2020
<b>Tax revenue</b>					
Personal income tax	30 569	-1 373	29 196	30 519	31 834
<i>% change</i>	3.0		-0.1	4.5	4.3
Contributions for health services	6 036	-36	6 000	6 113	6 287
<i>% change</i>	0.2		0.5	1.9	2.8
Corporate taxes	7 227	476	7 703	7 957	8 131
<i>% change</i>	4.9		3.0	3.3	2.2
School property tax	2 257	-7	2 250	2 329	2 395
<i>% change</i>	4.3		3.7	3.5	2.8
Consumption taxes	19 681	265	19 946	20 488	20 886
<i>% change</i>	2.6		3.4	2.7	1.9
<b>Other revenue</b>					
Duties and permits	3 710	77	3 787	3 801	3 950
<i>% change</i>	11.5		14.9	0.4	3.9
Miscellaneous revenue	10 319	-76	10 243	10 725	11 211
<i>% change</i>	3.8		-1.4	4.7	4.5
<b>TOTAL</b>	<b>79 799</b>	<b>-674</b>	<b>79 125</b>	<b>81 932</b>	<b>84 694</b>
<i>% change</i>	3.3		1.7	3.5	3.4

Revenue from corporate taxes is adjusted upward by \$476 million for fiscal 2017-2018. This adjustment reflects an increase in tax revenues that is in keeping with the favourable results observed in late 2016-2017 and the growth of the net operating surplus of corporations in 2017, which was stronger than forecast in the March 2017 Québec Economic Plan.

The school property tax is adjusted downward by \$7 million in 2017-2018. The revenue from this tax is consistent with that forecast in the Québec Economic Plan of March 2017.

Revenue from consumption taxes is adjusted upward by \$265 million in 2017-2018. This adjustment arises mainly from the Québec sales tax owing to the recurrence of higher-than-expected results in 2016-2017 and growth in household consumption (excluding food products and housing), which is higher than forecast in the March 2017 Québec Economic Plan.

## ■ Other revenue

Revenue from duties and permits is adjusted upward by \$77 million in 2017-2018, reflecting essentially the higher-than-expected revenue collected under Québec's cap-and-trade system for greenhouse gas emission allowances.

In addition, miscellaneous revenue is adjusted downward by \$76 million due, in particular, to the lower-than-forecast investment income of the Generations Fund.

## □ Outlook for 2018-2019 and 2019-2020

Own-source revenue excluding government enterprises will grow by 3.5% in 2018-2019 and 3.4% in 2019-2020. This growth reflects essentially the economic activity forecast for those years.

## ■ Tax revenue

Personal income tax, the government's largest revenue source, will increase by 4.5% in 2018-2019 and 4.3% in 2019-2020, settling at \$30.5 billion and \$31.8 billion, respectively.

— This change reflects, in particular, the growth of household income, 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.

Contributions for health services will increase by 1.9% in 2018-2019 and 2.8% in 2019-2020, settling at \$6.1 billion and \$6.3 billion, respectively. This change reflects the fact that wages and salaries are expected to grow by 3.3% in 2018 and 3.1% in 2019. It also takes into account the impact of the reduction of the Health Services Fund contribution rate announced for Québec SMBs in previous budgets.

Revenue from corporate taxes will grow by 3.3% in 2018-2019 and 2.2% in 2019-2020, to \$8.0 billion and \$8.1 billion, respectively.

— This change reflects essentially the projected growth of the net operating surplus of corporations, established at 5.2% in 2018 and 5.1% in 2019. In addition, it takes into account the gradual reduction of the general corporate income tax rate announced in the March 2015 Québec Economic Plan.

The growth of 3.5% and 2.8% in revenue from the school property tax in 2018-2019 and 2019-2020, respectively, can be attributed mainly to the increase in the number of students and the anticipated increase in the cost of services funded by the school property tax.

Revenue from consumption taxes will grow by 2.7% in 2018-2019 and 1.9% in 2019-2020, reaching \$20.5 billion and \$20.9 billion, respectively.

- This growth primarily reflects robust household consumption (excluding food products and housing) of 3.7% in 2018 and 3.1% in 2019.
- In addition, the gradual elimination of restrictions on input tax refunds for large businesses, as of January 1, 2018, is having a downward effect on the growth of consumption tax revenue.

### ■ **Other revenue**

Revenue from duties and permits will grow by 0.4% in 2018-2019 and 3.9% in 2019-2020. This change is explained primarily by the increase in anticipated revenue under Québec's cap-and-trade system for greenhouse gas emission allowances.

Miscellaneous revenue will climb by 4.7% in 2018-2019 and 4.5% in 2019-2020. This growth stems mainly from the investment income of the Generations Fund and the anticipated revenue of special funds, non-budget-funded bodies and the health and social services and education networks.

## 1.2.2 Revenue from government enterprises

### □ Adjustments for 2017-2018

For 2017-2018, revenue from government enterprises is adjusted upward by \$72 million, to \$4.6 billion. This adjustment can be attributed to an increase in the results of Loto-Québec in all of its activity sectors, owing in particular an increase in traffic and a renewal of the gaming offer, and to an increase in the results of the Société des alcools du Québec as well as other government enterprises, including Investissement Québec.

### □ Outlook for 2018-2019 and 2019-2020

Revenue from government enterprises will stand at \$4.3 billion in 2018-2019 and \$4.5 billion in 2019-2020.

— The change in 2018-2019 reflects the lower anticipated results of Hydro-Québec and other government enterprises, particularly Investissement Québec. The decrease will be offset in part by an improvement in the results of Loto-Québec and the Société des alcools du Québec.

TABLE F.5

### Change in revenue from government enterprises (millions of dollars)

	March 2017		November 2017		
	2017-2018	Adjustments	2017-2018	2018-2019	2019-2020
Hydro-Québec	2 150	-50	2 100	2 075	2 275
Loto-Québec	1 142	96	1 238	1 256	1 265
Société des alcools du Québec	1 089	8	1 097	1 108	1 140
Other <sup>(1)</sup>	99	18	117	-116	-185
<b>TOTAL</b>	<b>4 480</b>	<b>72</b>	<b>4 552</b>	<b>4 323</b>	<b>4 495</b>
<b>% change</b>	<b>-5.7</b>		<b>-7.1</b>	<b>-5.0</b>	<b>4.0</b>

(1) Includes the forecast for other government enterprises, in particular Investissement Québec, and the impact of the Electricity Discount Program for Consumers Billed at Rate L, amounting to \$95 million in 2017-2018, \$190 million in 2018-2019 and \$260 million in 2019-2020.

### 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 2017-2018, revenue from Hydro-Québec is forecast at \$2 575 million before taking into account the \$475-million accounting impact related to the application of IFRS standards.

For 2018-2019 and 2019-2020, the accounting impact will remain at \$475 million.

#### Change in revenue from Hydro-Québec (millions of dollars)

	March 2017		November 2017		
	2017-2018	Adjustments	2017-2018	2018-2019	2019-2020
Net results (U.S. GAAP) <sup>(1)</sup>	2 575	—	2 575	2 550	2 750
Accounting adjustment to IFRS standards	-425	-50	-475	-475	-475
<b>NET RESULTS IN THE GOVERNMENT'S FINANCIAL FRAMEWORK</b>	<b>2 150</b>	<b>-50</b>	<b>2 100</b>	<b>2 075</b>	<b>2 275</b>

(1) Other energy businesses in Canada use U.S. GAAP to determine their financial results.

### 1.2.3 Revenues from federal transfers

#### □ Adjustments for 2017-2018

In 2017-2018, revenues from federal transfers will reach \$22.8 billion and grow by 13.0%, that is, \$764 million more than forecast in the March 2017 Québec Economic Plan.

This adjustment is explained essentially by increases of:

- \$591 million in other programs. This increase is due mainly to the taking into account of revenue from the Public Transit Infrastructure Fund under Phase 1 of the federal infrastructure plan;
- \$107 million in health transfer revenues. This increase can be attributed primarily to a downward adjustment of the value of the special Québec abatement, which is subtracted from these transfers.

TABLE F.6

#### Change in federal transfer revenues (millions of dollars)

	March 2017		November 2017		
	2017-2018	Adjustments	2017-2018	2018-2019	2019-2020
Equalization	11 081	—	11 081	11 002	11 881
<i>% change</i>	10.5		10.5	-0.7	8.0
Health transfers	6 110	107	6 217	6 468	6 800
<i>% change</i>	2.8		4.6	4.0	5.1
Transfers for post-secondary education and other social programs	1 640	66	1 706	1 686	1 725
<i>% change</i>	0.3		4.3	-1.2	2.3
Other programs	3 198	591	3 789	3 235	2 814
<i>% change</i>	10.8		47.5	-14.6	-13.0
<b>TOTAL</b>	<b>22 029</b>	<b>764</b>	<b>22 793</b>	<b>22 391</b>	<b>23 220</b>
<i>% change</i>	7.5		13.0	-1.8	3.7

## □ Outlook for 2018-2019 and 2019-2020

In 2018-2019, federal transfers will total \$22.4 billion, which represents a decrease of 1.8%. This decrease results primarily from a 14.6% reduction in other programs, owing in particular to the expiry of two Canada-Québec agreements, namely, the agreement concerning the *Youth Criminal Justice Act* and the agreement on the labour market participation of persons with disabilities.

In 2019-2020, federal transfers will reach \$23.2 billion, which represents an increase of 3.7%. This change results from, in particular, anticipated growth of 8.0% in equalization revenue, attributed to an increase in the equalization envelope, which grows in pace with Canada's nominal GDP. The increase in equalization revenue is offset by a decline of 13.0% in revenue from other programs, explained in particular by the end of the infrastructure programs under Phase 1 of the federal infrastructure plan.

### 1.3 Change in consolidated expenditure

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

Consolidated expenditure will stand at \$104.2 billion in 2017-2018. This represents an upward adjustment of \$450 million relative to the Québec Economic Plan of March 2017.

— Program spending remains unchanged compared with the Québec Economic Plan of March 2017, and other consolidated expenditures will increase by \$810 million.

— In addition, spending on debt service will be \$360 million lower.

Consolidated expenditure will stand at \$107.2 billion in 2018-2019 and \$110.0 billion in 2019-2020, representing growth of 2.9% and 2.6%, respectively.

TABLE F.7

#### Change in consolidated expenditure (millions of dollars)

	March 2017		November 2017		
	2017-2018	Adjustments	2017-2018	2018-2019	2019-2020
Program spending <sup>(1)</sup>	72 591	—	72 591	75 579	77 951
% change	4.1		4.6	4.1	3.1
Other consolidated expenditure <sup>(2)</sup>	21 261	810	22 071	22 049	22 325
% change	3.0		12.4	-0.1	1.3
<b>Mission expenditures</b>	<b>93 852</b>	<b>810</b>	<b>94 662</b>	<b>97 628</b>	<b>100 276</b>
% change	<b>3.8</b>		<b>6.3</b>	<b>3.1</b>	<b>2.7</b>
Debt service	9 868	-360	9 508	9 613	9 753
% change	1.9		-0.2	1.1	1.5
<b>TOTAL</b>	<b>103 720</b>	<b>450</b>	<b>104 170</b>	<b>107 241</b>	<b>110 029</b>
% change	<b>3.6</b>		<b>5.7</b>	<b>2.9</b>	<b>2.6</b>

(1) Includes transfers intended for consolidated entities.

(2) Includes consolidation adjustments.

### 1.3.1 Mission expenditures

#### □ Adjustments for 2017-2018

In 2017-2018, mission expenditures will stand at \$94.7 billion, which corresponds to an upward adjustment of \$810 million compared with the forecast in the March 2017 Québec Economic Plan.

TABLE F.8

#### Change in mission expenditures (millions of dollars)

	March 2017		November 2017		
	2017-2018	Adjustments	2017-2018	2018-2019	2019-2020
Health and Social Services	40 223	244	40 467	41 789	42 974
% change	4.3		4.5 <sup>(1)</sup>	3.3	2.8
Education and Culture	22 662	73	22 735	23 573	24 277
% change	4.0		4.6 <sup>(1)</sup>	3.7	3.0
Economy and Environment	12 965	633	13 598	13 815	14 132
% change	2.1		10.2	1.6	2.3
Support for Individuals and Families	9 935	185	10 120	10 531	10 839
% change	1.0		6.4 <sup>(1)</sup>	4.1	2.9
Administration and Justice	8 067	-325	7 742	7 920	8 054
% change	7.4		15.3	2.3	1.7
<b>TOTAL</b>	<b>93 852</b>	<b>810</b>	<b>94 662</b>	<b>97 628</b>	<b>100 276</b>
% change	3.8		6.3	3.1	2.7

(1) To assess growth in 2017-2018 based on comparable spending levels, the percent changes for that year were calculated by excluding, from 2016-2017 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 2016-2017 expenditures of the Education and Culture mission.

This adjustment is explained by:

- a \$244-million increase in the expenditures of the Health and Social Services mission, mainly for the benefit of health and social services institutions;
- a \$73-million increase in the expenditures of the Education and Culture mission, intended largely for educational institutions;
- a \$633-million increase in the expenditures of the Economy and Environment mission owing to, in particular:
  - additional expenditures of the Land Transportation Network Fund resulting from the new federal agreement on the Public Transit Infrastructure Fund,
  - the Société de financement des infrastructures locales du Québec, whose expenditures are linked to those of municipal bodies funded through the 2014-2019 gas tax and Québec contribution program;
- a \$185-million increase in the expenditures of the Support for Individuals and Families mission due, in particular, to the measures announced in the November 2017 update of the Québec Economic Plan, including the supplement of \$100 per child for the purchase of school supplies;
- a \$325-million decrease in the expenditures of the Administration and Justice mission owing in particular to the reduction of the Contingency Fund in order to finance additional investments aimed at improving the quality of life of citizens and families.

#### **□ Outlook for 2018-2019 and 2019-2020**

In 2018-2019 and 2019-2020, mission expenditures will amount to \$97.6 billion and \$100.3 billion, respectively.

## Program spending

Thanks to the strong performance of the economy and sound management of public finances, the government is making additional investments to improve the quality of life of citizens and families.

These additional investments will total \$256 million in 2017-2018:

- \$17 million in education and childhood, \$7 million in higher education and \$105 million in health and social services;
- \$86 million to support regional economies;
- \$41 million for the first year of implementation of the third Plan to Combat Poverty and Social Exclusion.

These investments will be funded by the use of spending provisions.

Additional investments for 2018-2019 and 2019-2020 will total \$563 million and \$712 million, respectively. These investments will be funded by raising the spending objective by an equivalent amount for each of those years.

### Change in program spending (millions of dollars)

	2017-2018	2018-2019	2019-2020
<b>PROGRAM SPENDING – MARCH 2017</b>	<b>72 591</b>	<b>75 016</b>	<b>77 239</b>
<b>% change</b>	<b>4.1</b>	<b>3.3</b>	<b>3.0</b>
<b>Additional investments</b>			
Reduction of poverty	41	240	383
Investments in educational success and health			
– Education and childhood	17	60	65
– Higher education	7	20	20
– Health and social services	105	105	105
Support for regional economies	86	138	139
<b>Subtotal</b>	<b>256</b>	<b>563</b>	<b>712</b>
Reduction of the Contingency Fund	–256	—	—
<b>Adjustments</b>	<b>—</b>	<b>563</b>	<b>712</b>
<b>PROGRAM SPENDING – NOVEMBER 2017</b>	<b>72 591</b>	<b>75 579</b>	<b>77 951</b>
<b>% change</b>	<b>4.6</b>	<b>4.1</b>	<b>3.1</b>

## 1.3.2 Debt service

### □ Adjustments for 2017-2018

In 2017-2018, debt service will amount to \$9.5 billion, that is, \$7.7 billion for direct debt service and \$1.8 billion for interest on the liability for the retirement plans and other employee future benefits of public and parapublic sector employees.

Compared with the March 2017 Québec Economic Plan, debt service is adjusted downward by \$360 million in 2017-2018, mainly because of lower-than-expected long-term interest rates and the higher-than-anticipated return on the Retirement Plans Sinking Fund (RPSF) in 2016-2017, which has a downward effect on debt service as of 2017-2018. The income of the RPSF is applied against debt service.

### □ Outlook for 2018-2019 and 2019-2020

Debt service will increase by 1.1% in 2018-2019 and 1.5% in 2019-2020 owing mainly to the anticipated increase in interest rates.

TABLE F.9

#### Change in debt service (millions of dollars)

	March 2017		November 2017		
	2017-2018	Adjustments	2017-2018	2018-2019	2019-2020
Direct debt service	7 865	-174	7 691	8 142	8 570
<i>% change</i>	7.4		6.6	5.9	5.3
Interest on the liability for the retirement plans and other employee future benefits <sup>(1)</sup>	2 003	-186	1 817	1 471	1 183
<i>% change</i>	-15.2		-21.3	-19.0	-19.6
<b>TOTAL</b>	<b>9 868</b>	<b>-360</b>	<b>9 508</b>	<b>9 613</b>	<b>9 753</b>
<i>% change</i>	<b>1.9</b>		<b>-0.2</b>	<b>1.1</b>	<b>1.5</b>

(1) 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.

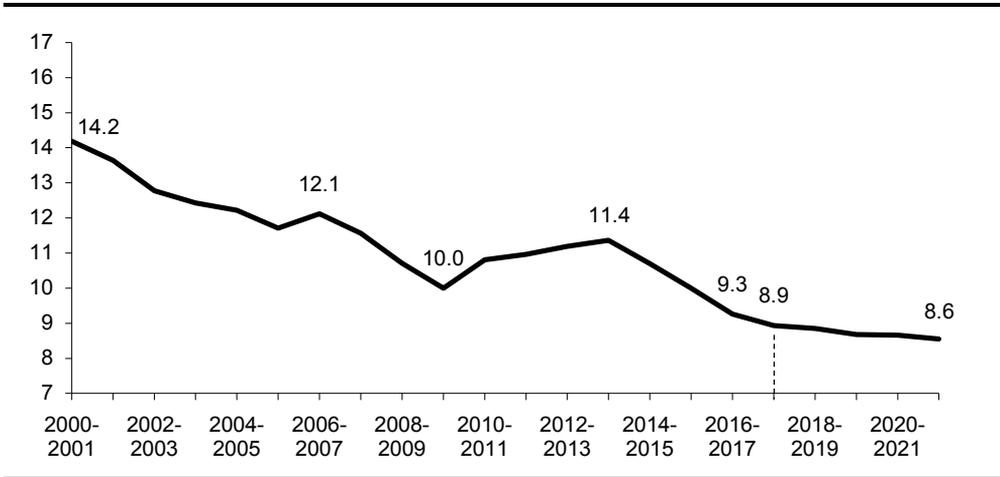
## ■ Proportion of revenue devoted to debt service

The proportion of revenue devoted to debt service has decreased since 2013-2014. It will be 8.9% in 2017-2018.

CHART F.1

### Debt service

(percentage of consolidated revenue)





## **2. FINANCIAL FRAMEWORK BY SECTOR**

The consolidated financial framework has several sectoral components included in the government reporting entity that reflect the financial organization of public and parapublic sector activities. Table F.10 presents the forecast revenue and expenditure of these different components for fiscal 2017-2018 to 2019-2020.

Tables F.11 to F.20 present, for 2017-2018 to 2019-2020, transactions carried out by the government in the General Fund, special funds, specified purpose accounts, non-budget-funded bodies and the health and social services and education networks, as well as tax-funded expenditures.

TABLE F.10

**Financial framework for consolidated revenue and expenditure by sector**  
(millions of dollars)

	2017-2018	2018-2019	2019-2020
<b>Revenue</b>			
General Fund	79 953	81 880	85 217
Special funds	12 880	12 916	13 358
Generations Fund	2 450	2 712	3 031
Specified purpose accounts	1 421	1 041	850
Non-budget-funded bodies	21 260	21 471	22 071
Bodies in the health and social services network	25 224	26 228	26 877
Bodies in the education networks	17 002	17 642	18 336
Tax-funded transfers <sup>(1)</sup>	6 654	6 728	6 883
Consolidation adjustments <sup>(2)</sup>	-60 374	-61 972	-64 214
<b>Total consolidated revenue</b>	<b>106 470</b>	<b>108 646</b>	<b>112 409</b>
<b>Expenditure</b>			
<b>Mission expenditures</b>			
General Fund (program spending)	-72 591	-75 579	-77 951
Special funds	-11 321	-11 288	-11 957
Specified purpose accounts	-1 421	-1 041	-850
Non-budget-funded bodies	-20 468	-20 928	-21 463
Bodies in the health and social services network	-24 776	-25 735	-26 319
Bodies in the education networks	-16 651	-17 234	-17 876
Tax-funded expenditures <sup>(1)</sup>	-6 654	-6 728	-6 883
Consolidation adjustments <sup>(2)</sup>	59 220	60 905	63 023
<b>Total mission expenditures</b>	<b>-94 662</b>	<b>-97 628</b>	<b>-100 276</b>
<b>Debt service</b>			
General Fund	-7 487	-7 425	-7 447
Consolidated entities <sup>(3)</sup>	-2 021	-2 188	-2 306
<b>Total debt service</b>	<b>-9 508</b>	<b>-9 613</b>	<b>-9 753</b>
<b>Total consolidated expenditure</b>	<b>-104 170</b>	<b>-107 241</b>	<b>-110 029</b>
Contingency reserve	-100	-100	-100
<b>SURPLUS (DEFICIT)</b>	<b>2 200</b>	<b>1 305</b>	<b>2 280</b>
<b>BALANCED BUDGET ACT</b>			
Deposits of dedicated revenues in the Generations Fund	-2 450	-2 712	-3 031
Use of the stabilization reserve	250	1 407	751
<b>BUDGETARY BALANCE<sup>(4)</sup></b>	<b>—</b>	<b>—</b>	<b>—</b>

(1) Includes doubtful tax accounts.

(2) Stemming mainly from the elimination of reciprocal transactions between entities in different sectors.

(3) Includes consolidation adjustments.

(4) Budgetary balance within the meaning of the *Balanced Budget Act* after use of the stabilization reserve.

## Change in consolidated revenue and expenditure by sector

The following table shows the change in consolidated revenue and expenditure by sector from 2017-2018 to 2019-2020.

### Change in consolidated revenue and expenditure by sector (per cent)

	2017-2018	2018-2019	2019-2020
<b>Revenue</b>			
General Fund	2.3	2.4	4.1
Special funds	10.1	0.3	3.4
Generations Fund	22.4	10.7	11.8
Specified purpose accounts	44.1	-26.7	-18.3
Non-budget-funded bodies	0.9	1.0	2.8
Bodies in the health and social services network	3.6	4.0	2.5
Bodies in the education networks	4.8	3.8	3.9
Tax-funded transfers <sup>(1)</sup>	2.0	1.1	2.3
<b>TOTAL CONSOLIDATED REVENUE</b>	<b>3.5</b>	<b>2.0</b>	<b>3.5</b>
<b>Expenditure</b>			
<b>Mission expenditures</b>			
General Fund (program spending)	4.6	4.1	3.1
Special funds	11.6	-0.3	5.9
Specified purpose accounts	44.1	-26.7	-18.3
Non-budget-funded bodies	3.0	2.2	2.6
Bodies in the health and social services network	3.6	3.9	2.3
Bodies in the education networks	6.7	3.5	3.7
Tax-funded expenditures <sup>(1)</sup>	2.0	1.1	2.3
<b>Total mission expenditures</b>	<b>6.3</b>	<b>3.1</b>	<b>2.7</b>
<b>Debt service</b>			
General Fund	-0.7	-0.8	0.3
Consolidated entities <sup>(2)</sup>	1.9	8.3	5.4
<b>Total debt service</b>	<b>-0.2</b>	<b>1.1</b>	<b>1.5</b>
<b>TOTAL CONSOLIDATED EXPENDITURE</b>	<b>5.7</b>	<b>2.9</b>	<b>2.6</b>

(1) Includes doubtful tax accounts.

(2) Includes consolidation adjustments.

## 2.1 General Fund

The General Fund finances nearly three quarters of the government's consolidated expenditure.

The revenue of the General Fund, which consists of own-source revenue and federal transfers, will total \$80.0 billion in 2017-2018 and increase by 2.4% in 2018-2019 and 4.1% in 2019-2020, to \$81.9 billion and \$85.2 billion, respectively.

The expenditures of the General Fund, which include, in particular, program spending, will stand at \$80.1 billion in 2017-2018 and grow by 3.7% in 2018-2019 and 2.9% in 2019-2020, to \$83.0 billion and \$85.4 billion, respectively.

TABLE F.11

### Summary of the budgetary transactions of the General Fund (millions of dollars)

	2017-2018	2018-2019	2019-2020
<b>Revenue</b>			
Income and property taxes	35 297	36 803	38 271
Consumption taxes	18 597	19 189	19 652
Duties and permits	297	298	307
Miscellaneous revenue	1 379	1 404	1 426
Government enterprises	4 122	3 863	3 995
<b>Own-source revenue</b>	<b>59 692</b>	<b>61 557</b>	<b>63 651</b>
<i>% change</i>	<b>0.2</b>	<b>3.1</b>	<b>3.4</b>
Federal transfers	20 261	20 323	21 566
<b>Total revenue</b>	<b>79 953</b>	<b>81 880</b>	<b>85 217</b>
<i>% change</i>	<b>2.3</b>	<b>2.4</b>	<b>4.1</b>
<b>Expenditure</b>			
Program spending	-72 591	-75 579	-77 951
<i>% change</i>	4.6	4.1	3.1
Debt service	-7 487	-7 425	-7 447
<b>Total expenditure</b>	<b>-80 078</b>	<b>-83 004</b>	<b>-85 398</b>
<i>% change</i>	<b>4.1</b>	<b>3.7</b>	<b>2.9</b>
Contingency reserve	-100	-100	-100
<b>SURPLUS (DEFICIT)</b>	<b>-225</b>	<b>-1 224</b>	<b>-281</b>

## 2.2 Special funds

Special funds are entities set up by law to finance certain activities within government departments and bodies.

The activities of special funds may be funded, in particular, through tax revenues, fees or transfers from program spending.

The following table shows the forecasts pertaining to special funds for 2017-2018 to 2019-2020.

TABLE F.12

### Summary of the budgetary transactions of special funds<sup>(1)</sup> (millions of dollars)

	2017-2018	2018-2019	2019-2020
<b>Revenue</b>			
Income and property taxes	1 005	1 055	1 089
Consumption taxes	2 465	2 539	2 550
Duties and permits	2 114	2 041	2 101
Miscellaneous revenue	2 049	2 271	2 458
<b>Own-source revenue</b>	<b>7 633</b>	<b>7 906</b>	<b>8 198</b>
<i>% change</i>	<b>8.1</b>	<b>3.6</b>	<b>3.7</b>
Québec government transfers	4 744	4 696	4 908
Federal transfers	503	314	252
<b>Total revenue</b>	<b>12 880</b>	<b>12 916</b>	<b>13 358</b>
<i>% change</i>	<b>10.1</b>	<b>0.3</b>	<b>3.4</b>
<b>Expenditure</b>			
Mission expenditures	-11 321	-11 288	-11 957
<i>% change</i>	<b>11.6</b>	<b>-0.3</b>	<b>5.9</b>
Debt service	-1 509	-1 676	-1 771
<b>Total expenditure</b>	<b>-12 830</b>	<b>-12 964</b>	<b>-13 728</b>
<i>% change</i>	<b>9.9</b>	<b>1.0</b>	<b>5.9</b>
<b>SURPLUS (DEFICIT)</b>	<b>50</b>	<b>-48</b>	<b>-370</b>

(1) Excludes the Generations Fund.

The revenue of special funds will amount to \$12.9 billion for 2017-2018, \$12.9 billion for 2018-2019 and \$13.4 billion for 2019-2020, representing a change of 10.1%, 0.3% and 3.4%, respectively.

The mission expenditures of special funds will stand at \$11.3 billion in 2017-2018, \$11.3 billion in 2018-2019 and \$12.0 billion in 2019-2020, representing a change of 11.6%, -0.3% and 5.9%, respectively.

The growth in spending by special funds stems mainly from:

- the Land Transportation Network Fund, for financing road network and public transit infrastructure;
- the Green Fund, due to the 2013-2020 Climate Change Action Plan (2013-2020 CCAP);
- the Economic Development Fund, which reflects the change in payments of financial assistance to businesses.

TABLE F.13

**Mission expenditures of special funds**  
(millions of dollars)

	2017-2018	2018-2019	2019-2020
Land Transportation Network Fund (FORT)	3 167	3 374	3 778
Green Fund	900	741	761
Economic Development Fund	415	253	205
Elimination of reciprocal transactions between FORT and the Green Fund	-239	-237	-228
<b>Subtotal</b>	<b>4 243</b>	<b>4 131</b>	<b>4 516</b>
<b>% change</b>	<b>26.3</b>	<b>-2.6</b>	<b>9.3</b>
Other special funds <sup>(1)</sup>	7 078	7 157	7 441
<b>% change</b>	<b>4.3</b>	<b>1.1</b>	<b>4.0</b>
<b>TOTAL</b>	<b>11 321</b>	<b>11 288</b>	<b>11 957</b>
<b>% change</b>	<b>11.6</b>	<b>-0.3</b>	<b>5.9</b>

(1) Includes other eliminations of reciprocal transactions between special funds.

## □ Generations Fund

Revenues dedicated to the Generations Fund will reach \$2.5 billion in 2017-2018, \$2.7 billion in 2018-2019 and \$3.0 billion in 2019-2020.

Taking these deposits into account, the book value of the Generations Fund will be \$18.7 billion as at March 31, 2020.

TABLE F.14

### Summary of the budgetary transactions of the Generations Fund (millions of dollars)

	2017-2018	2018-2019	2019-2020
<b>Revenue</b>			
<b>Consumption taxes</b>			
Specific tax on alcoholic beverages	500	500	500
<b>Subtotal</b>	<b>500</b>	<b>500</b>	<b>500</b>
<b>Duties and permits</b>			
Water-power royalties	786	785	804
Mining revenues	175	231	280
<b>Subtotal</b>	<b>961</b>	<b>1 016</b>	<b>1 084</b>
<b>Miscellaneous revenue</b>			
Unclaimed property	30	30	30
Investment income	529	706	917
<b>Subtotal</b>	<b>559</b>	<b>736</b>	<b>947</b>
<b>Government enterprises</b>			
Indexation of the price of heritage electricity	215	245	285
Additional contribution from Hydro-Québec	215	215	215
<b>Subtotal</b>	<b>430</b>	<b>460</b>	<b>500</b>
<b>TOTAL REVENUE</b>	<b>2 450</b>	<b>2 712</b>	<b>3 031</b>

## 2.3 Specified purpose accounts

A specified purpose account is a financial management mechanism that enables a government department to record separately sums paid into the Consolidated Revenue Fund by a third party under a contract or an agreement that provides for the sums to be allocated to a specific purpose.

The following table shows the forecasts pertaining to specified purpose accounts for 2017-2018 to 2019-2020.

TABLE F.15

### Summary of the budgetary transactions of specified purpose accounts (millions of dollars)

	2017-2018	2018-2019	2019-2020
<b>Revenue</b>			
Miscellaneous revenue	216	167	164
<b>Own-source revenue</b>	<b>216</b>	<b>167</b>	<b>164</b>
<i>% change</i>	<b>1.9</b>	<b>-22.7</b>	<b>-1.8</b>
Federal transfers	1 205	874	686
<b>Total revenue</b>	<b>1 421</b>	<b>1 041</b>	<b>850</b>
<i>% change</i>	<b>44.1</b>	<b>-26.7</b>	<b>-18.3</b>
<b>Expenditure</b>			
Mission expenditures	-1 421	-1 041	-850
<b>Total expenditure</b>	<b>-1 421</b>	<b>-1 041</b>	<b>-850</b>
<i>% change</i>	<b>44.1</b>	<b>-26.7</b>	<b>-18.3</b>
<b>SURPLUS (DEFICIT)</b>	<b>—</b>	<b>—</b>	<b>—</b>

The revenue and expenditure of specified purpose accounts will amount to \$1.4 billion for 2017-2018, \$1.0 billion for 2018-2019 and \$0.9 billion for 2019-2020.

The change in the revenue and expenditure of specified purpose accounts is explained chiefly by:

- the signing of two new infrastructure agreements in 2016-2017 under Phase 1 of the federal infrastructure plan:
  - the Post-Secondary Institutions Strategic Investment Fund,
  - the Clean Water and Wastewater Fund;
- the expiry of certain federal agreements for infrastructure projects.

## 2.4 Non-budget-funded bodies

Non-budget-funded bodies were created to provide specific public services.

The following table shows the forecasts pertaining to non-budget-funded bodies for 2017-2018 to 2019-2020.

TABLE F.16

### Summary of the budgetary transactions of non-budget-funded bodies (millions of dollars)

	2017-2018	2018-2019	2019-2020
<b>Revenue</b>			
Consumption taxes	46	28	28
Duties and permits	424	446	458
Miscellaneous revenue	6 026	5 880	5 964
<b>Own-source revenue</b>	<b>6 496</b>	<b>6 354</b>	<b>6 450</b>
<i>% change</i>	<b>1.8</b>	<b>-2.2</b>	<b>1.5</b>
Québec government transfers	13 482	13 907	14 609
Federal transfers	1 282	1 210	1 012
<b>Total revenue</b>	<b>21 260</b>	<b>21 471</b>	<b>22 071</b>
<i>% change</i>	<b>0.9</b>	<b>1.0</b>	<b>2.8</b>
<b>Expenditure</b>			
Mission expenditures	-20 468	-20 928	-21 463
<i>% change</i>	3.0	2.2	2.6
Debt service	-602	-580	-612
<b>Total expenditure</b>	<b>-21 070</b>	<b>-21 508</b>	<b>-22 075</b>
<i>% change</i>	<b>2.5</b>	<b>2.1</b>	<b>2.6</b>
<b>SURPLUS (DEFICIT)</b>	<b>190</b>	<b>-37</b>	<b>-4</b>

The revenue of non-budget-funded bodies will amount to \$21.3 billion for 2017-2018, \$21.5 billion for 2018-2019 and \$22.1 billion for 2019-2020, representing growth of 0.9%, 1.0% and 2.8%, respectively.

The mission expenditures of non-budget-funded bodies will stand at \$20.5 billion in 2017-2018, \$20.9 billion in 2018-2019 and \$21.5 billion in 2019-2020, representing growth of 3.0%, 2.2% and 2.6%, respectively.

The growth in spending by non-budget-funded bodies stems mainly from:

- the Régie de l'assurance maladie du Québec and the Prescription Drug Insurance Fund;
- the Société de financement des infrastructures locales du Québec, whose expenditures are linked to those of municipal bodies funded through the 2014-2019 gas tax and Québec contribution program.

TABLE F.17

**Mission expenditures of non-budget-funded bodies**

(millions of dollars)

	2017-2018	2018-2019	2019-2020
Régie de l'assurance maladie du Québec (RAMQ)	12 667	13 028	13 564
Prescription Drug Insurance Fund (PDIF)	3 691	3 802	4 051
Société de financement des infrastructures locales du Québec	766	794	741
Elimination of reciprocal transactions between RAMQ and the PDIF	-3 681	-3 732	-3 981
<b>Subtotal</b>	<b>13 443</b>	<b>13 892</b>	<b>14 375</b>
<b>% change</b>	<b>4.3</b>	<b>3.3</b>	<b>3.5</b>
Other non-budget-funded bodies <sup>(1)</sup>	7 025	7 036	7 088
<b>% change</b>	<b>0.6</b>	<b>0.2</b>	<b>0.7</b>
<b>TOTAL</b>	<b>20 468</b>	<b>20 928</b>	<b>21 463</b>
<b>% change</b>	<b>3.0</b>	<b>2.2</b>	<b>2.6</b>

(1) Includes other eliminations of reciprocal transactions between non-budget-funded bodies.

## 2.5 Health and social services and education networks

### □ Health and social services network

The health and social services network includes integrated health and social services centres as well as other public institutions and regional authorities.

The following table shows the forecasts pertaining to the health and social services network for 2017-2018 to 2019-2020.

TABLE F.18

#### Summary of the budgetary transactions of bodies in the health and social services network (millions of dollars)

	2017-2018	2018-2019	2019-2020
<b>Revenue</b>			
Miscellaneous revenue	2 513	2 561	2 609
<b>Own-source revenue</b>	<b>2 513</b>	<b>2 561</b>	<b>2 609</b>
<i>% change</i>	<b>2.0</b>	<b>1.9</b>	<b>1.9</b>
Québec government transfers	22 532	23 485	24 082
Federal transfers	179	182	186
<b>Total revenue</b>	<b>25 224</b>	<b>26 228</b>	<b>26 877</b>
<i>% change</i>	<b>3.6</b>	<b>4.0</b>	<b>2.5</b>
<b>Expenditure</b>			
Mission expenditures	-24 776	-25 735	-26 319
<i>% change</i>	3.6	3.9	2.3
Debt service	-448	-493	-558
<b>Total expenditure</b>	<b>-25 224</b>	<b>-26 228</b>	<b>-26 877</b>
<i>% change</i>	<b>3.7</b>	<b>4.0</b>	<b>2.5</b>
<b>SURPLUS (DEFICIT)</b>	<b>—</b>	<b>—</b>	<b>—</b>

The revenue of the health and social services network will amount to \$25.2 billion for 2017-2018, \$26.2 billion for 2018-2019 and \$26.9 billion for 2019-2020, representing a change of 3.6%, 4.0% and 2.5%, respectively.

The mission expenditures of the health and social services network will stand at \$24.8 billion in 2017-2018, \$25.7 billion in 2018-2019 and \$26.3 billion in 2019-2020, representing a change of 3.6%, 3.9% and 2.3%, respectively.

## □ Education networks

The education networks are made up 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.

The following table shows the forecasts pertaining to the education networks for 2017-2018 to 2019-2020.

TABLE F.19

### Summary of the budgetary transactions of bodies in the education networks (millions of dollars)

	2017-2018	2018-2019	2019-2020
<b>Revenue</b>			
Income and property taxes	2 250	2 329	2 395
Miscellaneous revenue	1 791	1 849	1 915
<b>Own-source revenue</b>	<b>4 041</b>	<b>4 178</b>	<b>4 310</b>
<i>% change</i>	<b>2.6</b>	<b>3.4</b>	<b>3.2</b>
Québec government transfers	12 811	13 321	13 889
Federal transfers	150	143	137
<b>Total revenue</b>	<b>17 002</b>	<b>17 642</b>	<b>18 336</b>
<i>% change</i>	<b>4.8</b>	<b>3.8</b>	<b>3.9</b>
<b>Expenditure</b>			
Mission expenditures	-16 651	-17 234	-17 876
<i>% change</i>	6.7	3.5	3.7
Debt service	-378	-417	-460
<b>Total expenditure</b>	<b>-17 029</b>	<b>-17 651</b>	<b>-18 336</b>
<i>% change</i>	<b>6.8</b>	<b>3.7</b>	<b>3.9</b>
<b>SURPLUS (DEFICIT)</b>	<b>-27</b>	<b>-9</b>	<b>—</b>

The revenue of the education networks will amount to \$17.0 billion for 2017-2018, \$17.6 billion for 2018-2019 and \$18.3 billion for 2019-2020, representing a change of 4.8%, 3.8% and 3.9%, respectively.

The mission expenditures of the education networks will stand at \$16.7 billion in 2017-2018, \$17.2 billion in 2018-2019 and \$17.9 billion in 2019-2020, representing a change of 6.7%, 3.5% and 3.7%, respectively.

## 2.6 Tax-funded expenditures

Refundable tax credits for individuals and corporations, which are similar to taxation-related transfer expenditures, are recorded in spending rather than as reductions in revenue. Expenditures related to doubtful tax accounts are added to these refundable tax credits.

Tax-funded expenditures will increase by 2.0% in 2017-2018 in relation to the previous year and grow by 1.1% in 2018-2019 and 2.3% in 2019-2020. This change is explained in particular by certain measures announced in:

- the March 2015 Québec Economic Plan, including the measures intended to increase the effectiveness of the sectoral tax assistance granted to corporations and the introduction of the tax shield for individuals;
- the March 2016 Québec Economic Plan, including the enhancements to work premiums for households without children and to the tax shield;
- the March 2017 Québec Economic Plan, including the refundable tax credit for the upgrading of residential waste water treatment systems;
- the November 2017 update of the Québec Economic Plan, including the supplement of \$100 per child for the purchase of school supplies.

TABLE F.20

### Summary of budgetary transactions relating to tax-funded expenditures (millions of dollars)

	2017-2018	2018-2019	2019-2020
<b>Revenue</b>			
Personal income tax	4 627	4 721	4 831
Corporate taxes	1 768	1 753	1 790
Consumption taxes	259	254	262
<b>Total revenue</b>	<b>6 654</b>	<b>6 728</b>	<b>6 883</b>
<b>% change</b>	<b>2.0</b>	<b>1.1</b>	<b>2.3</b>
<b>Expenditure</b>	<b>-6 654</b>	<b>-6 728</b>	<b>-6 883</b>
<b>% change</b>	<b>2.0</b>	<b>1.1</b>	<b>2.3</b>
<b>SURPLUS (DEFICIT)</b>	<b>—</b>	<b>—</b>	<b>—</b>



### 3. NET FINANCIAL REQUIREMENTS

Surpluses or net financial requirements represent the difference between the government's cash inflow and disbursements. These surpluses or net financial requirements take into account changes in the budgetary balance on an accrual basis, resources or requirements arising from the acquisition or disposal of capital assets, investments, loans and advances and from other activities such as paying accounts payable and collecting accounts receivable.

The government will post a financial requirement of \$369 million for fiscal 2017-2018, a financial requirement of \$3.5 billion for fiscal 2018-2019 and a financial surplus of \$2.3 billion for fiscal 2019-2020.

TABLE F.21

**Net financial requirements<sup>(1)</sup>**  
(millions of dollars)

	2017-2018	2018-2019	2019-2020
<b>SURPLUS (DEFICIT)</b>	<b>2 200</b>	<b>1 305</b>	<b>2 280</b>
<b>Non-budgetary transactions</b>			
Investments, loans and advances	-1 902	-2 292	-1 959
Capital investments	-2 995	-2 985	-2 532
Retirement plans and other employee future benefits	2 972	2 829	2 938
Other accounts	-644	-2 325	1 583
<b>Total non-budgetary transactions</b>	<b>-2 569</b>	<b>-4 773</b>	<b>30</b>
<b>NET FINANCIAL SURPLUS (REQUIREMENTS)</b>	<b>-369</b>	<b>-3 468</b>	<b>2 310</b>

(1) A negative entry indicates a financial requirement and a positive entry, a source of financing.

#### ▣ Investments, loans and advances

Investments, loans and advances include mainly investments made by the government in its enterprises and loans and advances granted to entities not included in the government reporting entity.

Net financial requirements for investments, loans and advances are estimated at \$1.9 billion for 2017-2018, \$2.3 billion for 2018-2019 and \$2.0 billion for 2019-2020. Investments, loans and advances include the government's investments in the Réseau électrique métropolitain de Montréal (REM) in 2017-2018, 2018-2019 and 2019-2020.

## ☐ Capital investments

In 2017-2018, forecast net financial requirements associated with net capital investments will amount to \$3.0 billion.

Net financial requirements attributable to net investments for fiscal 2018-2019 and 2019-2020 will stand at \$3.0 billion and \$2.5 billion, respectively.

TABLE F.22

### Net capital investments<sup>(1)</sup> (millions of dollars)

	2017-2018	2018-2019	2019-2020
Investments	-7 356	-7 431	-7 107
Depreciation	4 221	4 343	4 472
<b>Net investments</b>	<b>-3 135</b>	<b>-3 088</b>	<b>-2 635</b>
Less: PPP investments <sup>(2)</sup>	140	103	103
<b>NET CAPITAL INVESTMENTS</b>	<b>-2 995</b>	<b>-2 985</b>	<b>-2 532</b>

(1) A negative entry indicates a financial requirement and a positive entry, a source of financing.

(2) Investments made under public-private partnership (PPP) agreements correspond to new commitments that are taken into account in the government's gross debt. In accordance with the government's accounting policies, PPP investments are recognized in the government's assets as well as in its debt.

## ☐ Retirement plans and other employees future benefits

Forecast growth in the non-budgetary balance of the retirement plans and other employee future benefits stands at \$3.0 billion for 2017-2018, \$2.8 billion for 2018-2019 and \$2.9 billion for fiscal 2019-2020.

## ☐ Other accounts

Net financial requirements for other accounts consist of a series of changes in assets and liabilities such as accounts receivable and accounts payable.

The change in the government's other accounts will raise net financial requirements by \$644 million for 2017-2018 and \$2.3 billion for 2018-2019. In 2019-2020, other accounts will generate a financial surplus of \$1.6 billion.

## ❑ Net financial requirements by sector

The following table shows net financial requirements by sector.

TABLE F.23

### Net financial requirements by sector<sup>(1)</sup> (millions of dollars)

	2017-2018	2018-2019	2019-2020
General Fund	2 494	165	3 313
Consolidated entities <sup>(2)</sup>	-5 313	-6 345	-4 034
Generations Fund	2 450	2 712	3 031
<b>NET FINANCIAL SURPLUS (REQUIREMENTS)</b>	<b>-369</b>	<b>-3 468</b>	<b>2 310</b>

(1) A negative entry indicates a financial requirement and a positive entry, a source of financing.

(2) Excludes the Generations Fund.



## APPENDIX 1: SENSITIVITY ANALYSIS OF ECONOMIC VARIABLES

The financial framework's forecasts incorporate certain components of uncertainty that do not depend on the government directly, but which may cause actual results to differ from the forecasts.

### □ Sensitivity of Québec's GDP to external variables

Given that the Québec economy is characterized by considerable openness to trade, Québec's economic variables are influenced by several external factors.

— The most important of these factors are related to the economic activity of Québec's main trading partners, 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 (VAR)<sup>3</sup> model on the basis of historical data show that a change of 1% in U.S. real GDP entails on average a change of 0.5% in Québec's real GDP.

— The maximum effect is felt two quarters later.

Moreover, the same model makes it possible to conclude that a change of 1% in Ontario's real GDP gives rise on average to a change of 0.4% in Québec's real GDP.

— The maximum effect is captured two quarters later as well.

Ontario is the Canadian province with which Québec has the most commercial ties, in addition to having a similar economic structure. In 2013, exports to Ontario accounted for roughly 60% of Québec's interprovincial exports.

TABLE F.24

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

External shocks of 1 %	Maturity <sup>(1)</sup> (quarters)	Impact on Québec's real GDP (percentage points)
U.S. real GDP	2	0.5
Ontario real GDP	2	0.4

(1) Maturity corresponds to the number of quarters needed to record the greatest impact on Québec's real GDP, presented in the right-hand column.

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

<sup>3</sup> 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. Estimate of the Ministère des Finances du Québec.

## □ Sensitivity of own-source revenue to economic fluctuations

In general, the nominal GDP forecast is a very good indicator of growth in own-source revenue given the direct link between tax bases and nominal GDP.

- According to the overall sensitivity analysis, a change of 1 percentage point in nominal GDP has an impact of about \$650 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 and smaller ones 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 F.25

### Sensitivity of own-source revenue to major economic variables

Variable	Growth forecasts for 2017	Impacts for fiscal 2017-2018
Nominal GDP	3.7%	A variation of 1 percentage point changes own-source revenue by roughly \$650 million.
– Wages and salaries	3.8%	A variation of 1 percentage point changes personal income tax revenue by about \$290 million.
– Employment insurance	-1.6%	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 around \$45 million.
– Net operating surplus of corporations	5.3%	A variation of 1 percentage point changes corporate income tax revenue by roughly \$30 million.
– Household consumption	4.2%	A variation of 1 percentage point changes QST revenue by about \$170 million.
– Residential investments	4.5%	A variation of 1 percentage point changes QST revenue by nearly \$20 million.

## ❑ Sensitivity of program spending

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 variables, which are tied to price factors (inflation) and demographic factors (changes in population).

The following tables show the estimated sensitivity of program spending to certain changes at the budgetary level as well as in economic factors.

In that regard, it should be noted that such estimates constitute indications and that impacts may vary depending on the nature and interaction of risk factors.

### ■ Budgetary choices

Program spending may vary according to certain budgetary choices made by the government in allocating its available budgetary resources.

Accordingly, a variation of 1% in:

- program spending for the Santé et Services sociaux portfolio would lead to a variation of about \$370 million in such spending;
- program spending for the Éducation et Enseignement supérieur portfolio would lead to a variation of roughly \$180 million in such spending;
- program spending for the Famille portfolio would lead to a variation of approximately \$30 million in such spending.

TABLE F.26

#### **Sensitivity of program spending to a variation of 1% in each portfolio** (millions of dollars)

	Impact for fiscal 2017-2018
Santé et Services sociaux	370
Éducation et Enseignement supérieur	180
Famille	30
Other portfolios	155

## ■ Economic variables

The analysis also made it possible to estimate the sensitivity of program spending to certain important external variables.

### ■ Prices

Public spending is influenced by the price of services funded 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.

Accordingly, a uniform variation in prices could lead to variations in program spending.

— However, a large share of spending consists of government employee remuneration, which changes based on collective agreements. Therefore, a variation in prices would not affect that portion of spending.

The results show that a variation of 1% in prices would lead to a variation of \$260 million, or 0.4 percentage point, in total spending.

— In particular, spending for the Santé et Services sociaux portfolio would vary by 0.3 percentage point and that for the Éducation et Enseignement supérieur portfolio by 0.1 percentage point; spending related to the Famille and the Travail, Emploi et Solidarité sociale portfolios would each vary by 0.9 percentage point.

### ■ Population

Spending is also affected by changes in total population and by changes in the make-up of the clientele for certain services, in particular.

For example, a change of 1% in total population would change spending by \$520 million, that is, 0.7 percentage point of total spending.

— Spending would vary by 0.7 percentage point for the Santé et Services sociaux portfolio and 0.8 percentage point for the Éducation et Enseignement supérieur portfolio.

A change of 1% in the number of people aged 0-4, that is, the population that affects, in particular, the demand for childcare services, would have a \$40-million impact on total spending.

— The Famille portfolio would be affected the most by a change of this type. Its spending would vary by 1.0 percentage point.

A change of 1% in the number of people aged 65 and over would lead to a variation of \$155 million in total spending.

— Spending for the Santé et Services sociaux portfolio would vary by 0.4 percentage point.

TABLE F.27

**Sensitivity of program spending to a variation of 1% in each economic variable**

<b>Economic variables</b>		<b>Impact for fiscal 2017-2018</b>	
		(\$million)	(percentage points)
<b>Prices</b>			
Inflation	<b>Total spending</b>	<b>260</b>	<b>0.4</b>
	By portfolio:		
	– Santé et Services sociaux		0.3
	– Éducation et Enseignement supérieur		0.1
	– Famille		0.9
	– Travail, Emploi et Solidarité sociale		0.9
	– Other		0.6
<b>Population</b>			
Total population	<b>Total spending</b>	<b>520</b>	<b>0.7</b>
	By portfolio:		
	– Santé et Services sociaux		0.7
	– Éducation et Enseignement supérieur		0.8
	– Famille		1.0
	– Other		0.6
0-4 years	<b>Total spending</b>	<b>40</b>	<b>0.1</b>
	By portfolio:		
	– Famille		1.0
5-16 years	<b>Total spending</b>	<b>115</b>	<b>0.2</b>
	By portfolio:		
	– Éducation et Enseignement supérieur		0.5
17-24 years	<b>Total spending</b>	<b>70</b>	<b>0.1</b>
	By portfolio:		
	– Éducation et Enseignement supérieur		0.3
65 years and over	<b>Total spending</b>	<b>155</b>	<b>0.2</b>
	By portfolio:		
	– Santé et Services sociaux		0.4

## ❑ **Sensitivity of debt service to a change in interest rates and exchange rates**

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 change in the value of the Canadian dollar relative to other currencies would have no impact on debt service because the government's debt has no foreign currency exposure.

## APPENDIX 2: *BALANCED BUDGET ACT*

The *Balanced Budget Act* makes it possible to present balanced budget forecasts. It provides for the allocation of any surpluses to a stabilization reserve in order to facilitate the government's multi-year budget planning.

### **Budgetary balance within the meaning of the *Balanced Budget Act***

Under the *Balanced Budget Act*, the objectives of the Act are achieved if the budgetary balance, calculated in accordance with the Act, is zero or positive.

The budgetary balance within the meaning of the *Balanced Budget Act* corresponds essentially to the surplus or deficit reported in the Public Accounts (book balance) minus the amount of revenues dedicated to the Generations Fund and adjusted to take certain accounting changes into consideration.

The Act allows the stabilization reserve to be taken into account in order to assess the achievement of a balanced budget. Therefore, in a situation where the calculated budgetary balance is a deficit, the reserve can be used to balance the budget without requiring additional efforts, such as spending reductions or revenue increases. The budgetary balance thus obtained corresponds to the budgetary balance within the meaning of the Act after taking into account the stabilization reserve.

Table F.28 shows the components for establishing the budgetary balance within the meaning of the Act.

From 2009-2010 to 2014-2015, the budgetary balance was a deficit, as allowed under the Act.

In 2015-2016 and 2016-2017, a balanced budget was achieved.

As at March 31, 2017, the budgetary balance within the meaning of the Act stood at \$2.4 billion.

For fiscal 2017-2018 to 2022-2023, as part of the November 2017 update of the Québec Economic Plan, the government is forecasting the maintenance of a balanced budget.

TABLE F.28

**Budgetary balance within the meaning of the *Balanced Budget Act***  
(millions of dollars)

Fiscal year	Surplus (deficit) in the Public Accounts	Generations Fund	Budgetary balance within the meaning of the Act	Stabilization reserve		Budgetary balance within the meaning of the Act after reserve <sup>(1)</sup>
				Allocations	Uses	
2009-2010	-2 940	-725	-3 607 <sup>(2)</sup>	—	433	-3 174 <sup>(3)</sup>
2010-2011	-2 390	-760	-3 150	—	—	-3 150 <sup>(3)</sup>
2011-2012	-1 788	-840	-2 628	—	—	-2 628 <sup>(3)</sup>
2012-2013	-2 515	-961	-1 600 <sup>(4)</sup>	—	—	-1 600 <sup>(3)</sup>
2013-2014	-1 703	-1 121	-2 824	—	—	-2 824 <sup>(3)</sup>
2014-2015	136	-1 279	-725 <sup>(2)</sup>	—	—	-725 <sup>(3)</sup>
2015-2016	3 644	-1 453	2 191	-2 191	—	—
2016-2017	4 362	-2 001	2 361	-2 361	—	—
2017-2018	2 200	-2 450	-250	—	250	—
2018-2019	1 305	-2 712	-1 407	—	1 407	—
2019-2020	2 280	-3 031	-751	—	751	—
2020-2021	3 121	-3 465	-344	—	344	—
2021-2022	3 907	-3 907	—	—	—	—
2022-2023	4 325	-4 325	—	—	—	—

(1) The budgetary balance within the meaning of the *Balanced Budget Act* after reserve corresponds to the budgetary balance that takes into account allocations to the stabilization reserve and uses of it in order to maintain a balanced budget.

(2) Includes accounting changes of \$58 million in 2009-2010 and \$418 million in 2014-2015, established in accordance with the Act.

(3) From 2009-2010 to 2014-2015, the budgetary balance within the meaning of the Act was a deficit, as allowed under the Act.

(4) The result of \$1.9 billion stemming from Hydro-Québec's extraordinary loss relative to the closure of the Gentilly-2 nuclear power plant is excluded from the calculation of the budgetary balance for 2012-2013, in accordance with the Act.

## □ 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.

This reserve is a budget tool that was created to facilitate multi-year planning of the government's financial framework. It must be used first and foremost to keep the budget balanced and, subsidiarily, it may be used to reduce the debt through deposits in the Generations Fund.

The balance of the stabilization reserve is adjusted on the basis of recorded surpluses allocated to the reserve or sums used from the reserve for each fiscal year.

In 2015-2016 and 2016-2017, recorded surpluses of \$2.2 billion and \$2.4 billion, respectively, were allocated to the stabilization reserve in accordance with the *Balanced Budget Act*.

As at March 31, 2017, the balance of the stabilization reserve stood at \$4.6 billion.

As part of the November 2017 update of the Québec Economic Plan, the government plans to use from 2017-2018 to 2020-2021 a sum of \$2.8 billion from the stabilization reserve to keep the budget balanced.

As at March 31, 2021, the balance of the stabilization reserve is expected to stand at \$1.8 billion. This sum will enable the government to cope with a moderate economic slowdown in the coming years, equivalent to a negative impact of about 3% of GDP on own-source revenue.

TABLE F.29

### Transactions of the stabilization reserve (millions of dollars)

Fiscal year	Balance, beginning of year	Allocations	Uses		Balance, end of year
			Balanced budget	Generations Fund	
2015-2016	—	2 191	—	—	2 191
2016-2017	2 191	2 361	—	—	4 552
2017-2018	4 552	—	-250	—	4 302
2018-2019	4 302	—	-1 407	—	2 895
2019-2020	2 895	—	-751	—	2 144
2020-2021	2 144	—	-344	—	1 800
2021-2022	1 800	—	—	—	1 800
2022-2023	1 800	—	—	—	1 800



# APPENDIX 3: DETAILED FINANCIAL FRAMEWORK BY SECTOR

TABLE F.30

**Detailed financial framework by sector**  
(millions of dollars)

	2017-2018			
	Consolidated Revenue Fund			
	General Fund	Special funds	Generations Fund	Specified purpose accounts
<b>Revenue</b>				
Personal income tax	22 286	796	—	—
Contributions for health services	7 285	—	—	—
Corporate taxes	5 726	209	—	—
School property tax	—	—	—	—
Consumption taxes	18 597	2 465	500	—
Duties and permits	297	2 114	961	—
Miscellaneous revenue	1 379	2 049	559	216
Government enterprises	4 122	—	430	—
<b>Own-source revenue</b>	<b>59 692</b>	<b>7 633</b>	<b>2 450</b>	<b>216</b>
Québec government transfers	—	4 744	—	—
Federal transfers	20 261	503	—	1 205
<b>Total revenue</b>	<b>79 953</b>	<b>12 880</b>	<b>2 450</b>	<b>1 421</b>
<b>Expenditure</b>				
Mission expenditures	-72 591	-11 321	—	-1 421
Debt service	-7 487	-1 509	—	—
<b>Total expenditure</b>	<b>-80 078</b>	<b>-12 830</b>	<b>—</b>	<b>-1 421</b>
Contingency reserve	-100			
<b>SURPLUS (DEFICIT)</b>	<b>-225</b>	<b>50</b>	<b>2 450</b>	<b>—</b>
<b>BALANCED BUDGET ACT</b>				
Deposits of dedicated revenues in the Generations Fund			-2 450	
Use of the stabilization reserve				
<b>BUDGETARY BALANCE<sup>(3)</sup></b>				

(1) Includes doubtful tax accounts.

(2) Reclassification of abatements and consolidation adjustments resulting mainly from the elimination of reciprocal transactions between entities in different sectors.

(3) Budgetary balance within the meaning of the *Balanced Budget Act* after use of the stabilization reserve.

2017-2018						
Tax-funded expenditures <sup>(1)</sup>	Non-budget-funded bodies	Bodies in the health and social services network	Bodies in the education networks	Consolidation adjustments <sup>(2)</sup>	Consolidated results	
4 627	—	—	—	1 487	29 196	
—	—	—	—	-1 285	6 000	
1 768	—	—	—	—	7 703	
—	—	—	2 250	—	2 250	
259	46	—	—	-1 921	19 946	
—	424	—	—	-9	3 787	
—	6 026	2 513	1 791	-4 290	10 243	
—	—	—	—	—	4 552	
<b>6 654</b>	<b>6 496</b>	<b>2 513</b>	<b>4 041</b>	<b>-6 018</b>	<b>83 677</b>	
—	13 482	22 532	12 811	-53 569	—	
—	1 282	179	150	-787	22 793	
<b>6 654</b>	<b>21 260</b>	<b>25 224</b>	<b>17 002</b>	<b>-60 374</b>	<b>106 470</b>	
-6 654	-20 468	-24 776	-16 651	59 220	-94 662	
—	-602	-448	-378	916	-9 508	
<b>-6 654</b>	<b>-21 070</b>	<b>-25 224</b>	<b>-17 029</b>	<b>60 136</b>	<b>-104 170</b>	
					-100	
—	190	—	-27	-238	2 200	
					-2 450	
					250	
					—	

TABLE F.31

**Detailed financial framework by sector**  
(millions of dollars)

	2018-2019			
	Consolidated Revenue Fund			
	General Fund	Special funds	Generations Fund	Specified purpose accounts
<b>Revenue</b>				
Personal income tax	23 392	836	—	—
Contributions for health services	7 426	—	—	—
Corporate taxes	5 985	219	—	—
School property tax	—	—	—	—
Consumption taxes	19 189	2 539	500	—
Duties and permits	298	2 041	1 016	—
Miscellaneous revenue	1 404	2 271	736	167
Government enterprises	3 863	—	460	—
<b>Own-source revenue</b>	<b>61 557</b>	<b>7 906</b>	<b>2 712</b>	<b>167</b>
Québec government transfers	—	4 696	—	—
Federal transfers	20 323	314	—	874
<b>Total revenue</b>	<b>81 880</b>	<b>12 916</b>	<b>2 712</b>	<b>1 041</b>
<b>Expenditure</b>				
Mission expenditures	-75 579	-11 288	—	-1 041
Debt service	-7 425	-1 676	—	—
<b>Total expenditure</b>	<b>-83 004</b>	<b>-12 964</b>	<b>—</b>	<b>-1 041</b>
Contingency reserve	-100			
<b>SURPLUS (DEFICIT)</b>	<b>-1 224</b>	<b>-48</b>	<b>2 712</b>	<b>—</b>
<b>BALANCED BUDGET ACT</b>				
Deposits of dedicated revenues in the Generations Fund			-2 712	
Use of the stabilization reserve				
<b>BUDGETARY BALANCE<sup>(3)</sup></b>				

(1) Includes doubtful tax accounts.

(2) Reclassification of abatements and consolidation adjustments resulting mainly from the elimination of reciprocal transactions between entities in different sectors.

(3) Budgetary balance within the meaning of the *Balanced Budget Act* after use of the stabilization reserve.

2018-2019						
Tax-funded expenditures <sup>(1)</sup>	Non-budget-funded bodies	Bodies in the health and social services network	Bodies in the education networks	Consolidation adjustments <sup>(2)</sup>	Consolidated results	
4 721	—	—	—	1 570	30 519	
—	—	—	—	-1 313	6 113	
1 753	—	—	—	—	7 957	
—	—	—	2 329	—	2 329	
254	28	—	—	-2 022	20 488	
—	446	—	—	—	3 801	
—	5 880	2 561	1 849	-4 143	10 725	
—	—	—	—	—	4 323	
<b>6 728</b>	<b>6 354</b>	<b>2 561</b>	<b>4 178</b>	<b>-5 908</b>	<b>86 255</b>	
—	13 907	23 485	13 321	-55 409	—	
—	1 210	182	143	-655	22 391	
<b>6 728</b>	<b>21 471</b>	<b>26 228</b>	<b>17 642</b>	<b>-61 972</b>	<b>108 646</b>	
-6 728	-20 928	-25 735	-17 234	60 905	-97 628	
—	-580	-493	-417	978	-9 613	
<b>-6 728</b>	<b>-21 508</b>	<b>-26 228</b>	<b>-17 651</b>	<b>61 883</b>	<b>-107 241</b>	
					-100	
—	-37	—	-9	-89	<b>1 305</b>	
					-2 712	
					1 407	
					—	

TABLE F.32

**Detailed financial framework by sector**  
(millions of dollars)

	2019-2020			
	Consolidated Revenue Fund			
	General Fund	Special funds	Generations Fund	Specified purpose accounts
<b>Revenue</b>				
Personal income tax	24 523	863	—	—
Contributions for health services	7 633	—	—	—
Corporate taxes	6 115	226	—	—
School property tax	—	—	—	—
Consumption taxes	19 652	2 550	500	—
Duties and permits	307	2 101	1 084	—
Miscellaneous revenue	1 426	2 458	947	164
Government enterprises	3 995	—	500	—
<b>Own-source revenue</b>	<b>63 651</b>	<b>8 198</b>	<b>3 031</b>	<b>164</b>
Québec government transfers	—	4 908	—	—
Federal transfers	21 566	252	—	686
<b>Total revenue</b>	<b>85 217</b>	<b>13 358</b>	<b>3 031</b>	<b>850</b>
<b>Expenditure</b>				
Mission expenditures	-77 951	-11 957	—	-850
Debt service	-7 447	-1 771	—	—
<b>Total expenditure</b>	<b>-85 398</b>	<b>-13 728</b>	<b>—</b>	<b>-850</b>
Contingency reserve	-100			
<b>SURPLUS (DEFICIT)</b>	<b>-281</b>	<b>-370</b>	<b>3 031</b>	<b>—</b>
<b>BALANCED BUDGET ACT</b>				
Deposits of dedicated revenues in the Generations Fund			-3 031	
Use of the stabilization reserve				
<b>BUDGETARY BALANCE<sup>(3)</sup></b>				

(1) Includes doubtful tax accounts.

(2) Reclassification of abatements and consolidation adjustments resulting mainly from the elimination of reciprocal transactions between entities in different sectors.

(3) Budgetary balance within the meaning of the *Balanced Budget Act* after use of the stabilization reserve.

2019-2020						
Tax-funded expenditures <sup>(1)</sup>	Non-budget-funded bodies	Bodies in the health and social services network	Bodies in the education networks	Consolidation adjustments <sup>(2)</sup>	Consolidated results	
4 831	—	—	—	1 617	31 834	
—	—	—	—	-1 346	6 287	
1 790	—	—	—	—	8 131	
—	—	—	2 395	—	2 395	
262	28	—	—	-2 106	20 886	
—	458	—	—	—	3 950	
—	5 964	2 609	1 915	-4 272	11 211	
—	—	—	—	—	4 495	
<b>6 883</b>	<b>6 450</b>	<b>2 609</b>	<b>4 310</b>	<b>-6 107</b>	<b>89 189</b>	
—	14 609	24 082	13 889	-57 488	—	
—	1 012	186	137	-619	23 220	
<b>6 883</b>	<b>22 071</b>	<b>26 877</b>	<b>18 336</b>	<b>-64 214</b>	<b>112 409</b>	
-6 883	-21 463	-26 319	-17 876	63 023	-100 276	
—	-612	-558	-460	1 095	-9 753	
<b>-6 883</b>	<b>-22 075</b>	<b>-26 877</b>	<b>-18 336</b>	<b>64 118</b>	<b>-110 029</b>	
					-100	
—	-4	—	—	-96	<b>2 280</b>	
					-3 031	
					751	
					—	



## **APPENDIX 4: LIST OF ENTITIES INCLUDED IN THE FINANCIAL FRAMEWORK**

TABLE F.33

**List of entities included in the financial framework<sup>(1)</sup>**

<b>Affaires municipales et Occupation du territoire</b>		<b>Culture et Communications</b>	
Ministère des Affaires municipales et de l'Occupation du territoire	Dept	Ministère de la Culture et des Communications	Dept
Commission municipale du Québec	BFB	Commission de toponymie	BFB
Régie du logement	BFB	Conseil du patrimoine culturel du Québec	BFB
Territories Development Fund	SF	Conseil supérieur de la langue française	BFB
Société d'habitation du Québec	NBFB	Office québécois de la langue française	BFB
		Fonds Avenir Mécénat Culture	SF
		Québec Cultural Heritage Fund	SF
<b>Agriculture, Pêcheries et Alimentation</b>			
Ministère de l'Agriculture, des Pêcheries et de l'Alimentation	Dept	Bibliothèque et Archives nationales du Québec	NBFB
Commission de protection du territoire agricole du Québec	BFB	Conseil des arts et des lettres du Québec	NBFB
Régie des marchés agricoles et alimentaires du Québec	BFB	Conservatoire de musique et d'art dramatique du Québec	NBFB
La Financière agricole 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
<b>National Assembly</b>			
National Assembly	Other	Société de la Place des Arts de Montréal	NBFB
		Société de télédiffusion du Québec	NBFB
		Société du Grand Théâtre de Québec	NBFB
<b>Conseil du trésor et Administration gouvernementale</b>			
Secrétariat du Conseil du trésor	Dept		
Commission de la fonction publique	BFB	<b>Développement durable, Environnement et Lutte contre les changements climatiques</b>	
Natural Disaster Assistance Fund	SF		
Centre de services partagés du Québec	NBFB	Ministère du Développement durable, de l'Environnement et de la Lutte contre les changements climatiques	Dept
Société québécoise des infrastructures	NBFB	Bureau d'audiences publiques sur l'environnement	BFB
<b>Conseil exécutif</b>			
Ministère du Conseil exécutif	Dept	Conseil de gestion du Fonds vert	NBFB
Commission d'accès à l'information	BFB	Green Fund	SF
Centre de la francophonie des Amériques	NBFB	Fund for the Protection of the Environment and the Waters in the Domain of the State	SF
		Société québécoise de récupération et de recyclage	NBFB

(1) Does not include administrative changes following the Cabinet shuffle of October 11, 2017.

Legend: Dept: department; BFB: budget-funded body; SF: special fund; NBFB: non-budget-funded body; HSSE: health and social services and education networks.

TABLE F.33 (cont.)

**List of entities included in the financial framework (cont.)**

<b>Économie, Science et Innovation</b>		<b>Énergie et Ressources naturelles</b>	
Ministère de l'Économie, de la Science et de l'Innovation	Dept	Ministère de l'Énergie et des Ressources naturelles	Dept
Conseil du statut de la femme	BFB	Territorial Information Fund	SF
Commission de l'éthique en science et en technologie	BFB	Energy Transition Fund	SF
Capital Mines Hydrocarbures	SF	Natural Resources Fund	SF
Economic Development Fund	SF	Régie de l'énergie	NBFB
Fonds de recherche du Québec – Nature et technologies	NBFB	Société de développement de la Baie-James	NBFB
Fonds de recherche du Québec – Santé	NBFB	Société du Plan Nord	NBFB
Fonds de recherche du Québec – Société et culture	NBFB	Transition énergétique Québec	NBFB
Centre de recherche industrielle du Québec	NBFB		
Société du parc industriel et portuaire de Bécancour	NBFB	<b>Famille</b>	
		Ministère de la Famille	Dept
		Curateur public	BFB
		Caregiver Support Fund	SF
		Educational Childcare Services Fund	SF
		Early Childhood Development Fund	SF
<b>Éducation et Enseignement supérieur</b>		<b>Finances</b>	
Ministère de l'Éducation et de l'Enseignement supérieur	Dept	Ministère des Finances	Dept
Advisory committee on the Financial Accessibility of Education	BFB	Financing Fund	SF
Commission consultative de l'enseignement privé	BFB	Generations Fund	SF
Commission d'évaluation de l'enseignement collégial	BFB	Fonds du centre financier de Montréal	SF
Conseil supérieur de l'éducation	BFB	Northern Plan Fund	SF
University Excellence and Performance Fund	SF	Fund of the Financial Markets	SF
Sports and Physical Activity Development Fund	SF	Administrative Tribunal	SF
Institut de tourisme et d'hôtellerie du Québec	NBFB	Tax Administration Fund	SF
Institut national des mines	NBFB	Agence du revenu du Québec	NBFB
General and vocational colleges (CEGEPs)	HSSE	Autorité des marchés financiers	NBFB
School boards	HSSE	Financement-Québec	NBFB
Université du Québec and its constituents	HSSE	Institut de la statistique du Québec	NBFB
		Société de financement des infrastructures locales du Québec	NBFB
		Government enterprises <sup>(2)</sup>	Other

(2) 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 F.33 (cont.)

**List of entities included in the financial framework (cont.)**

<b>Forêts, Faune et Parcs</b>		<b>Persons appointed by the National Assembly</b>	
Ministère des Forêts, de la Faune et des Parcs	Dept	Ethics Commissioner	BFB
Natural Resources Fund – Sustainable forest development component	SF	Lobbyists Commissioner	BFB
Fondation de la faune du Québec	NBFB	Chief Electoral Officer	BFB
Société des établissements de plein air du Québec	NBFB	Québec Ombudsman	BFB
		Auditor General	BFB
<b>Immigration, Diversité et Inclusion</b>		<b>Relations internationales et Francophonie</b>	
Ministère de l'Immigration, de la Diversité et de l'Inclusion	Dept	Ministère des Relations internationales et de la Francophonie	Dept
		Office Québec-Amériques pour la jeunesse	NBFB
		Office Québec-Monde pour la jeunesse	NBFB
<b>Justice</b>		<b>Santé et Services sociaux</b>	
Ministère de la Justice	Dept	Ministère de la Santé et des Services sociaux	Dept
Committee on the Remuneration of Judges	BFB	Commissaire à la santé et au bien-être	BFB
Committee on the Remuneration of Criminal and Penal Prosecuting Attorneys	BFB	Office des personnes handicapées du Québec	BFB
Commission des droits de la personne et des droits de la jeunesse	BFB	Health and Social Services Information Resources Fund	SF
Conseil de la justice administrative	BFB	Corporation d'urgences-santé	NBFB
Conseil de la magistrature	BFB	Prescription Drug Insurance Fund	NBFB
Directeur des poursuites criminelles et pénales	BFB	Héma-Québec	NBFB
Office de la protection du consommateur	BFB	Institut national d'excellence en santé et en services sociaux	NBFB
Human Rights Tribunal	BFB	Institut national de santé publique du Québec	NBFB
Access to Justice Fund	SF	Régie de l'assurance maladie du Québec	NBFB
Fonds d'aide aux victimes d'actes criminels	SF	Integrated health and social services centres, other public institutions and regional authorities	HSSE
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		

TABLE F.33 (cont.)

**List of entities included in the financial framework (cont.)**

<b>Sécurité publique</b>		<b>Travail, Emploi et Solidarité sociale</b>	
Ministère de la Sécurité publique	Dept	Ministère du Travail, de l'Emploi et de la Solidarité sociale	Dept
Bureau des enquêtes indépendantes	BFB	Commission des partenaires du marché du travail	BFB
Bureau du coroner	BFB	Assistance Fund for Independent Community Action	SF
Comité de déontologie policière	BFB	Labour Market Development Fund	SF
Commissaire à la déontologie policière	BFB	Capitale-Nationale Region Fund	SF
Commissaire à la lutte contre la corruption	BFB	Goods and Services Fund	SF
Commission québécoise des libérations conditionnelles	BFB	Information Technology Fund of the Ministère de l'Emploi et de la Solidarité sociale	SF
Régie des alcools, des courses et des jeux	BFB	Administrative Labour Tribunal Fund	SF
Police Services Fund	SF	Fonds québécois d'initiatives sociales	SF
École nationale de police du Québec	NBFB	Commission de la capitale nationale du Québec	NBFB
École nationale des pompiers du Québec	NBFB	Office de la sécurité du revenu des chasseurs et piégeurs cris	NBFB
		Régie du bâtiment du Québec	NBFB
<b>Tourisme</b>			
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		
<b>Transports, Mobilité durable et Électrification des transports</b>			
Ministère des Transports, de la Mobilité durable et de l'Électrification des transports	Min		
Commission des transports du Québec	BFB		
Government Air Services Fund	SF		
Rolling Stock Management Fund	SF		
Highway Safety Fund	SF		
Land Transportation Network Fund	SF		
Agence métropolitaine de transport <sup>(3)</sup>	NBFB		
Société de l'assurance automobile du Québec	NBFB		
Société des Traversiers du Québec	NBFB		

(3) On June 1, 2017, the activities of the Agence métropolitaine de transport were entrusted to the Autorité régionale de transport métropolitain and the Réseau de transport métropolitain, municipal bodies not included in the government reporting entity.



# Section G

## THE QUÉBEC GOVERNMENT'S DEBT

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# 1. DEBT

Several concepts of debt are used to measure a government's indebtedness. The following table presents data on Québec's debt according to three concepts, namely, gross debt, net debt and debt representing accumulated deficits.

TABLE G.1

## Debt of the Québec government as at March 31

(millions of dollars)

	2016	2017	2018	2019	2020	2021	2022
<b>GROSS DEBT<sup>(1)</sup></b>	<b>203 347</b>	<b>203 490</b>	<b>207 015</b>	<b>213 113</b>	<b>213 485</b>	<b>214 717</b>	<b>215 124</b>
% of GDP	53.4	51.9	50.9	50.7	49.2	47.9	46.7
Less: Financial assets, net of other liabilities	-18 322	-21 735	-24 325	-28 640	-28 657	-30 079	-32 456
<b>NET DEBT</b>	<b>185 025</b>	<b>181 755</b>	<b>182 690</b>	<b>184 473</b>	<b>184 828</b>	<b>184 638</b>	<b>182 668</b>
% of GDP	48.6	46.3	44.9	43.9	42.6	41.2	39.6
Less: Non-financial assets	-67 095	-68 906	-72 041	-75 129	-77 764	-80 695	-82 632
Plus: Stabilization reserve	2 191	4 552	4 302	2 895	2 144	1 800	1 800
<b>DEBT REPRESENTING ACCUMULATED DEFICITS<sup>(2)</sup></b>	<b>120 121</b>	<b>117 401</b>	<b>114 951</b>	<b>112 239</b>	<b>109 208</b>	<b>105 743</b>	<b>101 836</b>
% of GDP	31.5	29.9	28.3	26.7	25.1	23.6	22.1

(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.

## 1.1 Gross debt

The gross debt represents the amount of debt issued on financial markets and the net liability for the retirement plans and other future benefits of public and parapublic sector employees,<sup>1</sup> minus the balance of the Generations Fund.

As at March 31, 2017, the gross debt stood at \$203.5 billion. As a proportion of the economy, this is equivalent to 51.9% of GDP. The ratio of gross debt to GDP has decreased over the past two years, that is, since March 31, 2015.

TABLE G.2

### Gross debt as at March 31 (millions of dollars)

	2016	2017	2018	2019	2020	2021	2022
Consolidated direct debt	185 124	189 366	197 723	208 629	214 446	221 795	229 155
Plus: Retirement plans and other employee future benefits	26 745	24 647	22 265	20 169	17 755	15 103	12 057
Less: Generations Fund	-8 522	-10 523	-12 973	-15 685	-18 716	-22 181	-26 088
<b>GROSS DEBT</b>	<b>203 347</b>	<b>203 490</b>	<b>207 015</b>	<b>213 113</b>	<b>213 485</b>	<b>214 717</b>	<b>215 124</b>
<b>% of GDP</b>	<b>53.4</b>	<b>51.9</b>	<b>50.9</b>	<b>50.7</b>	<b>49.2</b>	<b>47.9</b>	<b>46.7</b>

<sup>1</sup> For information on the retirement plans and other employee future benefits, see the appendix in this section.

## ❑ The gross debt is lower than it was as at March 31, 2015

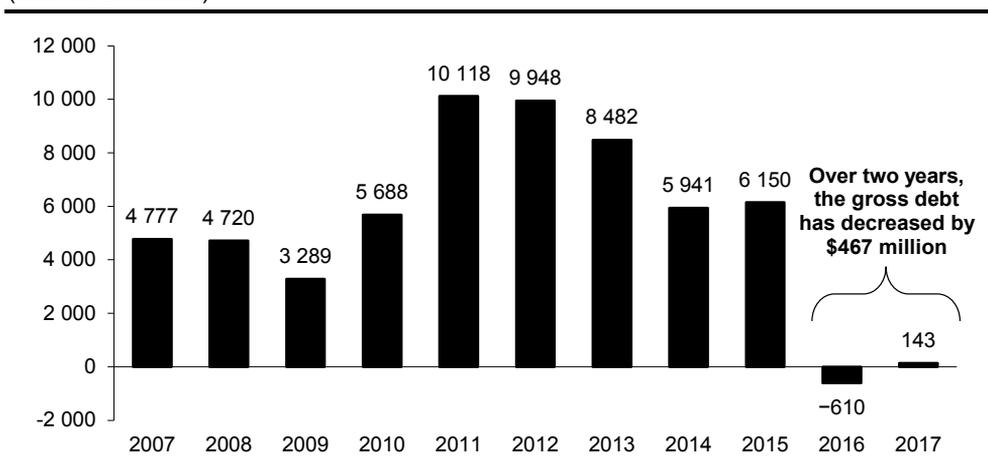
The gross debt grew slightly in 2016-2017. Indeed, the gross debt recorded as at March 31, 2017 is \$143 million higher than the level recorded as at March 31, 2016. This increase is explained by the government's investments in capital assets and enterprises.

However, compared to the last decade, this represents a major slowdown in the growth of the gross debt. It results from the combined impact of restored fiscal balance and the deposits made in the Generations Fund.

The gross debt has declined by \$467 million over the past two years. Indeed, as at March 31, 2017, the level of the gross debt was lower than that recorded as at March 31, 2015.

CHART G.1

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

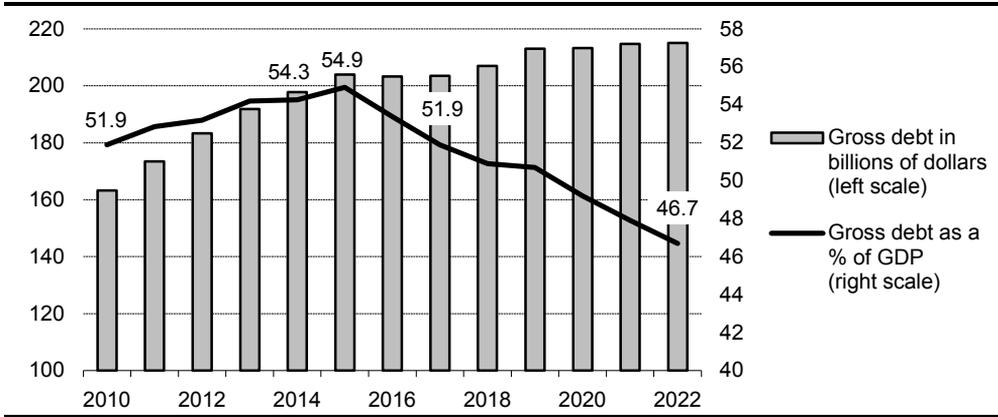


## ❑ The debt burden will continue to fall

The gross debt will rise in absolute terms over the coming years, particularly because of capital investments, but its weight in the economy will continue to decline. The ratio of gross debt to GDP is expected to reach 46.7% as at March 31, 2022.

CHART G.2

### Change in the gross debt as at March 31 (billions of dollars and percentage of GDP)



## ❑ The importance of the Generations Fund

The following charts illustrate the importance of the Generations Fund. Without the deposits made in the Generations Fund, the ratio of gross debt to GDP would be much higher. As at March 31, 2022, the gross debt burden should stand at 46.7% of GDP. Without the Generations Fund, the forecast would be 52.5% of GDP, or 5.8 percentage points higher.

This difference represents \$27.1 billion. In other words, if the government had not created the Generations Fund in 2006, the gross debt forecast as at March 31, 2022 would be \$27.1 billion higher,<sup>2</sup> that is, \$3 133 per capita.

CHART G.3

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

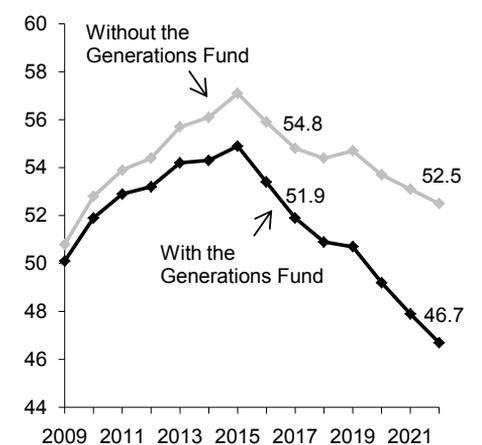
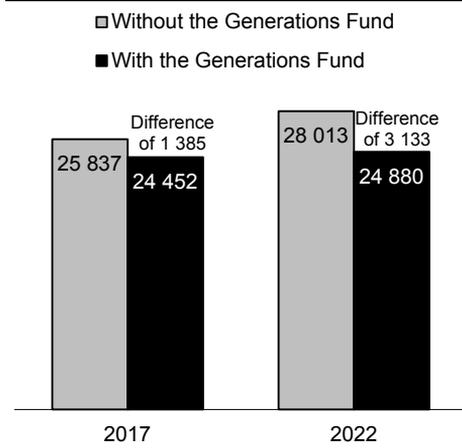


CHART G.4

### Gross debt as at March 31 (dollars per capita)



<sup>2</sup> The difference of \$27.1 billion is \$1 billion higher than the balance of the Generations Fund as at March 31, 2022 (\$26.1 billion) owing to the use of \$1 billion from the Generations Fund in 2013-2014 to repay maturing borrowings.

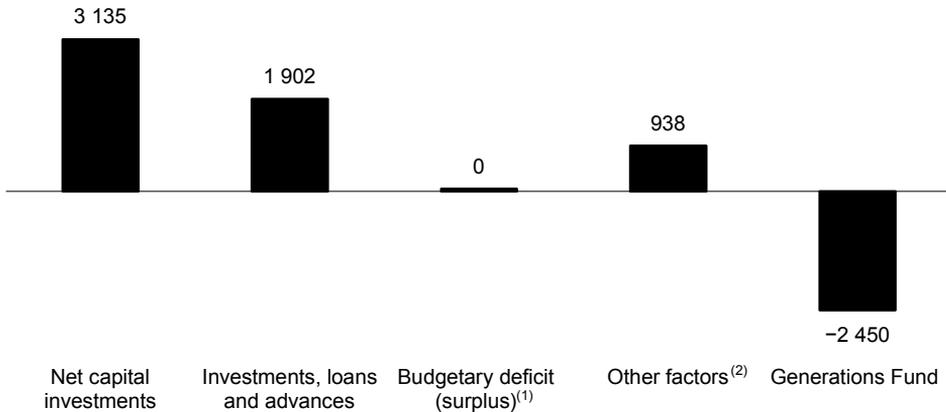
## ❑ Factors responsible for the growth of the gross debt

In 2017-2018, the gross debt will increase by \$3.5 billion, mainly because of capital investments<sup>3</sup> and investments, loans and advances. These two factors will increase the gross debt by \$5.0 billion.

Deposits in the Generations Fund will lead to a \$2.5-billion reduction in the gross debt.

CHART G.5

### Factors responsible for the growth in the gross debt in 2017-2018 (millions of dollars)



(1) The budgetary balance presented is the budgetary balance after use of the stabilization reserve.

(2) Other factors include, in particular, the change in other accounts, such as accounts receivable and accounts payable.

The table on the next page shows the factors responsible for the growth in the government's gross debt since March 31, 2000.

<sup>3</sup> These are net capital investments, which 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 growth in the gross debt due to the fact that depreciation expenses are presented in the budgetary balance. In 2017-2018, gross capital investments will amount to \$7 356 million and depreciation expenses to \$4 221 million, for a total of \$3 135 million in net investments.

TABLE G.3

**Factors responsible for the growth in the Québec government's gross debt**  
(millions of dollars)

	Debt, beginning of year	Budgetary deficit (surplus) <sup>(1)</sup>	Investments, loans and advances	Net investment in the networks	Net capital investments <sup>(2)</sup>	Other factors <sup>(3)</sup>	Deposits in the Generations 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
<b>With networks consolidated line by line<sup>(4)</sup></b>										
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 <sup>(5)</sup>	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 <sup>(6)</sup>	2 146		2 980	1 160	-1 279	6 150	203 957	54.9
2015-2016	203 957	-2 191	808		2 695	-338	-1 584	-610	203 347	53.4
2016-2017	203 347	-2 361	2 527		1 784	194	-2 001	143	203 490	51.9
2017-2018	203 490	—	1 902		3 135	938	-2 450	3 525	207 015	50.9
2018-2019	207 015	—	2 292		3 088	3 430	-2 712	6 098	213 113	50.7
2019-2020	213 113	—	1 959		2 635	-1 191	-3 031	372	213 485	49.2
2020-2021	213 485	—	1 878		2 931	-112	-3 465	1 232	214 717	47.9
2021-2022	214 717	—	1 864		1 937	513	-3 907	407	215 124	46.7

(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.

## 1.2 Net debt

The net debt is equal to the Québec government's liabilities less its financial assets. It represents the debt that has funded capital investments and current expenditures. The net debt is calculated by subtracting from the gross debt the government's financial assets, net of other liabilities.

As at March 31, 2017, the net debt stood at \$181.8 billion, or 46.3% 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 39.6% as at March 31, 2022.

TABLE G.4

### Factors responsible for the growth in the net debt

(millions of dollars)

	Debt, beginning of year	Budgetary deficit (surplus) <sup>(1)</sup>	Net capital investments	Other	Revenues dedicated to the Generations Fund	Total change	Debt, end of year	% of GDP
2012-2013	167 700	3 476 <sup>(2)</sup>	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 <sup>(3)</sup>	2 980	-572	-1 279	2 272	185 687	50.0
2015-2016	185 687	-2 191	2 695	287	-1 453	-662	185 025	48.6
2016-2017	185 025	-2 361	1 784	-692	-2 001	-3 270	181 755	46.3
2017-2018	181 755	—	3 135	250	-2 450	935	182 690	44.9
2018-2019	182 690	—	3 088	1 407	-2 712	1 783	184 473	43.9
2019-2020	184 473	—	2 635	751	-3 031	355	184 828	42.6
2020-2021	184 828	—	2 931	344	-3 465	-190	184 638	41.2
2021-2022	184 638	—	1 937	—	-3 907	-1 970	182 668	39.6

(1) The budgetary balance presented is the budgetary balance after use of the stabilization reserve.

(2) 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.

(3) 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.

### 1.3 Debt representing accumulated deficits

The debt representing accumulated deficits corresponds to the difference between the Québec government's liabilities and its financial and non-financial assets as a whole. This debt is calculated by subtracting financial assets, net of other liabilities, as well as non-financial assets from the gross debt. In accordance with the *Act to reduce the debt and establish the Generations Fund*, it is also increased by the balance of the stabilization reserve.

As at March 31, 2017, the debt representing accumulated deficits stood at \$117.4 billion, or 29.9% 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 22.1% as at March 31, 2022.

TABLE G.5

#### Factors responsible for the growth in the debt representing accumulated deficits

(millions of dollars)

	Debt, beginning of year	Budgetary deficit (surplus) <sup>(1)</sup>	Allocation to the stabilization reserve	Accounting adjustments	Revenues dedicated to the Generations Fund		Debt, end of year	% of GDP
					Total change			
2012-2013	115 220	3 476 <sup>(2)</sup>	—	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 <sup>(3)</sup>	—	-606	-1 279	-742	121 268	32.7
2015-2016	121 268	-2 191	2 191	306	-1 453	-1 147	120 121	31.5
2016-2017	120 121	-2 361	2 361	-719	-2 001	-2 720	117 401	29.9
2017-2018	117 401	—	—	—	-2 450	-2 450	114 951	28.3
2018-2019	114 951	—	—	—	-2 712	-2 712	112 239	26.7
2019-2020	112 239	—	—	—	-3 031	-3 031	109 208	25.1
2020-2021	109 208	—	—	—	-3 465	-3 465	105 743	23.6
2021-2022	105 743	—	—	—	-3 907	-3 907	101 836	22.1

(1) The budgetary balance presented is the budgetary balance after use of the stabilization reserve.

(2) 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.

(3) 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.

## 1.4 Debt reduction objectives and the Generations Fund

The Québec government has set debt reduction objectives that have been included in the *Act to reduce the debt and establish the Generations Fund*. For fiscal 2025-2026:

- the gross debt must not exceed 45% of GDP;
- the debt representing accumulated deficits must not exceed 17% of GDP.

The trajectories have been revised based on anticipated change in the debt and the economy.

CHART G.6

### Gross debt as at March 31

(percentage of GDP)

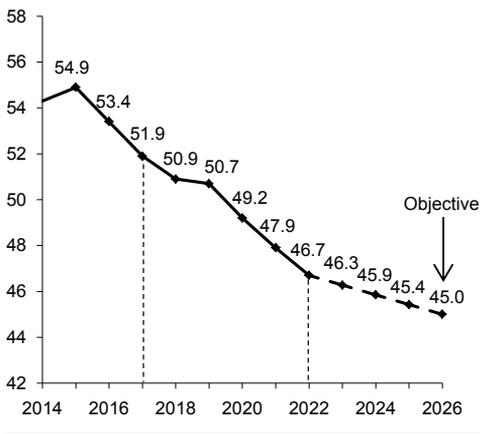
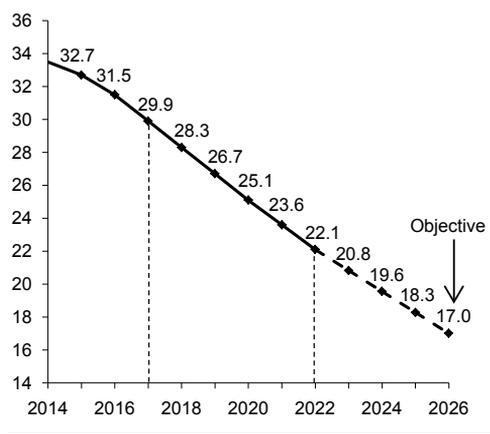


CHART G.7

### Debt representing accumulated deficits as at March 31

(percentage of GDP)



To achieve these debt reduction objectives, the government established the Generations Fund in 2006. The sums accumulated in the fund are dedicated solely to repaying the debt. The main revenue sources dedicated to the Generations Fund are as follows:

- water-power royalties paid by Hydro-Québec and private producers of hydro-electricity;
- revenue generated by the indexation of the price of heritage electricity;
- all mining revenues;

- an amount derived from the specific tax on alcoholic beverages (\$500 million per year since 2016-2017);
- investment income that accumulates in the Generations Fund and thus accelerates debt reduction.

As at March 31, 2018, the book value of the Generations Fund will be \$13.0 billion. The sums accumulated in the Generations Fund will reach \$26.1 billion as at March 31, 2022.

To achieve the debt reduction objectives that have been included in the *Act to reduce the debt and establish the Generations Fund*, the projected deposits in the Generations Fund between now and 2025-2026 must be made in full.

TABLE G.6

### Generations Fund

(millions of dollars)

	2016 2017-	2017 2018-	2018 2019-	2019 2020-	2020 2021-	2021 2022-
<b>Book value, beginning of year</b>	<b>8 522</b>	<b>10 523</b>	<b>12 973</b>	<b>15 685</b>	<b>18 716</b>	<b>22 181</b>
<b>Dedicated revenues</b>						
Water-power royalties						
Hydro-Québec	678	688	687	704	731	739
Private producers	104	98	98	100	103	105
<b>Subtotal</b>	<b>782</b>	<b>786</b>	<b>785</b>	<b>804</b>	<b>834</b>	<b>844</b>
Indexation of the price of heritage electricity	164	215	245	285	375	465
Additional contribution from Hydro-Québec	—	215	215	215	215	215
Mining revenues	80	175	231	280	335	368
Specific tax on alcoholic beverages	500	500	500	500	500	500
Unclaimed property	53	30	30	30	30	30
Investment income <sup>(1)</sup>	422	529	706	917	1 176	1 485
<b>Total dedicated revenues</b>	<b>2 001</b>	<b>2 450</b>	<b>2 712</b>	<b>3 031</b>	<b>3 465</b>	<b>3 907</b>
<b>BOOK VALUE, END OF YEAR</b>	<b>10 523</b>	<b>12 973</b>	<b>15 685</b>	<b>18 716</b>	<b>22 181</b>	<b>26 088</b>

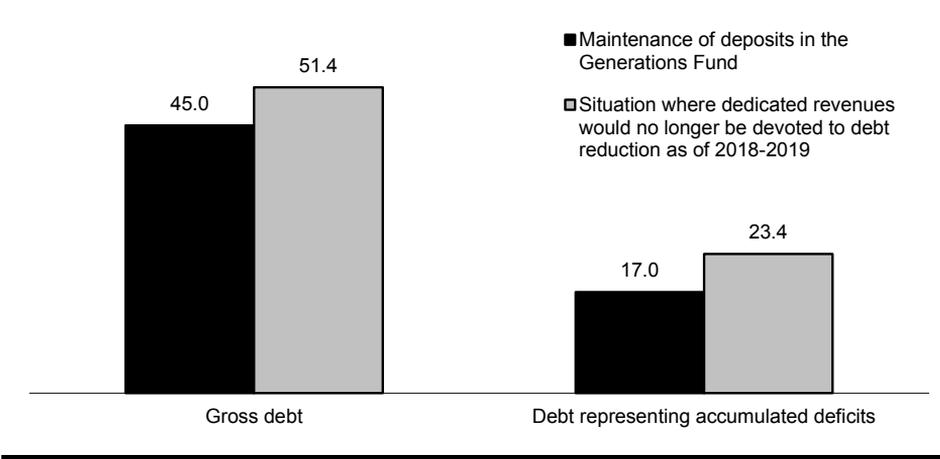
(1) The investment income of the Generations Fund corresponds to realized investment income (interest income, dividends, gains on the disposal of assets, etc.). Therefore, the forecast may be adjusted upward or downward according to when the gains or losses are actually realized.

**The consequence of ceasing to make deposits in the Generations Fund**

To achieve the debt reduction objectives included in the *Act to reduce the debt and establish the Generations Fund*, the projected deposits in the Generations Fund between now and 2025-2026 must be made in full.

Ceasing to make deposits in the Generations Fund as of 2018-2019 would lead to an overrun of 6.4 percentage points of GDP in the debt reduction objectives, that is, \$33.1 billion, or \$3 726 per capita.

**Gross debt and debt representing accumulated deficits as at March 31, 2026**  
(percentage of GDP)



Note: For additional information on the Generations Fund, see the budget paper entitled *The Québec Economic Plan – Generations Fund – A renewed commitment to fostering intergenerational equity*, published in March 2017.

## ❑ Investment income of the Generations Fund

The government's debt reduction strategy 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 in order to obtain returns exceeding the government's borrowing costs. This strategy is making it possible, as expected, to accelerate reduction of the debt.

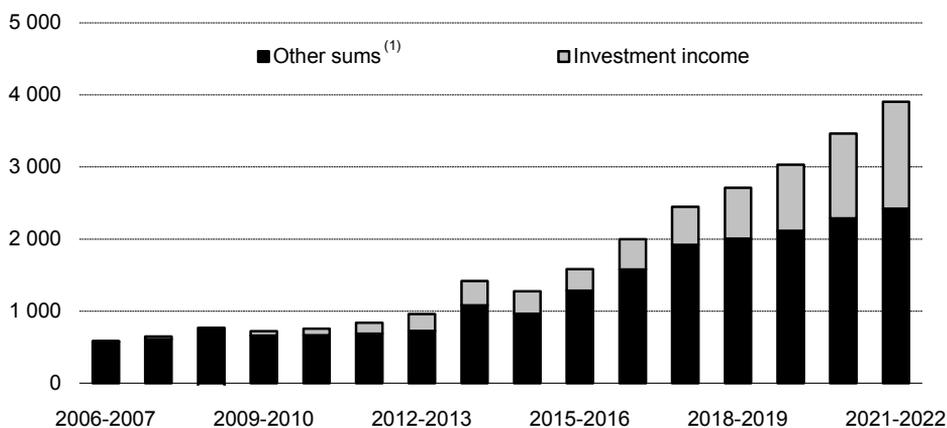
As the value of the Generations Fund increases, investment income increases, creating leverage for repayment of the debt.

- In 2017-2018, investment income will stand at \$529 million, or 21.6% of the revenues dedicated to the Generations Fund. Starting in 2018-2019, it will constitute the main source of revenues dedicated to the Generations Fund.
- This income will stand at \$1.5 billion in 2021-2022, or 38.0% of revenues dedicated to the Generations Fund.

The investment income of the Generations Fund does not constitute a tax levy and, therefore, it does not curb Québec's economic growth.

CHART G.8

### Sums dedicated to the Generations Fund (millions of dollars)



(1) These sums include revenues dedicated to the Generations Fund and certain one-time deposits, such as the \$131-million deposit made in 2015-2016 from the accumulated surplus of the Commission des normes du travail.

## ❑ A strategy that is reaping more and more gains

Since the first deposit was made in the Generations Fund in January 2007, the return has been higher than the cost of new borrowings by the government nine years out of ten.

- From 2007 to 2016, the average return was 5.3%, while the average cost of new borrowings was 3.5%, which represents a difference of 1.8 percentage points.
- Over the past eight years (2009 to 2016), to exclude the global financial crisis of 2008, the average return was 9.4%, while the average cost of new borrowings was 3.3%, which represents a difference of 6.1 percentage points.

TABLE G.7

### 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 <sup>(1)</sup>	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

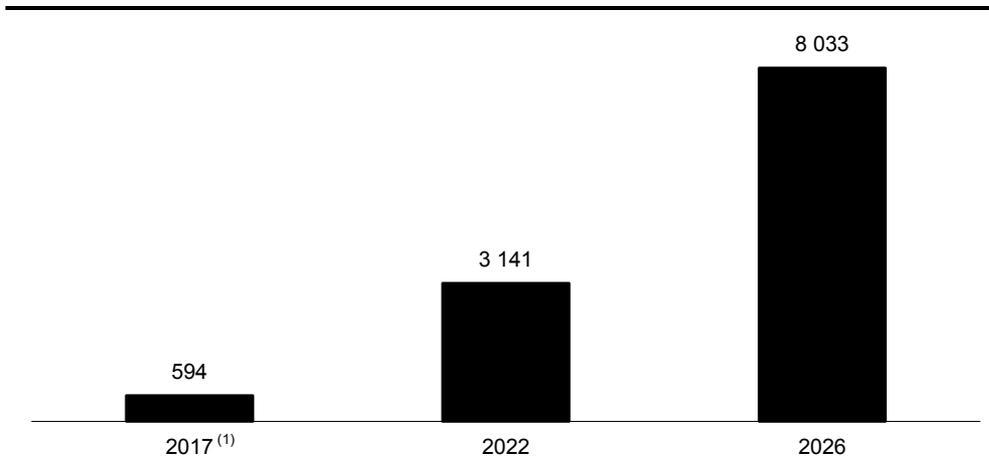
(1) The government's borrowing costs correspond to the yield on 10-year maturity Québec bonds.  
Source: PC-Bond for the yield on 10-year maturity Québec bonds.

As at March 31, 2017, the cumulative net gain resulting from the difference between the annual return of the Generations Fund and the government's borrowing costs was estimated at \$594 million. This gain, which is the result of leverage and which accelerates debt reduction, will increase to \$3.1 billion in 2022 and \$8.0 billion in 2026.

CHART G.9

**Cumulative net gain as at March 31 resulting from leverage related to the management of the Generations Fund by the Caisse de dépôt et placement du Québec**

(millions of dollars)



(1) From 2006-2007 to 2016-2017, investment income totalled \$1.9 billion. It is realized investment income, that is, income that is included in the government's financial framework. It is estimated that if the revenues dedicated to the Generations Fund had not been deposited with the Caisse de dépôt et placement du Québec, but had been used to repay maturing borrowings, the savings on debt service for that period would have been \$1.3 billion. The difference constitutes the cumulative net gain resulting from leverage, that is, \$594 million as at March 31, 2017.

## Book value and market value of the Generations Fund

The following table shows the book and market values of the Generations Fund since its creation. The book value is used to calculate the gross debt.

As at March 31, 2017, the market value of the Generations Fund was \$1.7 billion higher than its book value.

### Book value and market value of the Generations Fund as at March 31

(millions of dollars)

	Book value	Market value	Difference
2007	584	576	8
2008	1 233	1 147	86
2009	1 952	1 598	354
2010	2 677	2 556	121
2011	3 437	3 524	-87
2012	4 277	4 375	-98
2013	5 238	5 550	-312
2014	5 659	6 299	-640
2015	6 938	8 182	-1 244
2016	8 522	9 562	-1 040
2017	10 523	12 243	-1 720

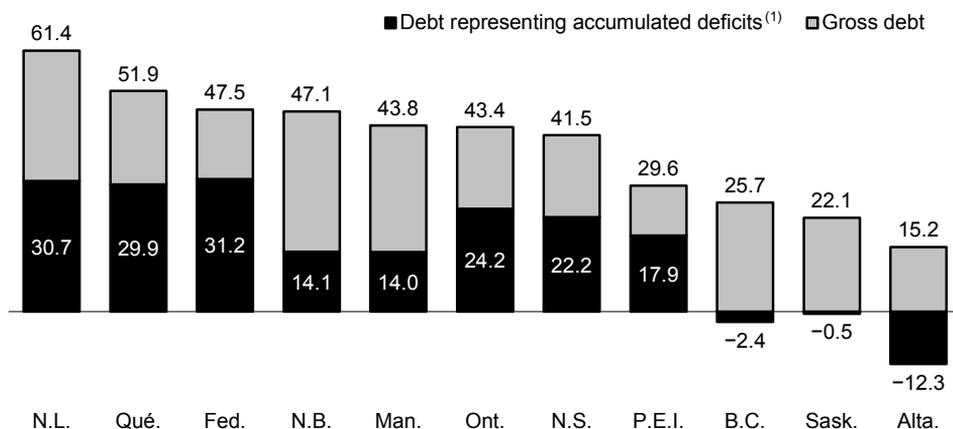
## 1.5 Comparison of the debt of governments in Canada

In percentage of GDP, Québec is the second most heavily indebted province after Newfoundland and Labrador.

As at March 31, 2017, the federal government's ratio of debt representing accumulated deficits to GDP was higher than that of each of the provinces.

CHART G.10

### Gross debt and debt representing accumulated deficits as at March 31, 2017 (percentage of GDP)



(1) A negative entry indicates that the government has an accumulated surplus.

Sources: Public accounts of the provinces and the federal government.

The table on the following page shows the debt of the federal government and each of the provinces as at March 31, 2017. Contrary to the net debt and the debt representing accumulated deficits, the gross debt cannot be observed directly in the public accounts of the other provinces. However, the public accounts show the components of gross debt, that is, the consolidated direct debt and the net liability for the retirement plans and other employee future benefits. Therefore, it is possible to calculate the level of the gross debt according to the same concept used by Québec.

The debt concepts used in budget documents may also differ from one government to another. For instance, the commitment to reduce the debt burden of the federal government concerns solely the debt representing accumulated deficits, whereas Québec's debt reduction objectives concern the gross debt and the debt representing accumulated deficits.

TABLE G.8

**Debt of governments in Canada as at March 31, 2017 according to various concepts**

(millions of dollars)

	N.L.	Qué.	Fed.	N.B.	Man.	Ont.	N.S.	P.E.I.	B.C.	Sask.	Alta.
<b>Consolidated direct debt</b>	<b>10 643</b>	<b>189 366</b>	<b>719 322</b>	<b>14 647</b>	<b>26 306</b>	<b>346 799</b>	<b>14 261</b>	<b>2 129</b>	<b>65 048</b>	<b>9 166</b>	<b>36 545</b>
Retirement plans and other employee future benefits	7 762	24 647	243 474	1 186	3 095	-555	2 791	-240	2 259	7 786	10 023
Generations Fund	—	-10 523	—	—	—	—	—	—	—	—	—
<b>Gross debt</b>	<b>18 405</b>	<b>203 490</b>	<b>962 796</b>	<b>15 833</b>	<b>29 401</b>	<b>346 244</b>	<b>17 052</b>	<b>1 889</b>	<b>67 307</b>	<b>16 952</b>	<b>46 568</b>
<i>% of GDP</i>	<i>61.4</i>	<i>51.9</i>	<i>47.5</i>	<i>47.1</i>	<i>43.8</i>	<i>43.4</i>	<i>41.5</i>	<i>29.6</i>	<i>25.7</i>	<i>22.1</i>	<i>15.2</i>
Less: Financial assets, net of other liabilities	-4 807	-21 735	-248 339	-2 006	-6 708	-44 596	-2 097	283	-29 512	-6 760	-34 881
<b>Net debt</b>	<b>13 598</b>	<b>181 755</b>	<b>714 457</b>	<b>13 827</b>	<b>22 693</b>	<b>301 648</b>	<b>14 955</b>	<b>2 172</b>	<b>37 795</b>	<b>10 192</b>	<b>11 687</b>
<i>% of GDP</i>	<i>45.4</i>	<i>46.3</i>	<i>35.2</i>	<i>41.1</i>	<i>33.8</i>	<i>37.8</i>	<i>36.4</i>	<i>34.0</i>	<i>14.4</i>	<i>13.3</i>	<i>3.8</i>
Less: Non-financial assets	-4 406	-68 906	-82 558	-9 098	-13 293	-108 138	-5 842	-1 027	-44 185	-10 564	-49 408
Plus: Stabilization reserve	—	4 552	—	—	—	—	—	—	—	—	—
<b>Debt representing accumulated deficits<sup>(1)</sup></b>	<b>9 192</b>	<b>117 401</b>	<b>631 899</b>	<b>4 729</b>	<b>9 400</b>	<b>193 510</b>	<b>9 113</b>	<b>1 145</b>	<b>-6 390</b>	<b>-372</b>	<b>-37 721</b>
<i>% of GDP</i>	<i>30.7</i>	<i>29.9</i>	<i>31.2</i>	<i>14.1</i>	<i>14.0</i>	<i>24.2</i>	<i>22.2</i>	<i>17.9</i>	<i>-2.4</i>	<i>-0.5</i>	<i>-12.3</i>

(1) A negative entry indicates that the government has an accumulated surplus.

Sources: Public accounts of the provinces and the federal government.

## Public sector debt

The public sector debt includes the government's gross debt as well as the debt of Hydro-Québec, 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, 2017, Québec's public sector debt stood at \$272.3 billion, or 69.4% 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.

### Public sector debt as at March 31

(millions of dollars)

	2013	2014	2015	2016	2017
Government's gross debt	191 866	197 807	203 957	203 347	203 490
Hydro-Québec	39 631	40 361	41 662	43 843	42 882
Municipalities <sup>(1)</sup>	21 820	22 622	23 305	23 846	24 058
Universities other than the Université du Québec and its constituents <sup>(2)</sup>	1 739	1 610	1 624	1 608	1 656
Other government enterprises <sup>(3)</sup>	1 479	433	383	308	258
<b>PUBLIC SECTOR DEBT</b>	<b>256 535</b>	<b>262 833</b>	<b>270 931</b>	<b>272 952</b>	<b>272 344</b>
<b>% of GDP</b>	<b>72.5</b>	<b>72.1</b>	<b>73.0</b>	<b>71.6</b>	<b>69.4</b>

(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 (\$3 451 million as at March 31, 2017).

(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 (\$1 012 million as at March 31, 2017).

(3) These amounts correspond to the debt of the Financing Fund to finance government enterprises and entities not included in the reporting entity. As of 2018, this debt will be included in the gross debt (\$218 million as at March 31, 2018).



## 2. FINANCING AND DEBT MANAGEMENT

### 2.1 Financing program

The government's financing program for 2017-2018 amounts to \$14.8 billion, which is \$3.5 billion more than forecast in the March 2017 budget.

This upward revision is primarily attributable to pre-financing for the following year.

TABLE G.9

#### The government's financing program in 2017-2018 (millions of dollars)

	March 2017	Revisions	November 2017
<b>GENERAL FUND</b>			
Net financial requirements <sup>(1)</sup>	3 013	-1 161	1 852
Repayments of borrowings	5 484	134	5 618
Change in cash position <sup>(2)</sup>	-5 433	-2 499	-7 932
Deposits in the Retirement Plans Sinking Fund (RPSF) <sup>(3)</sup>	—	1 000	1 000
Transactions under the credit policy <sup>(4)</sup>	—	-183	-183
Contributions to the Sinking Fund for borrowings	—	1 684	1 684
Pre-financing	—	4 450	4 450
<b>GENERAL FUND</b>	<b>3 064</b>	<b>3 425</b>	<b>6 489</b>
<b>FINANCING FUND</b>	<b>7 000</b>	<b>500</b>	<b>7 500</b>
<b>FINANCEMENT-QUÉBEC</b>	<b>1 200</b>	<b>-400</b>	<b>800</b>
<b>TOTAL</b>	<b>11 264</b>	<b>3 525</b>	<b>14 789<sup>(5)</sup></b>
Including: repayments of borrowings	10 992	149	11 141

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 or negotiated as at November 2, 2017.

The financing program will amount to \$20.3 billion in 2018-2019. In 2019-2020, 2020-2021 and 2021-2022, it will stand at \$20.0 billion, \$18.8 billion and \$21.3 billion, respectively.

TABLE G.10

**The government's financing program, 2018-2019 to 2021-2022**  
(millions of dollars)

	2018-2019	2019-2020	2020-2021	2021-2022
<b>GENERAL FUND</b>				
Net financial requirements <sup>(1)</sup>	4 750	2 031	2 984	2 413
Repayments of borrowings	8 141	8 126	7 601	11 913
Change in cash position <sup>(2)</sup>	-4 450	—	—	—
<b>GENERAL FUND</b>	<b>8 441</b>	<b>10 157</b>	<b>10 585</b>	<b>14 326</b>
<b>FINANCING FUND</b>	<b>10 100</b>	<b>7 800</b>	<b>7 200</b>	<b>6 100</b>
<b>FINANCEMENT-QUÉBEC</b>	<b>1 800</b>	<b>2 000</b>	<b>1 000</b>	<b>900</b>
<b>TOTAL</b>	<b>20 341</b>	<b>19 957</b>	<b>18 785</b>	<b>21 326</b>
Including: repayments of borrowings	16 455	13 999	11 516	15 288

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

Financing transactions are carried out regularly on most markets, namely, in Canada, the United States, Europe, Australia and Asia.

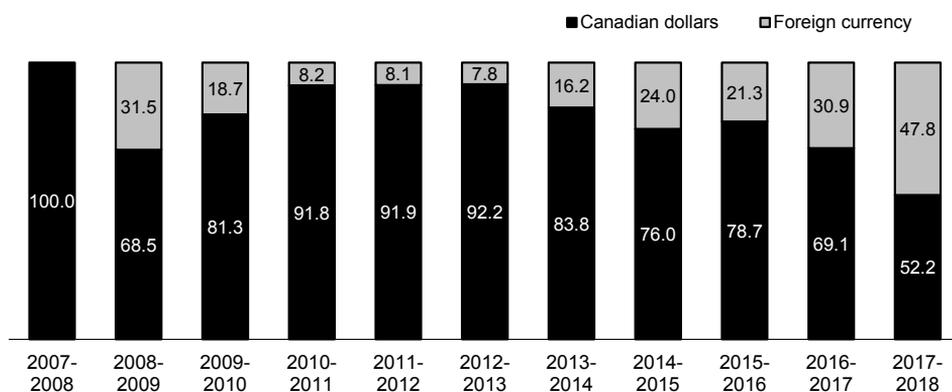
From 2007-2008 to 2016-2017, an average of 17% of borrowings were contracted in foreign currency. Nonetheless, the government keeps no exposure of its debt to those currencies (see section 2.5).

In 2017-2018, the government has carried out 47.8% of its borrowings to date on foreign markets:

- 2.25 billion euros (CAN\$3.4 billion);
- US\$2.5 billion (CAN\$3.2 billion);
- 300 million pounds sterling (CAN\$521 million).

CHART G.11

### Long-term borrowings by currency (per cent)



Note: For 2017-2018, the data are based on borrowings contracted or negotiated as at November 2, 2017.

After 2016-2017, this was another exceptional year with regard to financing on foreign markets. Excellent opportunities arose, particularly on the European market, where Québec completed the largest euro issue in its history (2.25 billion euros). Québec also contracted its first borrowing in pounds sterling since 1996.

However, it is important to mention that Canada is still the main market on which Québec contracts borrowings. In fact, the proportion of Québec's gross debt in Canadian dollars was 82.7%<sup>4</sup> as at March 31, 2017. Québec will contract other borrowings in Canadian dollars between now and the end of fiscal 2017-2018 given that the government wants to keep benchmark borrowings with very high liquidity in Canada.

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<sup>4</sup> 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.

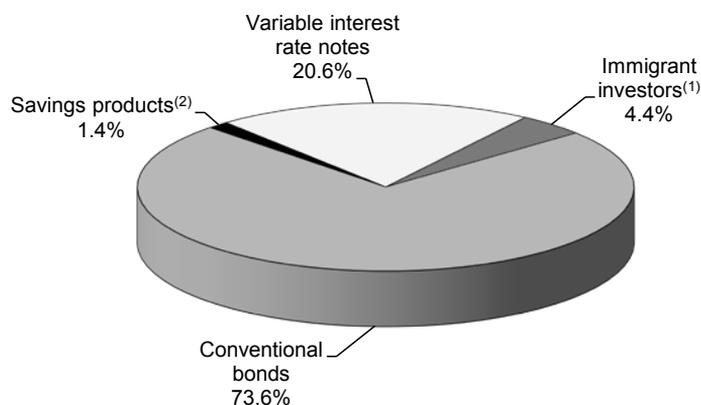
## 2.2.2 Diversification by instrument

To satisfy investors' needs, an extensive array of financial products is used in the course of financing transactions.

Long-term instruments consist primarily of bonds and variable interest rate notes.

CHART G.12

### Long-term borrowings contracted in 2017-2018 by instrument (per cent)



Note: The data are based on borrowings contracted or negotiated as at November 2, 2017.

(1) 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.

(2) Savings products issued by Épargne Placements Québec.

## Launching of the Green Bond program

The government has engaged in green finance with the launching of a Green Bond program that funds projects generating tangible benefits with regard to protecting the environment, reducing greenhouse gas (GHG) emissions or adapting to climate change.

In this way, the government is contributing to the development of a socially responsible investment market and facilitating the shift to a low-carbon intensity economy.

The inaugural issue of green bonds, totalling CAN\$500 million, took place on February 24, 2017. Through this inaugural issue, the government is funding public transit projects such as the replacement of Société de transport de Montréal métro cars (with AZUR trains) and the purchase of hybrid buses.

Besides seeking to diversify its sources of funding, the Ministère des Finances du Québec is aligning itself with new infrastructure financing trends. By putting this program in place, Québec is demonstrating not only its commitment to developing the green bond market, but also its commitment to the environment.

### Highlights

- Québec's green bonds, which are part of the government's annual borrowing program, have the same characteristics as conventional bonds as far as price, yield, maturity and credit ratings are concerned.
- The Green Bond program draws on the Green Bond Principles, a set of core guidelines introduced in 2014 by a group of financial institutions seeking to improve transparency in this rapidly growing market.
- The framework of Québec's Green Bond program has received the highest rating possible from CICERO (Center for International Climate and Environmental Research – Oslo).
- Québec is the second province, after Ontario, to issue green bonds on the Canadian market.

For further details, please visit:

[www.finances.gouv.qc.ca/en/RI\\_GB\\_Green\\_Bonds.asp](http://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 2017-2018, 29.9% of the borrowings contracted to date have a maturity of less than 10 years, 51.0% a maturity of 10 years and 19.1% a maturity of 30 years or more.

TABLE G.11

#### **Long-term borrowings<sup>(1)</sup> contracted in 2017-2018 by maturity** (per cent)

<b>Maturity</b>	<b>%</b>
Less than 10 years	29.9
10 years	51.0
30 years or more	19.1
<b>TOTAL</b>	<b>100.0</b>

Note: The data are based on borrowings contracted or negotiated as at November 2, 2017.

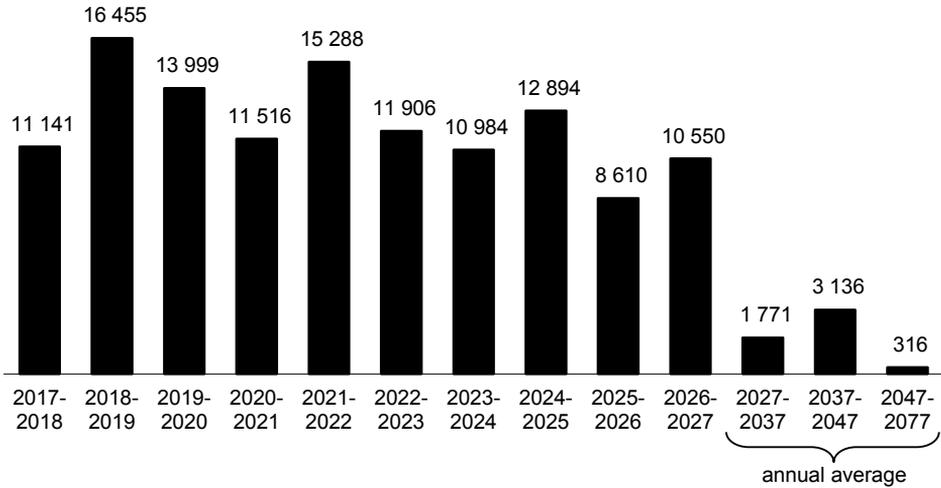
(1) Long-term borrowings correspond to borrowings with a maturity of more than one year.

This diversification by maturity is reflected on the maturity of the debt. As at March 31, 2017, the average maturity of the debt, that is, of all borrowings contracted, was 11 years.

The following chart shows, for each year, the maturity of the long-term debt as at March 31, 2017. For example, repayments of borrowings will amount to \$11 141 million in 2017-2018 and \$16 455 million in 2018-2019. The maturity of the debt extends to 2076-2077, with one borrowing maturing on December 1, 2076.

CHART G.13

**Maturity of the long-term debt as at March 31, 2017**  
(millions of dollars)



Note: Long-term debt of the general fund, the Financing Fund and Financement-Québec.

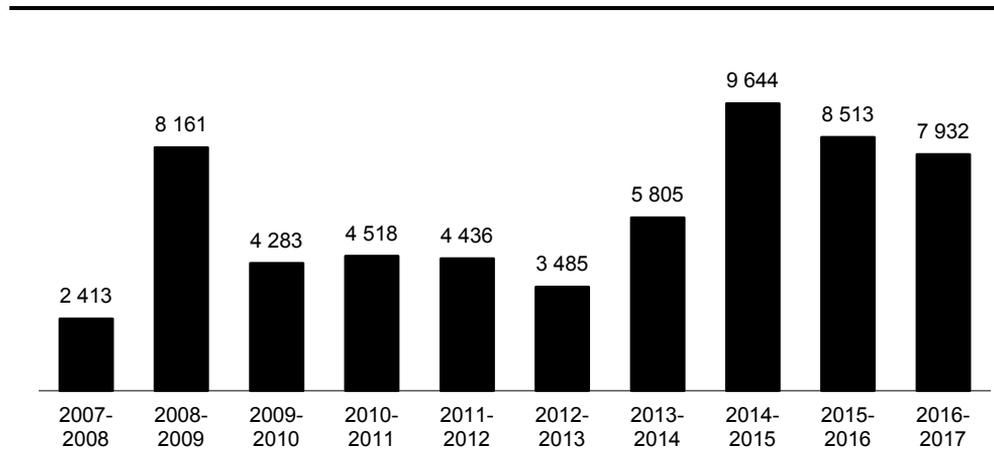
## 2.3 Pre-financing

The government carries out pre-financing to take advantage of favourable market conditions. These are borrowings that would normally be contracted during the subsequent fiscal year.

In 2016-2017, the government carried out pre-financing totalling \$7.9 billion. The average for the past 10 years is \$5.9 billion per year.

CHART G.14

### Pre-financing (millions of dollars)



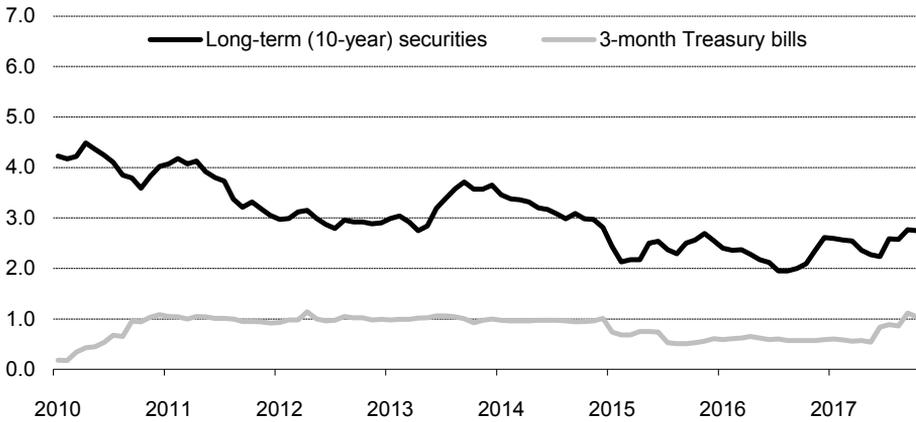
## 2.4 Yield

The yield on the Québec government's 10-year securities is currently about 2.6%, while that on short-term securities is roughly 1.0%. Since the beginning of year 2010, the yield has averaged 3.0% for long-term securities and 0.8% for short-term securities.

The increase in yield observed since early summer 2017 reflects, among other things, the decision by the Bank of Canada to raise its key interest rate.

CHART G.15

### Yield on the Québec government's securities (per cent)



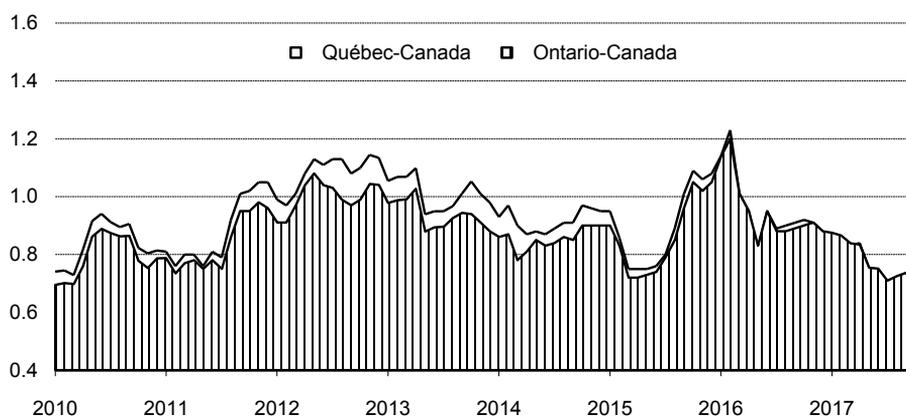
Sources: PC-Bond and Ministère des Finances du Québec.

Since January 1, 2010, the spread between the yield on 10-year securities of the Québec government and those of the federal government has varied between 0.7 and 1.2 percentage points. The spread is currently about 0.7 percentage point. The same trend has been observed with regard to the spread between the yield on the long-term securities of Ontario and the federal government.

In June 2017, Standard & Poor's raised Québec's credit rating. Since that announcement, a slight spread in favour of Québec has been observed between the yield on 10-year securities of Québec and those of Ontario.

CHART G.16

**Yield spread on long-term (10-year) securities**  
(percentage points)



Source: PC-Bond.

## 2.5 Debt management

The government's debt management strategy aims to minimize the cost of debt while limiting the risks related to fluctuations in foreign exchange and interest rates.

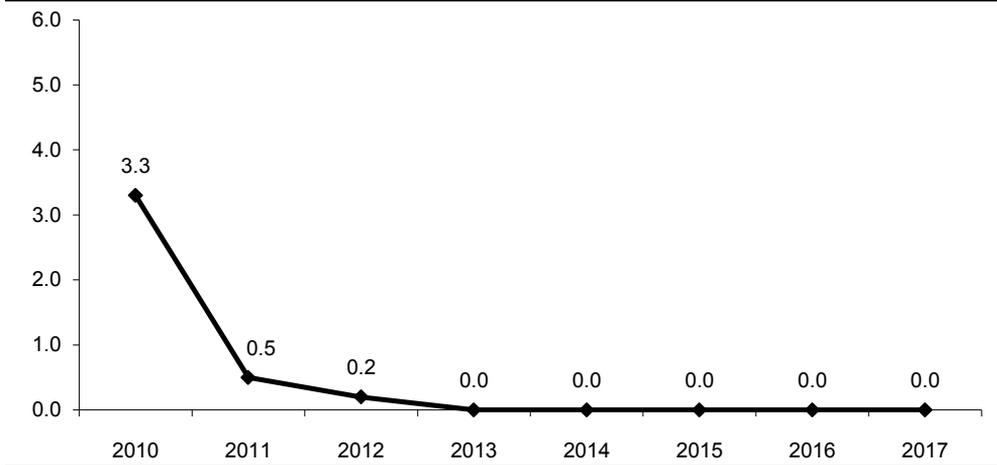
The government uses a range of financial instruments, particularly interest rate and currency swap agreements, to achieve desired debt proportions by currency and interest rate.

### □ Proportion of the gross debt in foreign currency

As at March 31, 2017, the proportion of the government's gross debt in foreign currency, after taking into account interest rate and currency swap agreements, was nil.<sup>5</sup> This proportion has been nil since 2013.

CHART G.17

**Proportion of the gross debt in foreign currency as at March 31**  
(per cent)



Note: Gross debt including pre-financing.

<sup>5</sup> As at March 31, 2017, before taking into account interest rate and currency swap agreements, 82.7% of the gross debt was in Canadian dollars, 10.4% in U.S. dollars, 4.6% in euros, 1.2% in Swiss francs and 1.1% in other foreign currencies (yen, Australian dollars, Hong Kong dollars and pounds sterling).

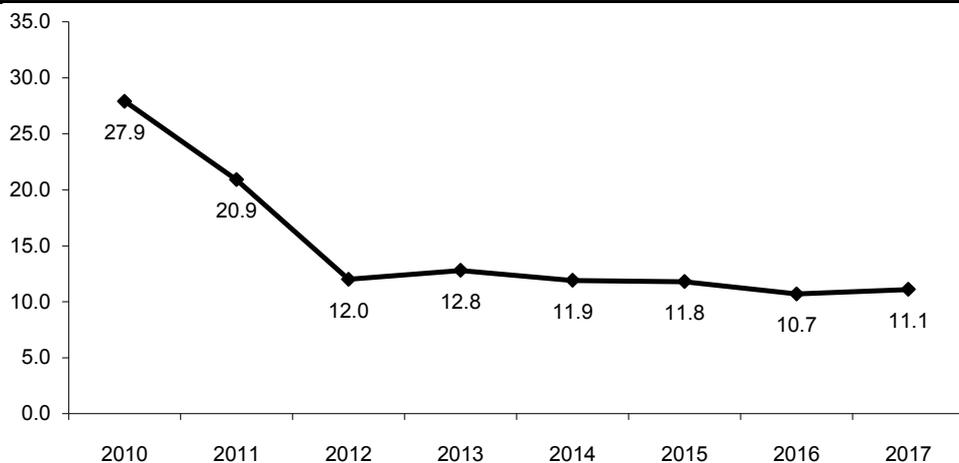
## ❑ Proportion of the gross debt at variable interest rates

The government keeps part of its debt at variable interest rates and part at fixed interest rates.

After taking into account interest rate and currency swap agreements, the proportion of the gross debt at variable interest rates was 11.1% as at March 31, 2017. The proportion has been 11.7% on average since 2012.

CHART G.18

### Proportion of the gross debt at variable interest rates as at March 31<sup>(1)</sup> (per cent)



Note: Gross debt including pre-financing.

(1) The debt at variable interest rates includes variable interest rate financial instruments as well as fixed interest rate financial instruments that mature in one year or less.

## Borrowings contracted to date in 2017-2018

### Summary of long-term borrowings in 2017-2018

Currency	\$ million	%
<b>CANADIAN DOLLAR</b>		
Conventional bonds	5 368	36.3
Variable interest rate notes	1 501	10.1
Immigrant investors	644	4.4
Savings products issued by Épargne Placements Québec	208	1.4
<b>Subtotal</b>	<b>7 721</b>	<b>52.2</b>
<b>OTHER CURRENCIES</b>		
Euro	3 360	22.7
U.S. dollar	3 187	21.6
Pound sterling	521	3.5
<b>Subtotal</b>	<b>7 068</b>	<b>47.8</b>
<b>TOTAL</b>	<b>14 789</b>	<b>100.0</b>

Note: The data are based on borrowings contracted or negotiated as at November 2, 2017.

## **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, credit rating agencies use rating scales, namely, a scale for long-term debt and a scale for short-term debt.

## ❑ 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 the boxes. They differ from one credit rating agency to another because of the methodology used by each agency to determine credit risk.

TABLE G.12

### Credit rating scales for long-term debt

	Moody's	Standard & Poor's	Fitch	DBRS	Japan Credit Rating Agency
Highest credit quality	Aaa	AAA	AAA	AAA	AAA
↑	Aa1	AA+	AA+	AA (high)	AA+
	Aa2	AA	AA	AA	AA
	Aa3	AA-	AA-	AA (low)	AA-
	A1	A+	A+	A (high)	A+
	A2	A	A	A	A
	A3	A-	A-	A (low)	A-
	Baa1	BBB+	BBB+	BBB (high)	BBB+
	Baa2	BBB	BBB	BBB	BBB
	Baa3	BBB-	BBB-	BBB (low)	BBB-
	Ba1	BB+	BB+	BB (high)	BB+
	Ba2	BB	BB	BB	BB
	Ba3	BB-	BB-	BB (low)	BB-
	B1	B+	B+	B (high)	B+
	B2	B	B	B	B
	B3	B-	B-	B (low)	B-

## □ Increase in Québec's credit rating

In June 2017, rating agency Standard & Poor's (S&P) announced that it was revising Québec's credit rating upward from "A+" to "AA-". Québec thus recovered the credit rating it had with S&P from 1982 to 1993.

This excellent news results from the government's responsible management of public finances. Québec has posted budgetary surpluses over the past two years and the debt burden has been decreasing for two years now.

S&P also explained that its decision was based on the fact that Québec's economy is very strong and diversified. It includes major sectors such as aerospace, transportation, telecommunications and aluminium production.

In 2017, the other credit rating agencies (Moody's, Fitch, DBRS and Japan Credit Rating Agency) affirmed Québec's credit rating with a stable outlook.

It should be recalled that in June 2016, Fitch had upgraded the outlook related to Québec's credit rating by raising it from "negative" to "stable", due to the return to a balanced budget. Fitch had previously downgraded this outlook in December 2013, following the postponement of a balanced budget to 2015-2016, announced in November 2013.

TABLE G.13

### The Québec government's credit ratings

Credit rating agency	2015		2017	
	Credit rating	Outlook	Credit rating	Outlook
Moody's	Aa2	Stable	Aa2	Stable
<b>Standard &amp; Poor's (S&amp;P)</b>	<b>A+</b>	<b>Stable</b>	<b>AA-</b>	<b>Stable</b>
<b>Fitch</b>	<b>AA-</b>	<b>Negative</b>	<b>AA-</b>	<b>Stable</b>
DBRS	A (high)	Stable	A (high)	Stable
Japan Credit Rating Agency (JCR)	AA+	Stable	AA+	Stable

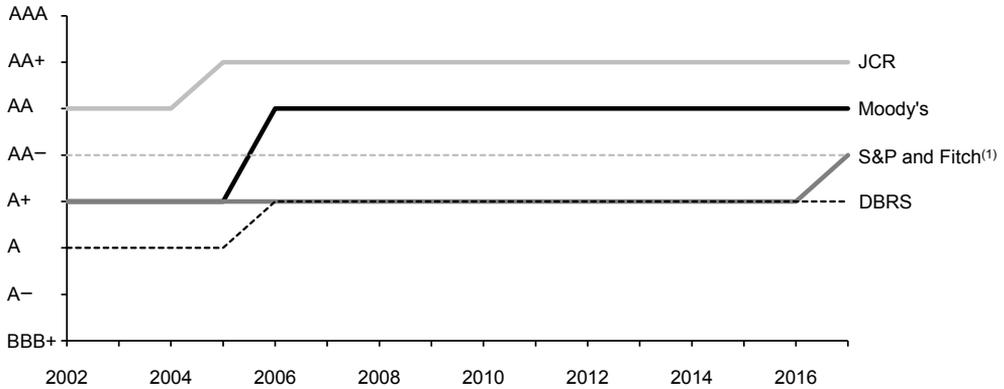
## Change in Québec's credit ratings

The following chart shows the change in Québec's credit ratings since 2002. In June 2017, S&P raised Québec's credit rating by one notch, from "A+" to "AA-".

The three main international credit rating agencies (Moody's, S&P and Fitch) now assign Québec a credit rating in the "double A" category.

CHART G.19

### Change in Québec's credit ratings



(1) Fitch's credit rating is indicated by the dotted line.

Note: The credit ratings for 2017 are those in effect as at November 2, 2017.

## ❑ Credit ratings for short-term debt

The following table shows the rating scales used by rating agencies for short-term debt. The higher the credit quality, the higher will be the rating on the scale. The Québec government's current credit ratings are shown in the boxes.

TABLE G.14

### Credit rating scales for short-term debt<sup>(1)</sup>

	Moody's	Standard & Poor's	Fitch	DBRS	
Highest credit quality ↑	<b>P-1</b>	<b>A-1+</b> A-1	<b>F1+</b> F1	R-1 (high) <b>R-1 (middle)</b> R-1 (low)	
	P-2	A-2	F2	R-2 (high)	
	P-3	A-3	F3	R-2 (middle) R-2 (low) R-3	
	Not Prime <sup>(2)</sup>		B-1		
			B-2	B	R-4
			B-3	C	R-5
	Not Prime <sup>(2)</sup>		C		
		D	D	D	

(1) JCR does not assign a credit rating to Québec's short-term debt.

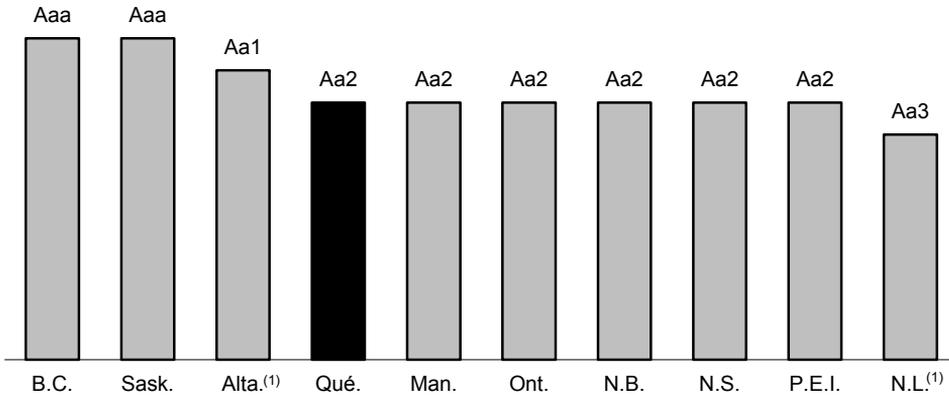
(2) Moody's uses the "Not Prime" category for all securities not included in the upper categories.

### 3.2 Comparison of the credit ratings of the Canadian provinces

The following charts show the credit ratings of the Canadian provinces as at November 2, 2017. No chart is given for JCR since Québec is the only province that receives a credit rating from that agency.

CHART G.20

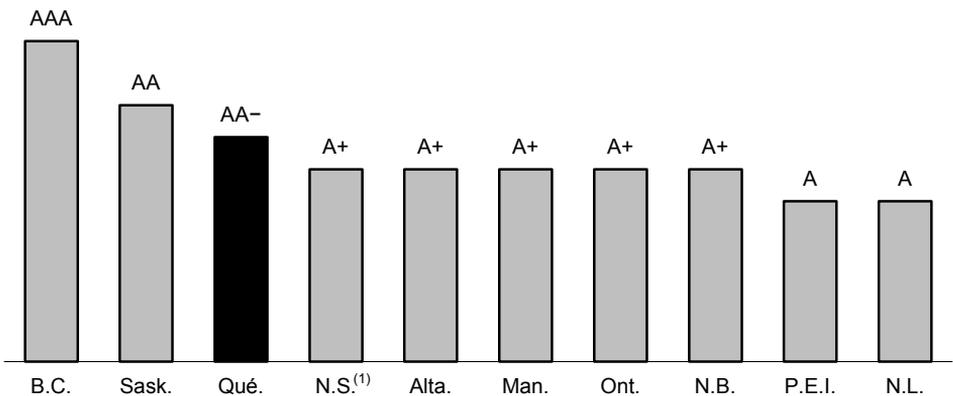
#### Credit rating of the Canadian provinces – Moody's



(1) Negative outlook.

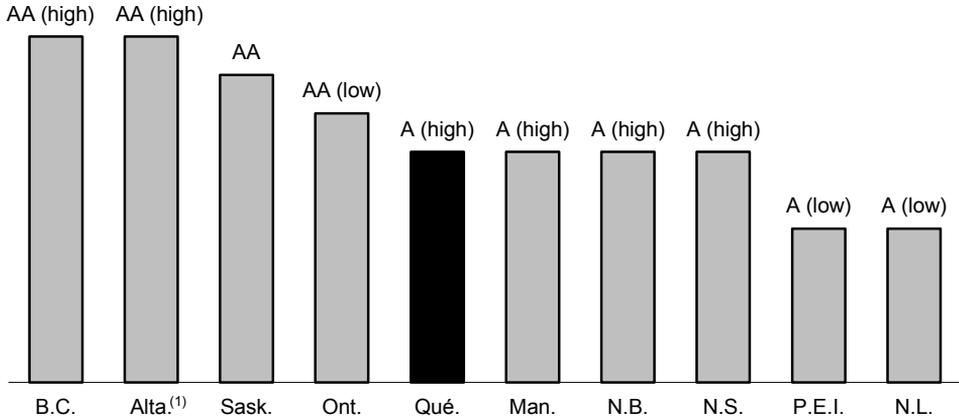
CHART G.21

#### Credit rating of the Canadian provinces – Standard & Poor's



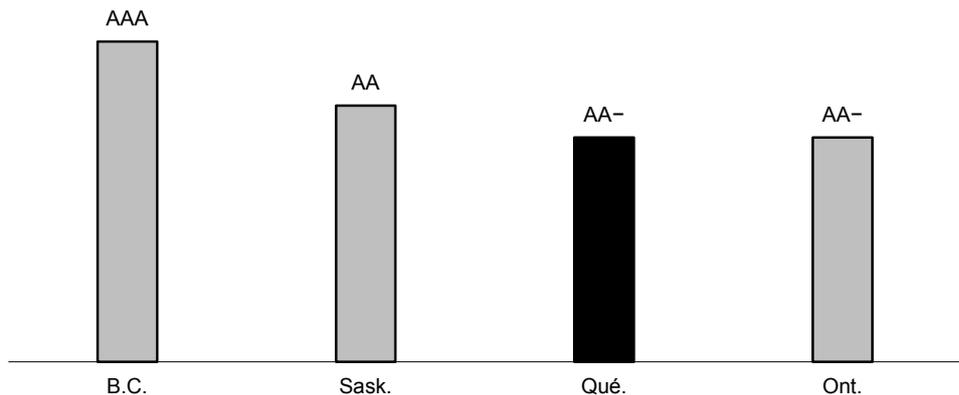
(1) Positive outlook.

CHART G.22

**Credit rating of the Canadian provinces – DBRS**

(1) Negative outlook.

CHART G.23

**Credit rating of the Canadian provinces – Fitch**

Note: British Columbia, Saskatchewan, Québec and Ontario are the only provinces that receive credit ratings from this agency.



## APPENDIX: NET LIABILITY FOR THE 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 gross 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, 2017, the net liability for the retirement plans and other employee future benefits stood at \$24.6 billion.

TABLE G.15

### Net liability for the retirement plans and other employee future benefits as at March 31, 2017

(millions of dollars)

<b>Retirement plans</b>	
Liability for the Government and Public Employees Retirement Plan (RREGOP)	57 634
Liability for the Pension Plan of Management Personnel (PPMP) and the Retirement Plan for Senior Officials (RPSO)	13 613
Liability for the other plans <sup>(1)</sup>	18 028
<b>Retirement plans liability</b>	<b>89 275</b>
Less: Retirement Plans Sinking Fund (RPSF)	-64 598
<b>Net retirement plans liability</b>	<b>24 677</b>
<b>Other employee future benefits</b>	
Other employee future benefits liability	1 479
Less: Funds dedicated to other employee future benefits	-1 509
<b>Net other employee future benefits liability</b>	<b>-30</b>
<b>NET LIABILITY FOR THE RETIREMENT PLANS AND OTHER EMPLOYEE FUTURE BENEFITS</b>	<b>24 647</b>

(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 was created by the government in 1993. It is an asset that was established 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.

However, the government has all the necessary flexibility in applying this policy. Deposits in the RPSF are made only when market conditions are favourable, particularly with respect to interest rates and market receptiveness to bond issues.

As at March 31, 2017, the RPSF's book value represented 68% of the government's actuarial obligations in regard to the retirement plans of public and parapublic sector employees

CHART G.24

### **Book value of the RPSF in proportion to the government's actuarial obligations regarding the retirement plans of public and parapublic sector employees** (per cent)

